BRIEFING OF THE ANDEAN PACT:

ORIGINS AND EVOLUTIONS

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Andean Pact Origins and Evolutions

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December, 1976

CIID

CENTRO INTERNACIONAL DE INVESTIGACIONES PARA EL DESARROLLO
INTERNACIONAL DEVELOPMENT RESEARCH CENTRE
OFICINA REGIONAL PARA LA AMERICA LATINA

DR 2495
MEMORANDO

TO/A: *See Distribution Below

DATE/FECHA: 9 December 1976

FROM/DE: Henrique Tono T., LARO

SUBJECT/ASUNTO Briefing on the Andean Pact: Origins and Evolution

At your request, LARO's Program Support Unit has prepared the enclosed briefing on the Andean Pact Agreement.

The impact that recent developments have had on the Agreement's initial philosophy has stimulated an open debate among the member countries during the last two months. The PSU staff has benefitted greatly from this debate as it coincides with the task at hand. This staff attended a full course (and even got an attendance diploma!!) organized by Fedesarrollo. At the course they were exposed to discussions presented by high level lecturers both from inside and outside the public sector.

In addition to the course, Fedesarrollo published an analytical magazine in November prepared in coordination with Chilean and Ecuadorian institutions. From that volume we have selected part of the material used in the enclosed brief.

Other sources have recently provided information; among these ANIF (National Association of Financing Agencies) and Nueva Frontera, a specialized local weekly magazine from which we quote information in our work.

In brief, your interest in this matter gave LARO the opportunity to study and understand a highly significant and current issue for the region: the feasibility of integration, of forming blocks to face common problems. In spite of the present crisis (which is rooted both in political and economic differences) the integration process is worth defending and fostering: it includes social and cultural side effects in the relations among the countries of the region - other than commercial activities which have evidently increased.

Regarding our work, we face a problem, that is, knowing how knowledgeable each of you is on the Agreement. Perhaps the initial descriptive charts will

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seem a bit too obvious. However, we thought that in order to understand the process, and the crisis, we had to start from the very beginning.

The document includes:

1) A set of charts describing origins; strategy of development underlying the Agreement; instruments and mechanisms developed by it; achievements; present situation after the modifications established in Decision 100 and 103 of last November.

2) Excerpts of a core article extracted from "Coyuntura Económica" entitled 'Some Questions on the Perspectives of the Andean Group', presented along with the opinions from other sources, it includes comparative graphs on the economic situation of each country.

3) A summary of each country's internal economic situation and perspectives included as an annex to facilitate the understanding of particular problems of the member (and ex-member) countries.

Very best regards,

H. Tono

Henrique Tono T.

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Enclosure

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Louis Berlinguet
Ruth Zagorin
Geoff Oldham
Martin Bell
Nantel Brisset
Nihal Kappagoda

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INTRODUCTORY SUMMARY*

Seven years have passed since the signing of the Cartagena Agreement, and the Andean Subregional Group faces a crisis that threatens the continuity of its purposes and the success of its programs. FEDESARROLLO, jointly with the Department of Economics of the University of Chile and the Foundation for Education and Development of Ecuador, have considered it timely to analyze the economic juncture of the countries of the Andean Group, as well as their present development strategies, in order to facilitate a better understanding of the problems faced by the integrating process. These problems stem mainly from the differences of economic structure among the countries, the different manner in which their economies evolve in the short term, and the difference in the economic policies adopted to satisfy objectives on which the various governments frequently are not in agreement.

The development strategy implicit in the Cartagena Agreement was based on an extended substitution policy of imports, of sectorial programming, and of control to foreign investment, a strategy to which some of the present objectives of the economic policy of certain countries do not conform. In the case of Colombia, the government is opposed to an excessively high protection of the industrial sector. In turn, the Chilean government has also objected to the agreements relating to the common foreign tariffs with a high effective protection percentage, as well as those pertaining to the treatment of foreign capital. Particularly in the case of Chile, the government has adopted a development strategy openly opposed to the spirit of the Pact, as it was conceived years back. Furthermore, in connection with sectorial programming, the countries have not succeeded in an agreement during the anticipated terms. Undoubtedly the differences among the members of the Pact as to means and aims make dubious the feasibility of an integration process excessively ambitious in its initial purposes.

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* Translated from the Article "Some Questions on the Perspectives of the Andean Group" - Coyuntura Económica Quarterly, FEDESARROLLO, Bogotá, October, 1976.

The enormous dependency on a few primary products of export is a common denominator to the six economies. In Venezuela, oil determines the basic structure of its economy, generates the greatest part of the central government's income and almost the totality of foreign exchange. In Ecuador, oil and bananas are the main source of foreign exchange and also represent an important portion of public income. In Colombia, the evolution of the price of coffee on the world market has a great incidence on the government's foreign, monetary and fiscal policies, as well as on the general economic activity. In Chile, copper plays a similar role. In Peru, more than in any other country of the subregion, there is some diversification of primary export products, but fishing and mining are the two main sources of foreign exchange. Finally, Bolivia is greatly dependent on production and exportation of tin and oil.

The above explains in part the fluctuations of the economies of the six countries. The rise in oil prices in 1974 represented a very important change in the economy of three of the countries of the subregion: Venezuela increased in very high proportions its capital resources; Bolivia, for the first time in many years, registered a surplus in its balance of payments and a savings level which permitted the financing of increasing investment levels; Ecuador could accelerate its development programs and increase substantially its rate of economic growth. Colombia, after its exchange difficulties during 1975, experienced a similar turn in 1976 to that of the OPEP countries due to the rapid increase in coffee prices. In contrast, Chile and Peru have faced problems in their balance of payments associated with the drop in copper prices, the anchovy ("anchoveta") crisis and the decrease in demand of other export products.

The directions of the governments' commercial policies in the various subregional countries have shown diverging tendencies. Colombia has liberated importations, trying to improve industrial efficiency and as a relief to inflationary pressures. Likewise, Chile, in spite of financial difficulties, has seeked similar goals by means of low tariff levels. Venezuela, on the contrary, intends to diversify its economy through a very high tariff protection. Peru faces a difficult financial situation and has adopted a policy of high tariffs and non-tariff barriers, prohibitions and licenses. Bolivia and Ecuador, favored by the Subregional Agreement as countries with a relatively lower economic development, maintain a high protection of their incipient industry, although they have witnessed the erosion of part of their oil profits in importation levels for more than double those prevailing in 1973.

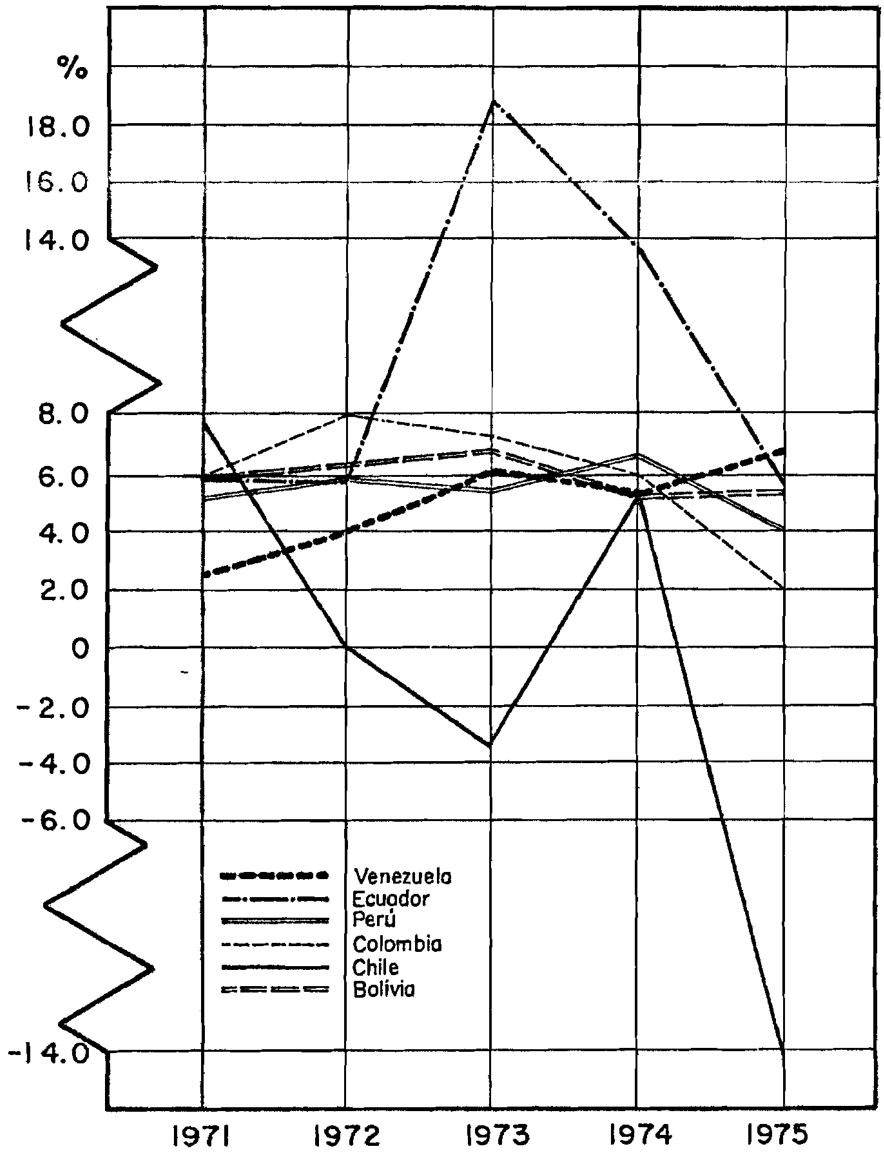
During 1975 the recession of industrialized countries brought as consequence a deterioration in the subregional exchange terms which affected in a greater degree the non-oil producing countries. Simultaneously, inflationary pressures diminished, due to the increase of international reserves, when all countries, with the exception of Venezuela and Peru, adopted restrictive monetary policies. In Venezuela, the government has established a system of subsidies to the consumer which did offset, at least in the short term, the possible effects of an excessively rapid increase in the means of payment. In the case of Peru, the government has been forced to change its policy of price controls and subsidies to the consumer due to its incompetence to absorb implicit costs and to the need to devaluate their Sol in the presence of financial disorder in the external sector of the economy.

In 1975, then, there was a reduction of inflationary rates in comparison with the high levels of the years 1973 and 1974. Only in Peru, an acceleration in the rhythm of increase in prices was observed, which seems to have accentuated during the current year. The tendency towards lower inflationary rates is maintained in the case of Ecuador and Bolivia, where restrictive monetary and fiscal policies anticipate a minor inflation in 1976. In Chile, the government continues with relative success the stabilization policy started in 1974. In turn, in Colombia, a greater increase in the price index is projected for the present year as the consequence of the increase in international reserves resulting from the coffee prosperity, in spite of the policy of control in public expenses and the restriction of credit to individuals.

In 1975, the reduction of foreign trade and the smaller inflationary rates were accompanied by a minor economic increase in all countries, particularly in Chile where a decrease in the internal gross product was registered. However, the perspectives for 1976 are more favorable mainly due to the recovery of external prices for some of the primary export products of the subregion. In this regard, the most favoured countries, with the exception of Venezuela and Ecuador, were Colombia and Bolivia. In Chile a slow process of economic reactivation is reinitiated in 1975, while in Perú, the perspectives are less promising due to the government's need to balance its budget, to solve the deficit situation shown by the balance of payments, and to reduce the inflationary rate.

GRAPH 1

RATES OF ACTUAL GROWTH OF THE GROSS NATIONAL PRODUCT 1971-1975[1]



Source: FEDESARROLLO

* Preliminary estimates.

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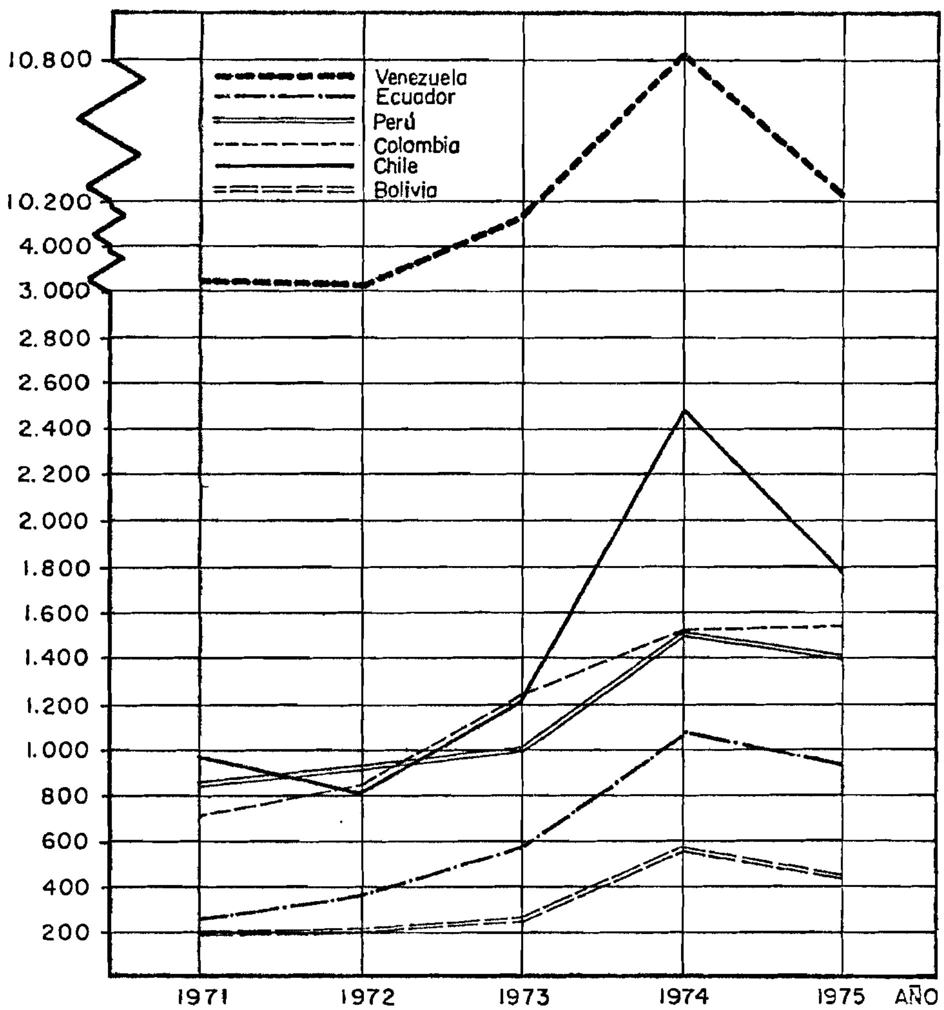
At constant prices: Perú base 1970; Colombia base 1970, Bolivia base 1968; Venezuela base 1968; and Chile base 1965.

GRAPH 2

VALUE OF THE EXPORT OF ASSETS 1971-1975

(in million dollars)

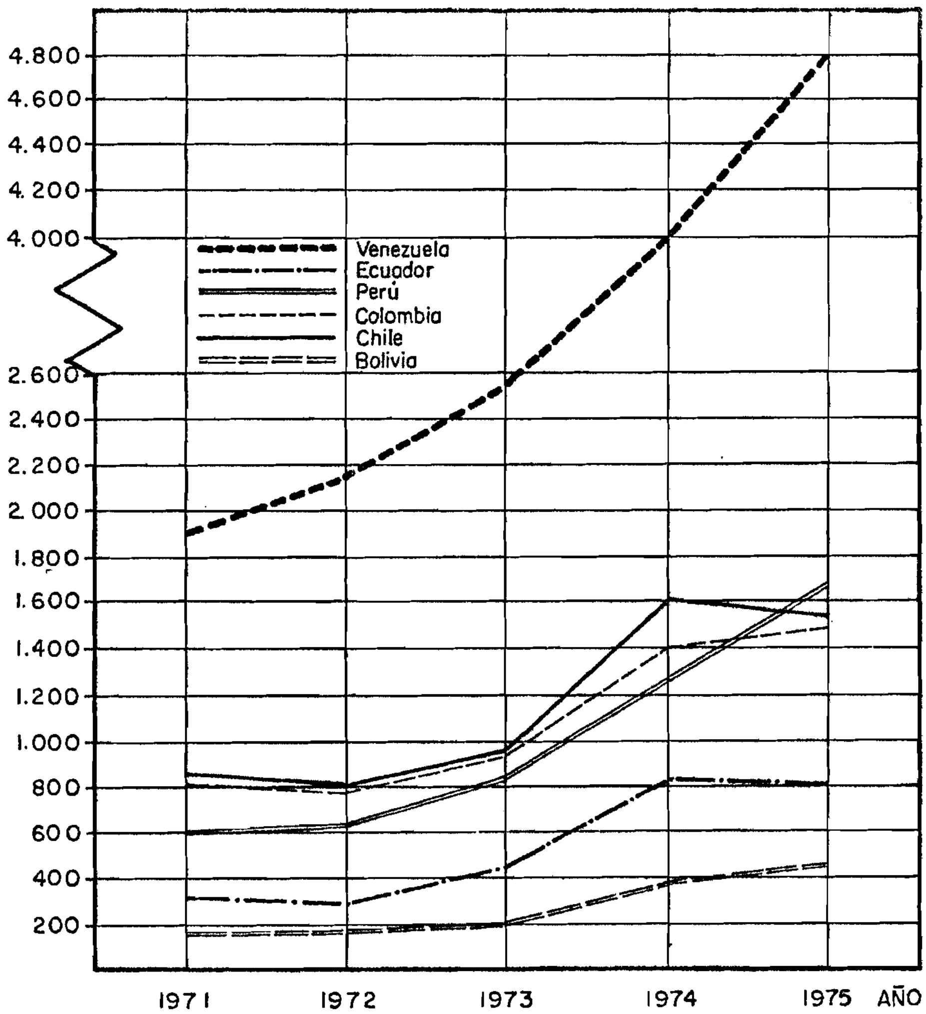


SOURCE: International Monetary Fund and estimates of FEDESARROLLO

GRAPH 3

FOB VALUE OF IMPORTATION OF ASSETS 1971-1975

(in million dollars)

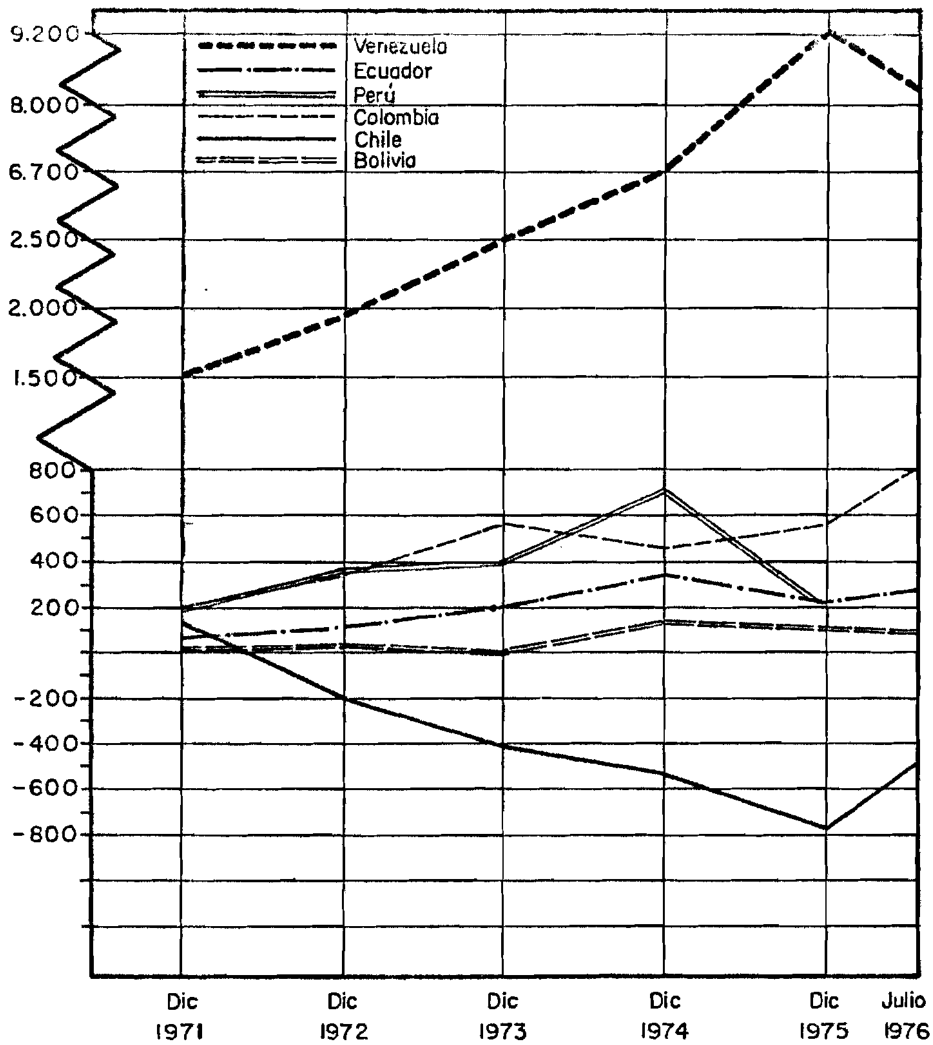


Source: International Monetary Fund and estimates of DESARROLLO

GRAPH 4

POSITION OF NET INTERNATIONAL RESERVES
1971-1976

(in million dollars)

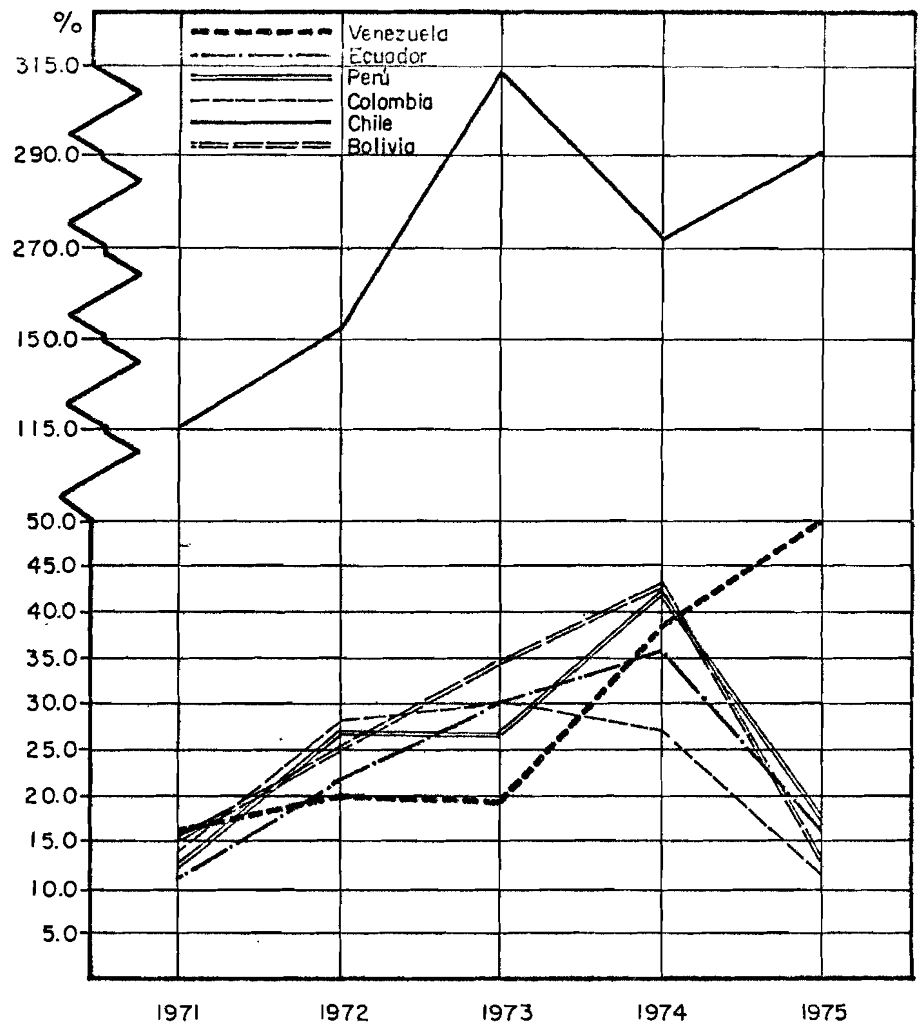


Source: World Bank and estimates of FEDESARROLLO

GRAPH 5

PERCENTAGE VARIATION OF THE MEANS OF PAYMENT 1971-1975

(December to December)

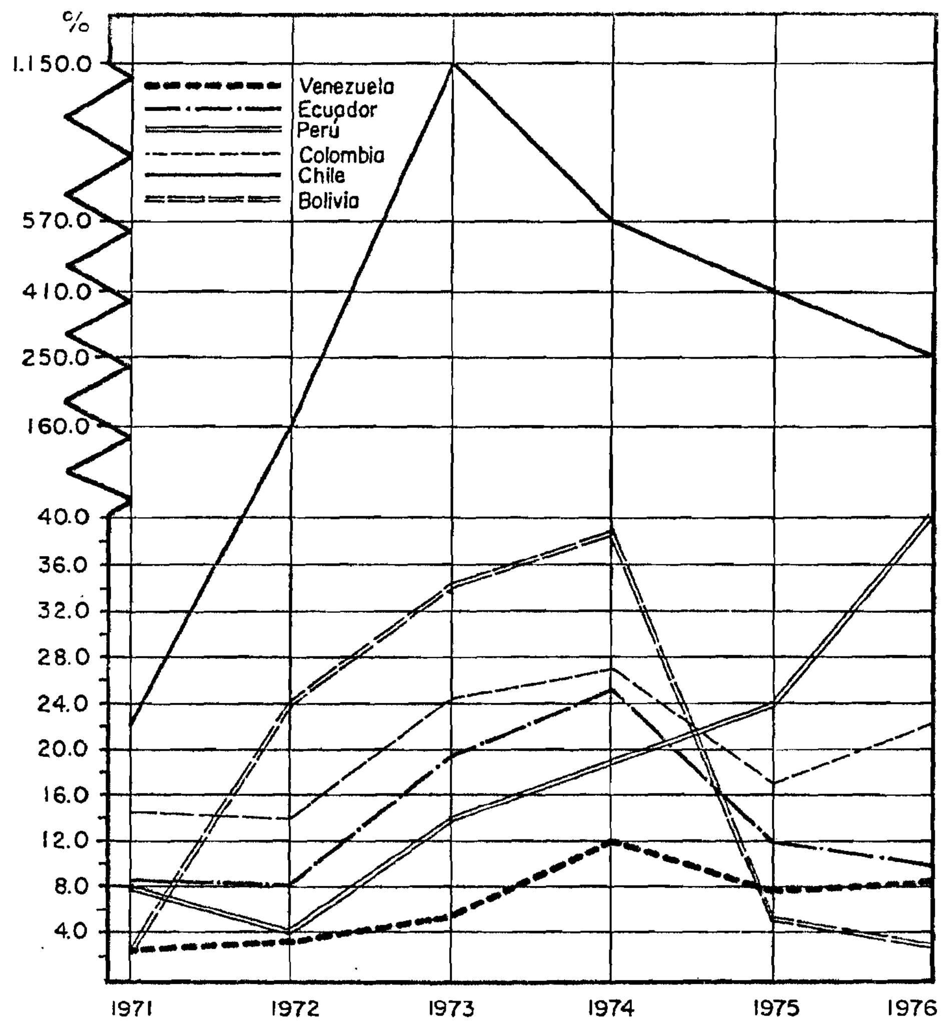


Source: International Monetary Fund and estimates of FEDESARROLLO

GRAPH 6

PERCENTAGE VARIATION OF THE INDEX OF PRICES TO CONSUMER, 1971-1975

(December to December)



Source: International Monetary Fund and estimates of FEDESARROLLO

* Projection

BACKGROUND AND CONCEPTION OF THE CARTAGENA AGREEMENT

1. The Andean Group within the process of Latin American Integration.

The Cartagena Agreement was born because of a paralysis in the process of Latin American integration which took place in the context of the Latin American Free Trade Association (LAFTA). Such paralysis was due, in part, to the inadequacy of the mechanisms foreseen by the Montevideo Treaty[1/], and, in part, to the believe most participating nations of the region had, that the process was concentrating its benefits on the largest countries of the area: Argentina, Brazil and Mexico.

The position of the relatively less developed countries was based on the belief that the tax release on interregional trade would produce unilateral effects benefiting those countries with a more complete industrial foundation and that, therefore,(in order to offset this concentrating tendency and obtain a fair participation of the Member Countries in the integration process), special emphasis was required in the location of industries with direct and indirect effects powerful to the economy of said countries[2/]. This was, perhaps, the fundamental cause of the serious obstacles faced by the process of tax release inside LAFTA.

Thus, in August 1966, the Presidents of Colombia, Chile and Venezuela, and the personal delegates of the Presidents of Ecuador and Peru gathered in Bogota, recommended "within the framework of the Treaty: a) To

1/ The treaty which established the LAFTA was signed by seven countries in Montevideo in 1960 and subsequently adhered to by four additional countries in the area.

2/ No theoretical analysis of this idea is included, since it is not within the scope of this essay. The interested reader may look up, among others, the following: Salgado G., "El Desarrollo y la Integración de América Latina", O. Sunkel (ed.). "Integracion Política y Económica," Editorial Universitaria, Santiago, 1970, pp. 42-121; and Garay, Luis Jorge, "Una Interpretación teórica de la Integración Económica entre Países Subdesarrollados. La Experiencia del Grupo Andino", mimeo. Bogotá. June. 1976.

carry out complementary agreements and special temporary concessions of commercial exchange... c) to establish differential systems of tax release, relative to the different levels of development..." 3/

Subsequently, in the Declaration of the American Presidents, subscribed in the Meeting of Heads of the American States at Punta del Este, on April 14, 1967, it is recommended, based on the request from the countries with a minor relative economical development and on the results achieved in LAFTA's integration process, that the necessary measures be taken to implement the following decisions: "a) To accelerate LAFTA's conversion process into a common market... b) To coordinate progressively economic policies and instruments as it is required by the integration process... c) To propitiate the concentration of sectorial agreements of industrial complementation obtaining the participation of countries of relatively minor economic development. d) To propitiate subregional agreements, of a transitory nature, with internal systems of tax release and adjustment of treatments to third parties, in a more accelerated form than general commitments and which should be compatible with the objective of regional integration... Countries of relatively minor economic development will have the right to participate and obtain preferential conditions in the subregional agreements of interest to them..."4/

On May 26, 1969, the Andean Subregional Integration Agreement was signed, being it a consequence of: a) the ineffectiveness of the sectorial agreements of industrial complementation, as a distribution mechanism of benefits in favor of the countries with insufficient markets, b) the consequent stagnation of LAFTA's integration process, and c) given the provision contained in the Presidents' Declaration relating to subregional agreements. The main objectives are: "... a) to promote the balanced and harmonious development of the Member Countries; b) to accelerate their development by means of economic integration,

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3/ Bogotá Declaration, Bogota, August 16, 1976. Our underlines.

4/ Declaration of Presidents of America, "Programa de Acción", Chapter I. 2, Punta del Este, April 14, 1967. Our underlines.

c) to facilitate their participation in the integration process foreseen in the Montevideo Treaty and d) to establish favorable conditions for the conversion of LAFTA into a common market, e) all the above, aiming to achieve a persistent improvement in the standard of living of the inhabitants of the Subregion".[5]

From there, an agreement of economic integration particularly ambicious and imaginative sprout. The Agreement contemplated the solution of the main obstacles encountered by LAFTA; disposed of mechanisms to achieve a satisfactory distribution of the benefits of the process among the subregional countries, particularly with respect to the signing nations of relatively minor development: Bolivia and Ecuador; created organisms with supranational character: the Board and the Political Commission; prescribed concrete time-tables to take a substantial number of joint decisions; designed some mechanisms of automatic application to reduce the danger of having interruptions in the process; among these mechanisms the automatic tax release may be pointed out. Nevertheless, what permitted the creation of a particularly ambitious process was the coincidence of the signing governments on some basic principles of a common strategy of economic development, for which the subregional integration process was particularly important.

THE IMPLICIT DEVELOPMENT STRATEGY IN THE CARTAGENA AGREEMENT

The Cartagena Agreement rests on the implicit conception of a strategy of economic development with some fundamental goals, among others: the acceleration of development of the Member Countries in conditions of equity; the increase of employment levels; the improvement in the position of the Member Countries from the standpoint foreign trade; and, the better utilization of technological advances, (as provided for in Article 25 of the Agreement). A particular interpretation of this strategy, that which guided the programming of the Board during the first six years of the process[6] is contained in the document "General Bases for a Subregional Strategy of Development", and considers as a "basic requisite for

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[5] Article 1 of the Cartagena Agreement.

[6] Board of Cartagena Agreement, Ibid., pp. 13-17.

this new style of development the substantial increase in the rate of growth of the economy in order to permit and facilitate structural changes. This high rate should be fundamentally based on a new industrialization model feasible through integration".[7] The achievement of this basic requisite requires mainly, according to the implicit diagnosis in said strategy,[8] that:

a. Accelerated industrialization should take the leading part in the economic development.

b. The said accelerated industrialization be achieved by means of a process of amplified substitution of imports, with emphasis on those manufactures known as basic, allowed by the creation of a more ample market. Actually, the extended market would allow to better utilize scale economies, generally present in these industries and consequently, to achieve the substitution of imports of their products more efficiently than if each country would do it individually.

c. A crucial role be given to government participation and to direct foreign investment in this process of industrialization. In fact, it was considered that the process demanded a strong activity of internal savings. This fact, added to the requirements of great long term and high risk investments in basic industries that normally are not taken care of by the national private capital, demanded an active and determinant role on the part of the governments in the anticipated industrialization process. Furthermore, it is supposed that governments would have an effective participation in the process of conception, development and execution of sectorial development plans, particularly in those industrial sectors to be programmed. Finally, foreign direct investment was required for the necessary technological contributions to "close the foreign exchange gap" that, at that time, was considered as a structural problem of Latin American economies; and to contribute with the "risk capital" required by the desired industrial investments.

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[7] Board of Cartagena Agreement. "Bases Generales para una Estrategia Subregional de Desarrollo". Resumen, Lima, 1972, p. 6.

[8] A theoretical analysis is included on the diagnosis and strategy of the corresponding development in: Garay, Luis Jorge, Ibid, 1976.

d. A common and restrictive treatment to foreign capital and to the technological transfer was particularly required (although any integration process demands a common treatment to foreign investment to avoid the dangerous competition of the Member Countries to attract it to their own territory). Actually the industrial protection strategy (at least in certain industrial sectors) would concentrate a great deal of the gross benefits of the integration process in the hands of the protected industrial producers[9/] Since the strategy would imply an important participation of foreign investment in these sectors, it was imperative to assure that the foreign capital would not monopolize said benefits and transfer them totally abroad. Thus, the requirement of 51% of national participation in an enterprise with foreign investment (provided that such proportion reflects itself in the technical, financial, administrative and commercial management in accordance with Decision 24), may be interpreted in part, as a mechanism to seek that at least 50% of the gross benefits of the process remain in the subregion[10/]. The limit established for the remittance of profits intends to reinforce the mentioned objectives. On the other hand, the effective and efficient transfer of technology results decisive for the proposed strategy, and the national control of foreign investments also leads to this end, as well as other specific provisions of Decision 24 and of Decisions 84 and 85.

e. The movement of capitals in the subregion to carry out industrial investments be expedited, as a complement to the action of government participation and of the foreign investment.

9/ Although there are other social benefits obtained by the government (in the form of taxes), by the working class (through the effect of employment), and by the society (through the generation or liberation of foreign exchange), a considerable share of the social benefits generated by industrial investments goes to the investors of capital. For evaluation in this respect, see: CEDE, Perry, Guillermo, et al: Evaluación Social de 30 Proyectos Industriales de Colombia, 1974."

10/ It should be noted that it is not enough to obtain a national participation of 51% in the total stock of the Company to ensure an equitable distribution of benefits. It is also essential to achieve a minimum "control" of the Company, in order to avoid that transnational corporations, for example, through the inter-company distribution of earnings of an international scale, may obtain "hidden" profits (which do not adequately reflect the returns generated) in the operation through a "branch" in a given country, that cannot be effectively appropriated by the local shareholders or the country who receives the investment (as in the case of over-invoicing and under-invoicing of prices in inter-company transactions, for example).

f. Finally, that an increasing adjustment of economic policies be seeked, in such a way that the process "would not depend only on the indiscriminated action of the market forces".[11/]

THE AGREEMENT INSTRUMENTS AND THEIR RELATION TO THE STRATEGY OF DEVELOPMENT

In accordance with the interpretation given by the Board on the implicit strategy in the Cartagena Agreement, the integration process would be developed through the following stages or phases: "First Phase: Determination of the field of what may be programmed and what is subject to liberation, as well as the policies regarding third countries... Second Phase: Preparation and approval of the PSDI's[12/] and partial carrying out of these, while the largest countries initiate and advance the tax release process, and adopt an AEMC[12/].. Third Phase: Carrying out of all programs, progress of liberation up to the total opening of the market, adoption of the AEC and adjustment of all the necessary policies to preserve conditions of competition... Fourth Phase: A greater progress in the coordination of the great common economic policies and culmination of the construction of the essential characteristics of the economic union".[13/] Therefore, as the establishment of a long term economic union was seeked, it was pretended to reach something more than a custom union[14/] in the medium term, since the approval and implementation of all the sectorial programs of industrial development in an approximate period of 5 years for the largest countries was also contemplated.

Consequently, emphasis of the integrationist process in the medium term was given to:

11/Board of Cartagena Agreement, Ibid., 1972, p. 7.

12/PSDI = Sectorial Industrial Development Programs.
AEMC = Minimum Common Foreign Tariff.

13/Board of Cartagena Agreement, Ibid., 1976, pp. 15-16.

14/Balassa, Bela, "Hacia una Teoría de la Integración Económica", in Wionczek, M.S. (ed.), "Integración de América Latina: Experiencias y Perspectivas," Fondo Cultura Económica, México, 1964, p. 7.

a. The creation of a customs union that would establish the extended and protected market, demanded by the strategy.[15/]

b. The rationalization[16/] and financing of investments in the new basic industries, axis of the strategy.

c. The adoption of a common treatment to foreign capital and to the transfer of technology.

c. The satisfactory distribution of the benefits of the integration process among the Member Countries.

Which of the instruments foreseen in the agreement had more significance, can be deduced by the decisive time-tables defined for their adoption: the Program of Liberation of the Subregional Commerce[17/], the AEC[18/], the adjustment of legislations on industrial development[19/], the adjustment of regulating instruments and mechanisms of foreign trade[20/], the PSDI's[21/], the uniform treatment to multinational enterprises of the Subregion[22/], and the common treatments to foreign capitals and to trademarks, patents, licenses and royalties[23/], as follows:

a. The creation of a customs union in the medium term was foreseen through the adoption of automatic programs of tax release to the internal trade in the

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15/ The enlarged market would also be obtained through the application of sound policies on income redistribution inside each country.

16/ Rationalization implies, among other things, the utilization of scale economies and the most adequate localization, considering the situation of raw materials and consumption centers, as well as transport costs. It should be pointed out that the term rationalization used in this essay, does not agree with its meaning in the so-called "programs of industrial rationalization" in the Agreement.

17/ Art. 45 of the Agreement.

18/ Art. 62, Ibid.

19/ Art. 28, Ibid.

20/ Art. 30, Ibid.

21/ Art. 47, Ibid.

22/ Art. 28, Ibid.

23/ Art. 27, Ibid.

subregion, the adoption of an AEG (with the adoption of a Common Minimum External Custom Tariff, as a previous step) and the adjustment of "legislation on foreign trade" of the countries.

b. The rationalization of investments in the new basic industries was foreseen through the adoption of the PSDI's; its financing through the creation of the CAF and through the constitution of multinational Andean enterprises in the Subregion. It is worth pointing out that the adoption of such a novel mechanism as the PSDI's[24/], seemed feasible at that moment due to the participation that the strategy assigned to the governments and to foreign capital in the development of such sectors. Actually, the government and the transnational companies are in a position to plan and program their investments at a medium term. However, the interest of the governments to have the state program and participate effectively in the industrial development depends on the ideological conception and on the economic policy adopted by them.

c. The adoption of a common treatment to foreign capital and to the transfer of technology was foreseen at fixed term in the Agreement, as was pointed out.

d. Finally, the satisfactory distribution of the benefits of the process as foreseen by providing preferential treatments to Ecuador and Bolivia in the application of each of the mentioned instruments, but in particular through the PSDI's[25/].

24/ The only background is represented by the Agreements of Industrial Specialization in the CAME (Council of Mutual Economic Assistance, organization for the economic integration of the USSR, East Germany, Poland, Czechoslovakia, Hungary, Roumania, Bulgaria, Mongolia and Cuba). In these countries, the existence of central planning regimes and similar political and development objectives make the process easier. In spite of the above, the agreements do not have the degree of coverage, automation and compulsory character as the PSDI, and operate basically through the voluntary coordination of development and foreign trade programs. See, for example, Pryor, F., "El Sistema Comunista de Comercio Exterior".

25/ For an excellent discussion on why the PSDI should represent the best possible mechanism of benefit distribution of the integrationist process in the subregion, see Salgado, Germánico, Ibid., pp. 89-111.

Apart from setting up preferential treatments concerning the adjustment of economic policies and the PSDI, the Member Countries obliged to act jointly before any entity to obtain technical assistance and financiation for the priority installation of industrial plants or complexes in Bolivia and Ecuador (see Chapter XIII of the Cartagena Agreement).

Consequently, the Agreement anticipated other complementary instruments to the above (programming of the agricultural and transportation sectors; adjustment of exchange, fiscal and monetary policies; "industrial rationalization", etc.) but neither did it establish terms for their development, nor the Commission nor the Board were as determined as they had been regarding those already[26/]. These clearly had a more direct relation with the implementation of the main aspects of the basic common development strategy, as it is clear from the proceding paragraphs.

In addition, it is worth pointing out, that there was such faith in this common strategy and in the role that governments would have in its development, that the Agreement anticipated to reach not only the adjustment of the economic policies, but also the coordination of the development plans and finally a system of joint planning for the subregion[27/].

In fact, as it was already mentioned, the creation of a customs union with joint programming of certain industrial sectors was conceived as a previous step for the creation of an economic union in the long term.

CHANGES IN THE BASIC PRINCIPLES OF THE CARTAGENA AGREEMENT[*]

1. The Andean Group within the Process of Latin American Integration

The Agreement was born from the desire to form a common block against the determinant influence of Argentina, Brazil and Mexico in the integration process. This situation changed as time went by, at least in two countries. In the first place, upon the taking over of General Banzer in Bolivia, in 1971, a known process

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26/ Regarding the programs of industrial rationalization, it must be acknowledged that their execution was neglected during the first five years due to the priority granted to handling of other mechanisms..." (Board Cartagena Agreement, 1976, p. 126). This paragraph refers to the "rationalization" programs foreseen in the Agreement, which, as already indicated, do not correspond to the term rationalization used in this essay.

27/ Article 26 of the agreement.

* From here on excerpts of the translated article from "Coyuntura Económica" are quoted and interspersed with LARO's PSU summary based on cited bibliography

of political approach and of economic cooperation with Brazil was started. Bolivia was offered capital and technology by the countries of the southern cone -- particularly Brazil -- and, on the other hand, the Andean group offered it markets. This situation explains the frequent threats of Bolivia to withdraw from the Andean group if certain demands were not satisfied. This constitutes a pressing element that makes the process of negotiation among countries difficult to a great extent. Secondly, the present government of Chile does not have a clear interest in the subregional integration process and rather seeks a political and commercial approach to the governments of Argentina and Brazil. This new Latin American geopolitical reality has had repercussions on the present feasibility of the Andean group.

2. Changes in the Development Strategy of the Member Countries

Since the Cartagena Agreement has as its final goal to accelerate the economic and social development of the Member Countries, it intends to reach this objective by giving more emphasis to industrialization, through a protectionist model based on substitution of imports.

Two subregional countries (Colombia and Chile) changed their development strategy giving up the emphasis on the industrial sector by protecting an industrial development based on the traditional international division of labor[28/] and not on a protectionist process of substitution of imports.

Consequently, the governments of these two countries are trying to reduce economic costs associated with protectionism, demanding an average level for AEC inferior to that proposed by the governments of the other Member Countries. This difference in levels is particularly significant in the case of Chile. Likewise, they are unconcerned regarding the PSDI's since, neither, their new strategy gives preference to programmed industries, nor their economic policy is consistent with the use of this instrument. Actually, their policy of non participation on the part of the government in the industrial sector leads to the inefficacy of industrial programming inside their economies and, consequently, raises a conflict with the use of the instrument at subregional level.

28/ International division of labor proposed by the classic theory of comparative advantages, which results in the deviation from the emphasis given by the agreement on basic industries, At the other extreme are Peru and Venezuela, whose present strategies coincide essentially, although for different reasons, with that serving as a base to the Agreement's conception: "supporters" of the PSDI's and of a relatively "high" AEC. Thus, Venezuela, given its availability of substantial financial resources, particularly in the hands of the government, and the condition of a relatively incipient internal industrial development, finds in the Andean Group the "great" possibility to become "industrialized", with special participation from the government in the development of basic industries, through the utilization of an extended market in a protected situation offered by the Agreement. Likewise, Peru, in its internal development strategy, considers as an unavoidable requirement the development of the industries known as "basic and strategic", in order to reduce its condition of "dependent" country.

On the other hand, Bolivia and Ecuador, because of the structure of production of their economies, are convinced that the most important benefits that can be obtained from integration are those derived from the location of "dynamic" industries in their countries, in spite of the "costs" that these may imply. At least this would protect them in the medium term. For this reason, they have been closer to Peru and Venezuela, although, due to the characteristics of their external sector (highly specialized in exports of some primary goods and dependent on imports of most of the other goods), they have seeked,particularly Bolivia, intermediate levels for the AEC, and so avoid incurring in substantial "cost" increases for their economies.

In this way, a conflict was created between, on one hand, the countries that give a greater emphasis to the role of the market forces, both in internal and subregional policies and on the other, those that defend a greater participation of subregional and governmental planning and programming.

Because of the strong Colombian and Chilean position, the other four countries refused to reach an agreement on the AEC until the PSDI's agreement progressed.[29] Although the AEC would not be fully operative[30], for the above reasons, they were concerned about the delay in approving the PSDI's since the approval of a general "low" level of the AEC would probably lead to relatively "low" levels of the AEC for the PSDI's. They tried, then, to force Chile and Colombia to approve the PSDI's, subject to the approval of AEC, which is crucial to the internal economic policy of the two countries. Thus, in general terms, this is how the general non-fulfillment of the time-tables established in the Agreement was generated.

These changes in the development strategy have been accompanied, furthermore, by the position of Chile regarding the treatment to foreign capital. Chile expressed its decision to solve in part the problems of internal savings by means of the non-nationalizing of its industry, in flagrant contradiction to Decision 24. The open violation of this Decision through Decree Law 600 of July 13, 1974, hastened the crisis of the Andean Group. Right after this decree a period of negotiations began, in which Chile requested the modification of Decision 24. One of the points mentioned was that relating to profit remittance.[31]

3. Solving the Crisis?

On April 10, 1976, the countries of the Andean group gave in to the Chilean position, by means of Decision 97, which authorizes the sale to foreign investors of the shares, participations or rights belonging wholly or partially to the

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29/ The above countries even demanded to carry out the liberation of the intra-subregional trade, in accordance with the schedule of the PSDI. Thus, Decision 100 foresees an extension of the terms for the Liberation Program.

30/ In case it were, some countries like Venezuela would hardly find acceptable, in the absence of amendments in their exchange policy, a very "low" AEC. In fact, its high protection to the industrial sector, simply compensates in part for the existence of a rate of exchange determined by the predominance of oil revenues in its "superavit" trade balance.

31/ During the fifteenth period of sessions of the commission of Cartagena Agreement, the Chilean Ambassador, Alejandro Sara, explained the position of his government in the following terms: "Decision 24 offers negative aspects to attract foreign capital which only establishes a 14% regarding the remittance of profits to the foreign investor, while the European banks, with no risk whatsoever, are paying interest of 15% of fixed term deposits".

Corporation for Production Development (CORFO). This Decision represents a regressive step in the integrationist process, since it establishes a precedent, to prompt in the future similar situations of exception. Furthermore, a special commission was created in this meeting to study the amendments to Decision 24.

On June 10, 1976 the commission's working group of the Cartagena Agreement reached a consensus to amend Decision 24. The main points to be amended were the following:

a. Elimination of the 14% limitation to profit remittance of foreign companies, leaving every country free to establish the most convenient limits according to the interests of each country.

b. Treat the subregional capital of national investors as national. These recommendations should be ratified by the governments of the six Member Countries, and through them it was pretended to reach a conciliation with the Chilean Government.

Decision 100 was another attempt to solve the crisis. It establishes amendments to the Cartagena Agreement:

a. To extend two more years the time-tables foreseen for the Liberation Program, for the reserve period, for the approval of AEC and for the first approximation to the agreed AEC;

b. To establish a customs tariff "bracket" where levels of maximum and minimum protection are contemplated in favor of subregional products;

c. To exclude a list of products from the original reserve list and assign them for industrial programming;

d. The possibility that a sectorial program can be approved by only two thirds of the Member Countries and put into operation by them;

e. The definition of the procedure for the incorporation of the Member Countries that do not participate initially in the sectorial program.

In addition, as provided for in Article 6,"the non-participating countries (in the PSDI's) shall incorporate the products of the "participating countries" in their respective lists of exceptions, in the cases where they were not included. The Commission, upon proposal from the Board, shall determine the terms and conditions for liberating and adopting the Common Foreign Tariff of these products..."[32]

The main characteristics of Decision 100 have been described; given the nature of the commitments that resulted from the "apparent conciliation" of economic policies and different interests, (particularly among the two groups of countries mentioned above), it is advisable to analyze the feasibility of the process resulting from it and the operative character and effectivity of the proposed mechanisms.

Firstly, the creation of a custom tariff "bracket" would allow Colombia and Chile to place themselves in levels of a relatively "lower" customs tariff protection than what would have resulted from the approval of an AEC for the subregion. In turn, Colombia and Chile, (being able to abstain from participating in the PSDI's), "would allow" perhaps to pursue the great interest of the other four countries in the application of this instrument as a basic element in the integration process. Consequently, in principle, these four countries would have preferred the PSDI's in the framework of a "joint" market, while Chile and Colombia would have preferred a "low" AEC for the subregion.

Consequently, in the short term, the differing positions of the countries are apparently satisfied. The establishing of a "low" inferior limit of the AEC "bracket" and the now compulsory nature to participate in the PSDI's would allow the productive resources to place themselves in those productive activities which have a comparative advantage in terms of the world market. The above would be in accordance with the basic purposes of the economic policies of the present governments of Colombia and Chile.

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[32] Decision 100, Article 6, item b.

On the other hand, the development of the PSDI's in the other four countries would imply that the development of these countries would not depend only on the forces operating in the world market. But this would have to be complemented simultaneously with price mechanisms, such as tariffs, that would insure the benefits for the country that each program seeks.

Therefore, the adoption of a relatively "high" AEC and the participation in the PSDI's correspond to the basic objectives of the economic polity of said governments.

Notwithstanding this "apparent" feasibility of the agreed commitments it is undoubtful that some conflicts and contradictions would occur in the medium term, inside the Group. In the first place, the increase of intra-subregional trade could lead to an important concentration of commercial balances, in this case in "favor" of the countries placed in the inferior part of the customs tariff "bracket".[33/] These countries would offer a scant advantage to the import of goods coming from the Subregion and, in turn, would profit from the fact that their exports to the Andean market would be favored in general by the high protection given by the other Member Countries. Not less important, the increase in the "displaced trade" in the Subregion would be encouraged, that is, the imports coming from third countries through the Member Countries with a low AEC[34/] would be increased, thus creating a permanent tension of the mechanisms of certification and control of origin, and an apparent need to implant other obstacles to intra-subregional trade. Therefore, it is important to foresee the reaction of the countries placed in the higher part of the "bracket" to the eventual occurrence of such facts.

Regarding the "partial" programming (that is, among four or five countries) it is advisable to analyze the reasons why a country would abstain from participating in a given program and the consequences derived thereof. On the one part, from the above discussions, the probability that Colombia and/or Chile abstain from participating in a program (or in some programs) for considering

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33/ Shibata, H., "A Theory of Free Trade Areas", in Robson, P. (ed.) International Integration, Penguin Books, 1972, pp. 68-87.

34/ The importance of that concentration would naturally depend on the extension of the "bracket" in relation to the transport costs in the subregion.

the AEC proposed in such program or programs very "high", is evident. In accordance with Article 6 of Decision 100, the Commission would agree on the terms and conditions for the adoption of the AEC by the non-participating countries; as well as for the liberation of their markets to the products which are included in a program (or the programs) originating in the other Member Countries. Once the moment of this 'new negotiations' arrives, the non-participating countries probably would insist, even more than before, on reducing the AEC, since they would probably not have enjoyed the advantages of having exclusive allocations. Eventually the other countries would be willing to negotiate in order to have access to these markets of the non-participating countries, but they could face a serious problem. As a matter of fact, to the extent that the market of the non-participating countries constitutes an important fraction of the Andean market, the participants would have been compelled to carry out the program[35/] "inefficiently" and under a protection level regarded as narrow by them, as it would have been designed initially for the joint market.[36/] Under these conditions, it would be probable that the programmed industries would not be in a position to put up with the international competition with levels lower than the AEC. In view of the above, the scant possibility of success of these subsequent negotiations may be anticipated.

On the other part, a country may abstain from participating for not being in agreement with the proposed allocation in order to avoid, for example, to injure "national" economic interests even though the level of protection suggested in the program may be considered acceptable. In this case, and again under the assumption that there are scale economies, it would probably maintain or develop branches of the respective industry based barely on its proper market and therefore, with relative "high" costs. Should it accept subsequently the AEC agreed on by the others and liberate its market, it would put its industry in a position to face a possible "dangerous" competition in front of its

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35/ If, as it may be assumed, there are important scale economies in the mentioned industries.

36/ Or else, alternatively, they would have been unable to carry it out, or would have increased the AEC even further upon reviewing the program two years later, when the term for the possible adherence of non-participants would have expired.

partners, who would have programmed based on a more ample market, as in front of third parties. Again in this case the relative feasibility of subsequent negotiations is evident.

Consequently, mechanisms proposed in Decision 100, only seem feasible at medium term in cases in which, simultaneously, there are no serious disagreements in the initially proposed level for the respective AEC, and where no important scale economies exist in the programmed industries. But in these cases, fundamental doubts regarding the desirability of programming, in accordance with Article 32 of the Agreement, would arise.

Therefore, in our opinion, the system proposed by Decision 100 as to the PSDI's would be condemned to failure. It would be more feasible, although initially it is more difficult under the present circumstances described above, to arrive at common agreements of the six Member Countries in connection with the advisability to program, with the allocations and the AEC structure in each sectorial program.

Immediately we will explore into the type of integration that would result from the approval of the additional protocol recommended by Decision 100. From the above paragraphs, it is clear that, strictly, an authentic free trade zone would not be created even in the medium term. Not only there would be markets mutually protected among participating and non-participating countries in the PSDI's during the life of said programs, but also from the above, it would be probable that the subsequent anticipated liberation would be seriously hindered. Likewise, a true customs union could not be reached since in addition to the afore mentioned reasons, the common adoption of a common AEC structure for the Subregion would be abandoned, at least for the time being; that is, a common position of the member countries facing the trade of goods coming from third countries would not be adopted. Obviously, under these conditions, the possibility of forming an economic union in the subregion and of arriving at a system of joint planification as foreseen in Article 26 of the Agreement is even more remote. Consequently, the Andean subregional integration scheme would change in the medium term into a strange "hybrid".

On the one hand, there would be important segments of the non-liberated market among groups of countries, and on the other, the partial zone of emergent free trade would show a certain degree of "customs coordination" (depending on the extent of the external customs "bracket" agreed on), but would not constitute properly a customs union. This would represent a serious back move in the progress that the Andean Group showed over the LAFTA.

However, Chile refused to subscribe the additional protocol to the Cartagena Agreement recommended by Decision 100 while the other countries did suscribe it. On October 30 of the present year, Decision 102 came into effect, by means of which the rights and obligations derived from the Cartagena Agreement cease for Chile. Thus, the final withdrawal of this country from the Andean Subregional Pact is legalized, maintaining obligations and rights only on four decisions, as follows: Decision 40 (Agreement to avoid double taxation), Decision 46 (uniform system of multinational enterprise), Decision 56 (international road transportation), and Decision 94 (Andean main road system).

Moreover, the remaining countries, by means of Decision 103, also modified the statute of capitals. These amendments in general were already included in preceding meetings held in order to attract the Chilean government. The modifying points established are the following:

a. Subregional investment is considered as national capital, but the approval of the competent national organism is required for its acceptance.

b. Foreign enterprises are allowed to increase the limit of profit reinvestment from 5 to 7%.

c. The limit of profit remittance is increased from 14 to 20%. However, competent national organisms may authorize a greater percentage.

d. The capital of international financing organisms is defined as neutral capital and, therefore, it will not be estimated as neither national nor foreign, regarding the enterprise in which they participate.

ANNEX

GENERAL OUTLOOK AND PROSPECTS*

* Translated from "Coyuntura Económica", October, 1976.

BOLIVIA

Bolivia's economy is particularly sensitive to the exchange situation and to the balance of payments. Actually, exports of goods and services (excluding payment of factors) represent 28% of the gross national product, and imports, 35%. Therefore, the country's economic juncture is closely related to the prices of the principal export products, mainly oil and tin. Thus, in 1972, Bolivia faced a situation of balance of payments particularly weak that resulted in a drastic peso devaluation at the end of the year. Since then, a substantial improvement of export revenues is experienced, particularly on account of oil and of increases in tin and zinc prices. Although in 1974 an unprecedented surplus was registered, when exports reached the amount of US$558 millions, in 1975 an extremely high current deficit of US$175 millions appears, caused by the accelerated increase of imports and the drop of exported value of 21%. However, the high private capital revenues (US$87 millions) and the increasing public debt (US$55 millions) permitted that the exchange situation be maintained with a slight deterioration in the level of reserves.

Although Bolivia is a small producer and exporter of oil and natural gas, the rise in international prices of hydrocarbons opened an important opportunity to accelerate its development and rapidly increase consumption and investment[1/]. In 1974 approximately US$125 millions were accumulated in international reserves, more than three times the levels prevailing in preceding years. In 1975 the situation deteriorated, in part, due to the prices of some export mineral products, mainly zinc and antimony; in part, to a reduction of 18% in the exported volume of tin; in part, because a unilateral price of oil highly increased prevented the country from maintaining an adequate export volume of hydrocarbons and finally forced the government to reduce the price once more; and in part, because of the accelerated growth of imports that in two years increased to more than double the levels of 1973.

In the context of the Andean Group, Bolivia is a mining country par excellence. Mining has represented approximately 15% of the gross internal product, a much higher figure than the rest of the countries of the subregion. If the exploitation and refining of hydrocarbons is added, it may be seen how the sub-

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1/ Internal savings in Bolivia have experienced movements similar to those of the balance of payments. Further to a period where there was clear dependency on external resources to finance investment, in 1974 savings increased to 21% of the gross national product. In 1975, with the growth of internal consumption, this rate decreased at an estimated value of 19%.

soil represents for Bolivia approximately one fifth of its revenue and product. Such fact is highly important if the rate of growth of the gross internal product is studied. The product increased in average to 5.7% annually between 1971 and 1975. Since mining production has developed very slowly, approximately an annual average of 0.7%, and represents a high ponderation in the internal product, the rhythm of economic growth indicated reflects considerable increase rates in transportation (7.1%), commerce and services (6.5%), and energy (6.0%), as well as relatively high rates in the agricultural sector (5.2%). In turn, manufacture and construction show a slow growth rhythm of 4.0% and 5.1% respectively.

In spite of the oil income, Bolivia continues to be a very poor country. Per capita income is about US$300; unemployment is generalized (near 12%); traditional agriculture prevails in most of the land; some important mines are beginning to show signs of exhaustion; the manufacture sector reflects an incipient condition, its growth being limited by the size of the market, by the production models markedly inefficient and by the cost of transportation of goods and inputs; and mining exploitation has been associated with the constitution of powerful labor movements that have resulted in frequent strikes and lockouts.

Bolivia, as the majority of the countries of the Andean Group, experienced an incredible acceleration of inflation in 1974. The growth rate of prices was higher than 38%, a figure resulting from the price situation in international markets, the monetization of increasing international reserves and the consequent growth of internal demand. However, in 1975, the level of prices stabilized and the rate of inflation decreased approximately to 6%, as the result of the government's financial moderation and of the world recession. This improvement in the internal situation of prices has continued, therefore, the annual rate of inflation decreased to 3% during the first months of the year.

During 1974 both the central government's finances and those of the consolidated public sector showed a substantial improvement as the result, in part, of the state's higher oil revenue. In 1975, the unusual growth of public expenses and the reduction of oil revenues resulted in a notable deterioration of the balance of the national public treasury. Actually, in 1974, the central government experienced a deficit of $455 millions, while in 1975 this figure increased to $801.0 millions.

In 1976, the activity of Bolivian economy reflected an improvement in some economic indexes. Net international reserves at the end of the first semester showed a recovery of 4% over their level at the end of 1975. Likewise, during the first four months of 1976, the volume of crude oil exports showed an increase with respect to the same period in 1975. Finally, the price of tin experienced a clear recovery trend in June, in contrast with prices in force in June of the preceding year, which resulted in a drop of 12% of the exported value.

TABLE VI-4

PERCENTAGE BREAKDOWN OF IMPORTS AND EXPORTS ACCORDING TO COUNTRY OF ORIGIN AND DESTINATION, 1970-1975

	Imports		Exports	
	1970-72	1973-75	1970-72	1973-75
Total	100.0	100.0	100.0	100.0
Latin America	16.6	40.9	11.0	37.5
Argentina	10.3	14.7	5.6	17.4
Brazil	1.9	22.3	0.5	9.0
Chile	1.2	0.4	1.1	4.8
Colombia	0.3	1.4	-	1.0
Mexico	0.6	-	-	-
Peru	1.3	1.7	3.8	4.9
Others	1.0	0.4	-	0.4
Western Europe	29.9	21.1	52.7	37.0
Canada	1.8	2.7	-	0.5
United States	31.1	21.7	27.9	16.1
Japan	16.4	9.0	6.0	8.2
Others	4.2	3.6	2.4	0.7

Source: International Monetary fund.

CHILE

A. Economic Policy

The principal objectives to be reached by the economic policy have been explicitly stated by the Minister of Finance, in the document which includes the ministry's programs for 1976 and in the presidential intervention of March 11. Each source points out the equilibrium in the balance of payments, the control of inflation, the reactivation and protection of low income sectors as the priority objectives.

Economic authorities are conscious that the process of economic reactivation will be slow during the present year, as may be deduced from the growth projections made by the National Planning Office and by the statements of the Minister of Finance at the end of 1975. Most of them coincide in figures fluctuating around 5 per cent as the rate of growth for 1976.

The economic strategy is based on giving the private sector the most important responsibility in the reactivation, being the state's responsibility to design and implement a coherent policy, and only to participate directly in those initiatives that for certain reasons can not be adequately covered by the private sector.

In the framework indicated, certain decisions on economic policy that are described below and that will serve to form a more accurate opinion regarding the present economic juncture and its future prospects have been made.

The crisis of the balance of payments that threatened the country during 1975, enforced a set of measures eminently restrictive regarding importations and other forms of foreign exchange expenditures during the past year. At the same time, exports and other mechanisms to facilitate the admittance of foreign exchange to the country were encouraged.

Both types of options were maintained during the first quarter of the present year and from there modifications to aliviate the situation were introduced, expediting the implementation of the strategy of foreign exchange admittance, which is one of the pillars supporting the present policy.

In that sense, the most important measures may be summarized as follows:

1) During the first quarter of this year, the highest dollar real prices are reached since 1973. During the second quarter, a gradual process of revaluation of the peso begins.
2) During the month of February, the sixth reduction of customs tariffs becomes effective, the seventh becomes effective in June, with which the goal of having a maximum tariff of 35 per cent and a minimum of 10 per cent will be reached. These levels are significantly lower than those experienced at present by the remaining countries of the Andean market.

3) It is decided not to request the renegotiation of the foreign debt that should be paid in 1976. This implies an expenditure of approximately 800 million dollars, which will not affect the equilibrium of the balance of payments.

In the fiscal area, policy decisions have aimed to the objective of maintaining the 1975 expenditure level, although reassigned, as it relates to priority objectives. Consequently, the financial balance observed at the end of 1975 is insured.

The principal measures of economic policy related to this area that have been implemented during the semester are the following:

1) In the reassignment contemplated in the initial formulation of the budget and the subsequent complementation of May, to adapt it to the real rates of inflation, priority has been given to expenses for housing, education, health ahd child nutrition programs, which is expected to materialize during the second semester.

2) The tributary structure defined in the corresponding reform which became effective in April of last year is maintained.

3) The transfer to the private sector of enterprises in the possession of CORFO continued.

This process was somehow in conflict with provisions of the Cartagena Agreement and in particular with Decision 24, until

May of the present year. On that date, special authorization was given to Chile to sell some of those enterprises to foreign capital.

At the same time that enterprises in the state's hands are reduced, a management system centralized on the Ministry of Economics for those enterprises that continue pertaining to the state, is organized.

In the field of the market of capitals, policy measures have been oriented towards its expansion as well as its improvement. In contrast with what happened in 1975, a greater stability in the rules of the game is noted in this area.

The main policy lines may be summarized as follows:

1) Towards the end of December 1975 the interest rate is released after the Central Bank tried a control mechanism, which resulted in a recommendation of maximum capture and distribution rates. This was modified because the resources switched towards an informal market where monetary control is lost.

2) Reserve rates are increased and banks are allowed to make loans in relation to deposits (previously, it was only a percentage of the term capture) with the only limitation of respecting reserve levels; at the same time the Central Bank pays an interest for these amounts.

3) The purchase of foreign exchange in the future is eliminated which was the usual financing mechanism used by exporters and is replaced by an authorization to the commercial banks to grant credits up to 50 per cent of FOB exports. The measure tends to place exporting activity in similar conditions in relation to the other activities with reference to the credit cost.

4) Towards the end of the semester, the readjustability of credit operations exceeding 90 days is approved. Until that date, only operations exceeding one year were readjustable, estimating that that was one of the causes of the real interest high rates that those who contracted debts permanently in the market of capitals at short term were obliged to pay (inflationary expectations higher than the effective inflation rate).

In the area of compensations, policy remains unchanged, granting readjustments every three months in accordance with past inflation rates. There are some exceptions where certain sectors were favored, such as teachers, persons between scales 16 and 35 of the Sole Scale of Compensations and some cases determined by tripartite commissions (workers, enterprisers and government).

Relating to employment the policy has remained unchanged in the sense that no innovations with respect to measures adopted during the past year have been registered.

Still in force are the minimum employment plan, incentives to hire additional labor and the revision of the new Labor Code. Upon the publication of the latter, the Enterprise and the Training Social Statutes shall become effective, both of great importance to the labor sector.

B. Results obtained during the first semester of 1976.

Fiscal Situation.

The national currency budget presents a surplus equivalent to 3.5 per cent of the expense. During the same period in 1975, there was a deficit of 8.3, and in 1974, 35.4 per cent.

The budget in foreign currency presents a deficit equivalent to 43.6 per cent, which, however, is more favorable than last year's situation when the deficit was 64.9 per cent for the same period.

The favorable result in national currency is the product of the reduction at the expenditure level and, at the same time, the increase in revenues as a consequence of the tributary reform.

In turn, the unfavorable situation as it relates to the foreign currency budget is explained due to the increases experienced in amortization payments of the debt.

2. Foreign trade situation

The foreign trade achievements are undoubtedly the most obvious obtained by the economic policy. From a situation of great deficit in 1975 we have passed to a comfortable situation in 1976, estimating a surplus exceeding 300 million dollars.

Favorable results are due to the increase of copper prices in March and to the increase of physical major mining exports; to the increase of non traditional exports; and to the admittance of capitals by virtue of Article 14 of Decree-Law 1272.

As to disbursements, it is necessary to point out in the first place the service of the foreign debt that between amortizations and interests represent an amount close to 800 million dollars. Furthermore, it is estimated that the level of importations could be similar to that of 1975, which would imply a substantial increase during the latter part of the year.

3. Monetary situation and market of capitals

Monetary expansion has been caused almost exclusively by the issuances of the Central Bank. The banking multiplicator has had a very moderate influence, produce of high reserve rates and, until May, a quantitative control of distributions.

As a result of the above, to explain the expansion of money, should be limited to observe the sources of the issuance. Upon examination of the amounts it is clear that the exchange operations account for, to a great extent, the issuance of the first semester.

Regarding the market of capitals, a trend towards a greater competition is noted, as a result of the measures adopted in the banks' reserve rates. Another characteristic that may be observed is that in view of the high interest rates prevailing internally, a significant admittance of foreign resources is produced, which explains in part the accumulation of reserves and the monetary expansion due to exchange operations.

4. Price situation

The rate of inflation during this first semester reached an average of approximately 11 per cent per month, which exceeds by almost three points the rate registered during the second semester of last year. Should the comparison be made with the first semester of 1975, the improvement is significant since at that time the average inflation was 18 per cent.

Taking into consideration the stationary conditions when comparing the rates of inflation of the second semester of one year with those of the subsequent year, it may be said that regarding control of inflation the situation has gradually improved since all projections for 1976 point to a maximum rate of approximately 180 per cent, which means an important advance when comparing it with the 340 per cent of 1975.

5. Revenue situation

The level of real wages and salaries has experienced a slight improvement as the consequence of the readjustment policy and the lower rates of inflation.

6. Employment situation

After a constant increase in the unemployment rate which started in September of 1974, a decrease is experienced in June. The percentage of unemployed that in March reached 19.8 per cent of the labor force, decreased in June to 18 per cent. However, the unemployment rate continues to be high.

7. Production situation

Production during the semester has experienced a slight increase when compared with activity levels registered during 1975's second semester. Should the activity levels of the first semester be maintained, an improvement of approximately 4 per cent in the gross internal product would be observed.

The most important increase will probably be observed in mining with 8 to 10 per cent per year.

Industrial production is at levels that, should they be maintained for the rest of the year, would show an increase of 4 to 5 per cent.

Construction is an activity whose level should improve during the second semester with relation to the levels of the first semester, which were rather low.

Agriculture will not experience an activity level in 1976 different from that of 1975.

C. Final Conclusions

During the first semester, Chilean economy presents as fundamental characteristic a slight increase in its activity levels, as well as a consolidation of some objectives which had been suggested at the end of last year. Such is the case of the external balance and the fiscal budget in current currency.

Perhaps, more than the magnitude of the positive signs observed, the fact that they appear in practically all variables, with no exception, should be valued.

There is the impression that in the second half of the year, the trend indicated up to now will continue, in terms of a slow recovery, accompanied by a consolidation of fiscal and foreign commerce balances and a reduction in the rate of inflation.

D. Economic Integration

The most relevant events occurred in Chile during the present year are the disagreements with other member countries of the Andean Pact.

1. Controversy and its causes

The main controversies revolve around the treatment to foreign investments, the tariffs that the six countries should apply to merchandise arriving from the rest of the world and the joint industrial programming.

The crucial point of the debate is Decision 24, which regulates the treatment of foreign capital and of trademarks, patents, licenses and royalties.

The amendments to this Decision requested by Chile are fundamentally the following:

a) Elimination of the 14 per cent top to the remittance of profits.

b) Elimination of the clause that compels foreign enterprises to transform into national or mixed, within a term of fifteen years.

c) Elimination of the prohibition to sell national enterprises to foreign capitals.

d) To exonerate enterprises that are not interested in taking advantage of the subregional market, from the applicability of provisions of Decision 24.

c) Expansion of the number of basic sectors (extractive, energy and forestry) exempted in this norm.

To understand the arguments given to justify these requests, it is necessary to review Chile's economic history.

During the past forty years, with slight exceptions, Chile has followed an economic development scheme of substitution of imports. The basic idea was to produce internally the goods that were being imported; it was considered that in this way the country could develop and they would save the limited foreign exchange that they have had normally.

This process was accompanied by an exchange policy that during many periods of time kept the rate of exchange under-estimated, by means of which it was permitted to import capital goods and raw materials needed for the industrialization being promoted. But this type of exchange also served as an incentive for the importation of all types of goods. To maintain this policy would have led to a constant deficit in the balance of payments. To prevent this, a tariff policy was applied, which consisted in the prohibition or appliance of extremely high customs tariffs to the importation of those products that was estimated Chile could produce internally.

With these measures, the problem of the balance of payments would be solved, internal production would be promoted and protected from foreign competition. But this referred only to the sector that would substitute importations.

The exporter sector experienced a great decrease in its exporting possibilities since with the underrated type of exchange it could not cover its internal production costs.

Very low customs tariffs, almost inexistent, were applied to basic commodities. This was a measure intended to maintain the prices of these products relatively low to prevent the rise in the cost of living and to maintain products within reach of the great consumer mass.

In these conditions, the assignment of resources moved towards production of sumptuary products and products that could be dispensed with, importation of which was prohibited, or had excessively high tariffs, and consequently, their internal prices were high and profittable to be produced. It also moved towards substitution import activities, but these were condemned to the service of internal markets which were relatively small, since the exchange policy inhibited these activities from expanding their production by going outside because with the type of exchange, sufficient returns to cover production costs could not be obtained.

Let's observe now what happens with the Andean Pact. It was contemplated that with its creation markets could be added and new oxygen could be injected to the process of import substitution (see Table VIII-5). But there was no awareness that the protection expected by the Subregion with respect to third countries would substitute cheaper currents of importation (from third countries that, in addition, were generating revenues for the treasury because of tariffs), for other more expensive currents of importation (those of the members of the Subregion), that would compete only because intraregional tariffs would be inexistent. The higher the common external tariffs, the greater the cost of the welfare of this exchange will be.

TABLE VIII - 5

CHILEAN TRADE WITH THE ANDEAN AREA AND OTHER COUNTRIES ALALC

(thousands of dollars)

	1970	1972	1974	1975
Imports (registries executed)				
Bolivia	1.298	8.612	34.996	1.967
Colombia	76.589	13.798	38.240	70.673
Ecuador	9.966	18.337	122.195	60.080
Peru	7.696	10.040	47.961	4.108
Venezuela	13.093	12.361	40.315	34.201
Andean Area	58.642	65.939	283.709	121.029
Argentina	122.562	242.599	763.622	48.100
Brazil	28.107	89.633	158.411	77.085
Exports (shipments)				
Bolivia	1.014	619	2.674	10.270
Colombia	4.863	8.891	29.030	25.425
Ecuador	2.533	1.469	3.164	15.233
Peru	8.837	6.860	14.779	21.887
Venezuela	2.699	1.457	8.045	19.708
Andean Area	19.945	19.296	57.692	92.523
Argentina	67.968	42.743	136.204	126.455
Brazil	27.594	15.844	113.557	74.060

Source: Central Bank of Chile

2. Treatment to foreign capital

The scheme of the Andean Pact is very similar to that followed by Chile in the past, consequently Chilean authorities do not wish to commit themselves at regional scale regarding that scheme from which Chile is deviating.

This has been indicated by the Minister of Economics, Sergio de Castro, who states that the economic development of a country does not depend only on efficient and coherent economic policies but that it needs, in addition, another ingredient which is investments. He further states that to generate, through internal savings, the investments needed by Chile to grow at a minimum of 7 per cent per year, the consumption of the present population would have to be sacrificed at a great extent, and consequently it is imperative that foreign investment enter our country to be added to the effort of the internal savings and permit the reaching of the levels of investment that are needed.

The Minister of Economics established that foreign investment contributes not only with capital goods and financing capital. It contributes, furthermore, with technology, human talent, managing ability, knowledge on markets and ability to penetrate said markets. He expresses that to attract this investment it is necessary to modify Decision 24 and make it more flexible.

For these reasons, the Government of Chile proposes to change the way in which the foreign or national quality of an activity is defined, and the obligation to transform foreign enterprises into mixed or national enterprises at the end of a certain period of time. He proposes that such definition be made based on the local aggregate value and not in terms of the capital's property, which constitutes only one of the productive factors involved in a determined activity. On the other hand, it is insisted that it does not have any sense to compel a country to use its own limited resources to acquire enterprises already developed and that, on the other hand, it impedes the admittance of new capitals since the investors would not be pleased with the idea to be forced to transfer the ownership of their assets. Furthermore, in such conditions, the foreign investor would not see any incentive to develop his activity to the maximum of his potential or to introduce new techniques.

Internal criticisms to this Chilean position indicate that rigid norms do not impede the admittance of foreign investment to the extent that they are clear and stable and that, on the contrary, the excess of admittance or of liberality in front of this capital confuses its admittance or promotes speculative and short term investments, since the investor always thinks that a very advantageous framework can not be maintained for a long time. It is added that to the extent that it is convenient to the foreign investor, provided that income may be derived from his activity, he would not mind to associate with national investors. Finally, it is affirmed that for investments based on the exploitation of basic resources and for exports outside the area, Decision 24 contemplates a more liberal treatment.

3. Common external tariffs

Regarding common external tariffs, the Chilean position is based on the conviction that the development model based on the indiscriminated substitution of imports would have reached its conclusion and that presently a reasonable effective protection not as high as the one in existence, would be enough.

Criticism to this position indicates that for an underdeveloped country relatively separated from industrial centers and centers of greater consumption, it would be very difficult to penetrate foreign markets of difficult access, many times protected, captive of great enterprises and strongly stable. On the other hand, it is affirmed that at any rate, the admittance should be slower and to profit first from the potentialities of the Andean market and then think of reaching more remote and complex markets.

As can be appreciated, the disagreements with the Andean Group are complex and go farther than simple technical considerations, since different strategic conceptions of development and international policy are involved.

Finally, we wish to point out that the common external tariff and the sectorial development programs were not approved within the stipulated terms.

COLOMBIA

After a period of acceleration in the increase rate of prices, the government managed to reduce it to levels lower than 20% in 1975, through restrictive monetary policies, particularly during the first semester of the year. However, this achievement of economic policy was accompanied by the lower actual economy growth of recent years. Possibly, the restrictive monetary policy as well as the adoption of a tributary reform at the end of 1974, mainly directed to increase fiscal collections and give greater progressivity to taxes, contributed to accentuate the recessive cycle of the economy in a moment when industrial, construction and commercial sectors were facing a decrease in demand and an excessive accumulation of inventories.

The behavior of the economy in 1975 was likewise affected by the world recession which, from mid-1974, began to show by closing external markets for some products of the industrial sector. In turn, the external position of the country became more vulnerable when, for the first time, gasoline was imported and particularly because of the price fall trend experienced by coffee prices up to July 1975, when prospects changed substantially due to the frost that affected Brazil's coffee production.

The occurrence of the above facts and the uncertainty they created in the private sector, were determinant factors in the low economic growth during 1975. In consequence, in real terms with respect to 1974, FEDESARROLLO estimates regarding the decrease of industrial production, 2.1%; of the commercial sector, 4.0%; while the area constructed in the main cities decreased approximately 31.9%. Only in the agricultural sector a satisfactory increase of 6.5% in the real value of production was registered. This behavior of the economy reflected in a drop in the value of imports and exports of manufactured products, and in an increase of agricultural exports. Particularly as the result of the greater value of coffee exports during the fourth quarter of 1975 and of the reduced levels of foreign exchange expenses resulting from the low volume of imports, the Bank of the Republic's net international reserves increased by US$118 millions during the year.

Regarding public finances, the produce of the tributary reform anticipated a greater participation of the national government in the economy through the expense, as well as a decided action to improve its finances. However, additional income from the reform was not utilized in ambitious programs of public investment that would serve as testimony of the effectiveness of the government's fiscal policy and of the purpose to redistribute income in favor of the poorer population groups. Furthermore, on December 31 1975, the problems of budgetary and financial unbalance still existed and the government was forced to seek inflationary credits from the Central Bank to cover part of its cash deficit.

In matters of financial policy it is worth pointing out the determination of the present government to limit monetary and capital markets, to reduce dispersion of interest rates, and to obtain in the long term the definitive establishment of the so called open market operations. Although the government has succeeded partially in its purpose to reduce dispersion of interest rates, it has had less success regarding the adequate separation between the monetary market and the market of capitals; while liquidity of certain papers has been eliminated, intermediaries specialized in the market of capitals have been permitted to act in the monetary market to which they did not have access in the past. On the other hand, papers created for the open market operations have not been fully used since there are in the market other papers with greater yield and of similar or minor term.

For 1976, available information on the economy evolution during the first six months of the year confirms estimates on the eventual progress of production activity, with the exception of public investment, mining, and urban private construction. In other sectors, particularly industry and commerce, the effects of an increase in the aggregate demand began to show, caused by larger coffeegrowers' revenues, and by the reopening of some external markets upon termination of the recession of industrialized countries. Economic behavior during the first half of the year and the prospects for the second semester suggest an increase in the gross internal product of approximately 7.5%, as well as a probable reduction of urban open unemployment, which has been estimated at approximately 12% for the last months. However, it is a matter of concern in the medium term how the increase in aggregate demand has not been corresponded yet by investments in fixed capital and infrastructure on the part of the private and public sector, respectively.

During the present year government policy and economic activity, in general, have circled around events in the field of coffee. Notwithstanding the anticipated recovery of the activity of importations as the consequence mainly of a wide program of importsliberation, it is estimated that the extraordinary increase of average external coffee prices from US$0.78 per pound during the 1974-1975 coffee year to US$1.30 in 1975-1976, will result in an increase of international reserves of approximately US$600 millions, consequently duplicating the level reached in December of 1975. This reserve increase, originating an equivalent expansion of the monetary base, imposes on monetary authorities the need to adopt measures to neutralize its possible impact on the internal price level.

It has been agreed between coffeegrowers and the government to transfer some additional resources to the Coffee National Fund and to the national treasury; to invest a substantial part of the Fund's revenues in bonds of economic development and some coffee foreign exchange in titles from the Bank of the Republic that can be exchanged; and to create coffee savings titles, TAC, to be used by the National Coffeegrowers Federation and by private exporters for payment to coffee growers of a part of the higher coffee price, or for the purchase of foreign exchange for different purposes.

In addition, the government is engaged in complying with a contractionist policy of the public expense. Therefore during the first semester of 1976 it postponed an important part of its investment programs, to be able to bring up to date the payment of its immediate obligations and to reduce to the minimum the treasury's deficit. It is possible that during the rest of the year, the government would not seek loans from the Central Bank that would worsen the problem of a too rapid growth of the means of payment. Consequently, the carrying out of a policy that grants special priority to price stability and minor importance to the objectives of economic growth and income redistribution through mechanisms of public expense, is evident.

In spite of the government's efforts, the present increase of the means of payment and the accumulated rise of price indexes during the first part of the year, suggest an inflation exceeding 22%. 1976, in contrast with the preceding year, would be characterized then by a recovery of production activity, a decrease of urban open unemployment, a less favorable balance of payments, and an acceleration in the growth rate of national prices. Prospects in the medium term shall depend, mainly, on the success of the government to control inflation, on the behavior of the private sector as it relates to the extension of production capacity, and on the efficient management on the part of the public sector of its expense programs.

COLOMBIAN FOREIGN TRADE WITH BOLIVIA

1965 - 1975

(Thousands of US$)

YEAR	IMPORTS	EXPORTS		BALANCE	GLOBAL EXCHANGE
1965	—	542	+	542	542
1966	—	83	+	83	83
1967	3	163	+	160	166
1968	1	272	+	271	273
1969	1	490	+	489	491
1970	1	651	+	650	652
1971	80	968	+	888	1.048
1972	1.227	1.675	+	448	2.902
1973	1.500	2.943	+	1.443	4.443
1974	1.862	4.967	+	3.105	6.829
1975 (*)	1.167	6.269	+	5.102	7.436

OURCE : 1965 - 1974 DANE (National Statistics Department)
* Bank of the Republic Lists. 1975

COLOMBIAN FOREIGN TRADE WITH CHILE

1965 - 1975

(Thousands of US$)

YEAR	IMPORTS	EXPORTS		BALANCE	GLOBAL EXCHANGE
1965	2.296	755	—	1.541	3.051
1966	3.481	1.261	—	2.220	4.742
1967	1.704	1.856	+	152	3.560
1968	4.222	4.709	+	487	8.931
1969	4.827	6.577	+	1.750	11.404
1970	10.366	15.589	+	5.223	25.955
1971	17.125	14.245	—	2.880	31.370
1972	12.526	14.934	+	2.408	27.460
1973	8.159	7.529	—	630	15.688
1974 (*)	29.258	32.205	+	2.947	61.463
1975	35.215	22.331	—	12.884	57.546

SOURCE : 1965 - 1974 DANE (National Statistics Department)
* Bank of the Republic Lists.

COLOMBIAN FOREIGN TRADE WITH ECUADOR

1965 - 1975

(Thousands of US$)

YEAR	IMPORTS	EXPORTS		BALANCE	GLOBAL EXCHANGE
1965	6.667	3.928	+	2.739	10.595
1966	4.972	5.107	+	135	10.079
1967	6.122	5.614	+	508	11.736
1968	7.015	6.413	+	602	13.428
1969	8.555	14.234	+	5.679	22.789
1970	9.965	17.515	+	7.550	27.480
1971	12.816	20.244	+	7.428	33.060
1972	10.549	21.812	+	11.263	32.361
1973	20.911	27.099	+	6.188	48.010
1974	16.086	38.174	+	22.088	54.260
1975 (*)	25.473	42.911	+	17.438	68.384

SOURCE : 1965 - 1974 DANE (National Statistics Department)

* Bank of the Republic Lists.

COLOMBIAN FOREIGN TRADE WITH PERU

1965 - 1975

(Thousands of US$)

YEAR	IMPORTS	EXPORTS		BALANCE	GLOBAL EXCHAN
1965	4.737	5.198	+	461	9.93
1966	10.274	9.455	+	819	19.72
1967	4.214	5.669	+	1.455	9.88
1968	6.247	6.312	+	65	12.55
1969	7.326	16.169	+	8.843	23.49
1970	9.841	28.694	+	18.853	33.53
1971	10.855	33.712	+	22.857	44.56
1972	8.415	31.697	+	23.282	40.11
1973	12.359	29.120	+	16.761	41.47
1974	16.618	32.401	+	15.783	49.01
1975 (*)	16.616	32.312	+	15.696	48.92

SOURCE : 1965 - 1974 DANE (National Statistics Department)
1975 Registrations with INCOMEX * approval.
* Foreign Trade National Institute

COLOMBIAN FOREIGN TRADE WITH VENEZUELA

1965 - 1975

(Thousands of US$)

YEAR	IMPORTS	EXPORTS		BALANCE	GLOBAL EXCHAN
1965	977	2.772	+	1.795	3.749
1966	1.819	2.650	+	831	4.469
1967	5.956	4.140	+	1.816	10.096
1968	4.495	6.267	+	1.772	10.762
1969	9.708	6.838	+	2.870	16.546
1970	9.523	5.043	+	4.480	14.566
1971	11.451	7.447	+	4.004	18.898
1972	6.317	16.299	+	9.982	22.616
1973	9.100	21.218	+	12.118	30.318
1974	15.152	41.749	+	26.597	56.901
1975	25.974	144.040	+	118.066	170.014

SOURCE : 1965 - 1974 DANE (National Statistics Department)
1975 Registrations with INCOMEX * approval.
* Foreign Trade National Institute

COLOMBIAN FOREIGN TRADE WITH GRUPO ANDINO

1965 - 1975

(Thousands of US$)

YEAR	IMPORTS	EXPORTS	BALANCE
1965	14.677	13.195	— 1.482
1966	20.546	18.556	— 1.990
1967	17.999	17.442	— 557
1968	21.980	23.973	1.993
1969	30.417	44.308	13.891
1970	39.696	67.492	27.796
1971	52.327	76.616	24.289
1972	39.034	86.417	47.383
1973	52.029	87.909	35.880
1974	78.976	149.496	70.520
1975	104.445	217.863	113.418

SOURCE : Tables 1 - 5.

ECUADOR

A. Background

From 1965 to 1971 the Ecuadorian economy was in a state of expectancy for the begining of oil production in the eastern area of the country. During this period, the movement of the national product was practically negligible, since it showed a growth at the current price of US$ 351 million dollars, while the increase per capita was only eleven dollars. In real terms, the growth per capita was negative since the increase in the inflation rate was higher. During this period a percentage reduction of the national consumption and an increase in the gross build-up of fixed capital were observed. The participation of consumption in the GNP was reduced from 77% in 1965 to 74% in 1970, and to 71% in 1971. On the other hand, the capital build-up increased its participation in 11% in 1965 to 19% in 1970, and to 26% in 1971. The flow of long-term foreign capital, from investment in the oil industry, was highly significant. In 1965 this flow reached the amount of US$19 million, stepping up to US$110 million in 1970, and US$182 million in 1971. The importation of capital goods and transport equipment, in turn, grew from US$46 million in 1965 to US$82 million in 1970, and US$114 million in 1971. Likewise, the public sector began spending in advance to the oil boom, which caused the foreign debt to grow from US$120 million in 1965 to US$229 million in 1970, and to US$248 million in 1971. The country in general considered the oil production as the possibility to get off a prolonged stationary pre-industrial state, within which the national economic activity had been developing. In fact, as of 1972 the change of the economic indicators is clear and dramatic, however, the projections of actual growth could not be foreseen in their whole dimension even by the economists' most optimistic forecasts.

B. The Oil Boom During 1972-1974

In August 1972 the export of Ecuadorian oil began through the transandean pipeline and this launched the "boom" that lasted approximately until the end of 1974. The gross national product jumped up considerably, from US$ 1.776 million in 1972 to US$ 3.476 million in 1974, with an intermediate figure of US$2,446 million in 1973. Thus, during these two years the product increased in 95%, which gives an idea of the meaning of the oil boom for Ecuador (Table II-1). This growth, at current prices, was reflected in an increase in the product per capita of US$278 in 1972 to US$ 508 in 1974.

Due to the lack of investments, the rate of gross build-up of fixed capital was not considerably increased, and it remained relatively stable in its percentage ratio in relation to the product. During 1972 this relation was of the order of 22%

and it increased to 23% in 1973, dropping thereafter to 21% in 1974. However, the maintenance of this relatively high rate represented a steady growth of the national economy. With the oil revenues a sustained incentive was thus being generated for new investments. As far as consumption is concerned, it should be pointed out that private consumption was reduced in terms of its share in the product, maintaining the trend observed between 1965 and 1971. This participation was reduced from 70% to 66% between 1972 and 1974.

During the same period, Ecuador's trade balance reflected an unprecedented fact in its contemporary history when during three consecutive years a surplus was achieved of the order of US$8 million in 1972, US$135 million in 1973 and US$92 million in 1974. The terms of exchange turned favorable as well as with other oil exporting countries. The foreign trade, in terms of gross volume, showed an increase of over 200% from 1972 to 1974, as a result both of the boom of oil production and the increase in oil prices.

The capacity to use up the new revenues from the international trade was complete, since, while in 1973 the developments took the country by surprise, in 1974 imports increased to US$958 million, compared to US$397 million in 1973. Exports increased from US$326 million to US$532 million between 1972 and 1973 and doubled up in 1974, reaching the amount of US$1,050 million. These increases were reflected in changes in its makeup, and Ecuador changed from an economy based on agricultural exports to one based on oil production.

TABLE I-1

RATES OF GROWTH OF THE GROSS NATIONAL PRODUCT, 1971-1975

(%)

	1971	1972	1973	1974	1975
G N P (current values)	19.4	14.4	36.1	44.9	18.1
G N P (constant values)	5.8	5.7	18.3	13.6	5.3
G N P (constant values)	6.9	3.9	16.6	13.1	8.8

Source: Ecuador Central Bank and estimates of the Foundation for Education and Development, Ecuador.

Banana, for example, which made up 40.2% of exports in 1972, was only 10.8% in 1974, while oil, on the other hand, increased its share from 18.0% in 1972 to 58.6% in 1974.

Other economic indicators should be emphasized for the period 1972-1974. The State budget increased from US$256million to US$474 million; current revenues of the central government went up from US$221 to US$453 million; the international monetary reserve increased from US$128 million to US$339 million; the currency, from US$297 million to US$535 million, while banking credit doubled from US$578 million to US$1,018; the inflation during the period was 45%, 30% of which was allocatted to 1974, and 15% to 1973; industrial output increased in all the sectors and the general index based on 1970 rose from 123 to 158; the most oustanding growth appeared in the areas of machinery, electrical articles and plastics. In general, throughout these years, the economy of Ecuador began a process of essential transformation to achieve a sustained growth. A boom of this magnitude could not go on indefinitely and the economic policy during the next year tried to maintain the economic levels reached.

C. Economic Trend After 1974

The production during 1975 grew, in current terms, at a rate of 18.1%, showing a remarkable drop in relation to the growth of the immediately preceding years. The gross national product at constant prices increased only 5.3%, the lowest growth in the last five years. The gross national product, in turn, increased in 8.8% in 1975, namely, lower than the 13.1% of 1974. National savings during 1975 increased at a rate of 23.4% in current values, and 7.7% in constant values. In both cases a reduction is shown with regard to the rates of 71.3% and 9.8% respectively, recorded in 1974 (Table 1-2). The gross build-up of capital continued its upward trend, reflecting the sound degree of capitalization of the industry. The policy of incentives

TABLE I-2

NATIONAL SAVINGS, 1971 - 1975

(million sucres)

Year	Current Values	Percentage Growth (%)	Constant Values	Percentage Growth (%)
1971	3.352		2.777	
1972	4.296	28.2	3.262	17.5
1973	9.688	25.5	6.433	92.7
1974	16.595	71.3	8.437	31.2
1975	20.472	23.4	9.247	9.6

Source: Ecuador Central Bank and estimates of the Foundation for Education and Development, Ecuador.

TABLE I-3

CAPITAL BUILD-UP, 1970-1975

(million sucres)

Year	Gross		Net	
	Current	Constant	Current	Constant
1970	7.206	7.206	2.667	2.667
1971	11.253	9.323	5.987	4.857
1972	10.744	8.156	5.157	3.817
1973	14.785	9.815	6.647	4.354
1974	22.996	11.688	12.888	6.469
1975	32.815	14.820	21.219	9.454

Source: Ecuador Central Bank and estimates of the Foundation for Education and Development, Ecuador.

to the small industry and handicrafts, the big industry, agricultural and livestock, mining and touristic sectors, through the mechanism of financing funds, facilitates the increase in the gross build-up of capitals, at a time when there were several indications of an economic recession. In current terms, the growth rate of the gross-build up of capitals dropped from 55.5% in 1974, to 42.7% in 1975, however, at constant prices the rate went up from 19.1% to 26.8% (see Table I-3). The net build-up, which considers the depreciation of investments, kept a high growth during the year. In relation to the country's population, it may be stated that the gross build-up of capital per inhabitant was Su/.4.646 (US$185) in 1975, and Su/.3.367 (US$135) in 1974, while the net capital build-up was Su/.3.004 (US$120) in 1975, and Su/.1.887 (US$76) in 1974.
The total consumption has shown a permanent increase since 1970, maintaining the marginal trend to consumption relatively stable in 0.9. However, the growth rate of this variable was reduced in 1975 to the levels of 1973 (Table I-4). This reduction may be interpreted as the inability of the economic system to keep up with an accelerated growth due to the absence of new price increases for oil. The consumption per inhabitant in 1975 was US$ 436, which represents a raise of 20% in relation to 1974, while at constant prices the consumption increased only from Su/.5.342 in 1974 to Su/.5.563 in 1975, i.e. 4%.

TABLE I-4

TOTAL CONSUMPTION, 1970-1975

(million sucres)

Year	Current Values	Percentage Growth (%)	Constant Values	Percentage Growth (%)
1970	28.309		28.309	
1971	32.049	15.5	29.465	4.1
1972	35.997	10.1	30.124	2.2
1973	45.069	25.2	33.218	10.3
1974	62.289	38.2	36.489	9.8
1975	77.365	24.2	39.290	7.7

Source: Central Bank and estimates of the Foundation for Education and Development, Ecuador.

TABLE VI - 4

EVOLUTION BY REGIONS OF THE ECUADORIAN FOREIGN TRADE, 1973 - 1975

(thousands dollars)

	Exports			Imports			Balance		
	1973	1974	1975	1973	1974	1975	1973	1974	1975
Andean Group	76.893	170.725	158.724	36.710	66.272	76.694	40.183	104.453	82.030
ALALC (excl.Andean Group)	14.687	17.207	21.228	20.929	51.676	47.401	- 6.242	-34.469	-26.173
Central American and Caribbean	62.666	104.660	465	747	1.627	11.059	61.919	103.033	-10.594
United States	168.661	430.421	419.884	133.350	356.530	379.089	35.311	73.891	40.795
Remaining areas of America	98.951	128.453	142.439	8.665	16.283	12.347	90.286	112.170	130.092
CEE	61.142	115.841	84.045	105.035	218.635	191.643	-43.893	-102.794	-107.598
Eastern Europe	12.246	18.485	31.527	5.497	11.417	11.143	6.749	7.068	20.384
Remaining part of Europe	9.369	11.160	10.667	23.497	73.008	56.512	-14.128	-61.848	-45.845
Asia (excluding Japan)	407	5.394	472	5.917	14.282	9.020	- 5.510	-8.888	-8.543
Japan	21.769	12.169	8.487	54.541	137.954	124.441	-32.772	-125.785	-11.954
Middle East	786	-	-	255		-	531	-	-
Africa	3.138	372	1.103	339	1.074	333	2.799	-702	770
Oceania	1.152	5.236	4.282	647	3.149	6.318	505	2.087	-2.036
Other Countries	181	30.216	13.732	1.153	6.585	17.249	-972	23.631	-3.521
Total	532.048	1.050.338	897.055	397.282	958.492	943.249	124.766	91.846	-46.194

Source: MICEI, Statistical Department.

F. Integration

Two levels should be differentiated in Ecuador's participation in processes of economic integration. One is the Latin American Association of Free Trade and another the Andean Subregional Pact.

1. ALALC

The economic relations of Ecuador with the countries which make up the ALALC, in spite of the course of this process of continental integration, show an increasing expansion which has stepped up in the last three years (Table VI-11). This expansion takes place both in the exports and imports. In the last three years positive balances in the commercial trade have also been evident, that should be attributed to oil exports. The most outstanding exports have been to Chile and Peru that in 1975 amounted to US$ 132 million, of a total of US$ 180 million for total exports to the zone.

An analysis of Ecuadorian foreign trade to the ALALC areas observed from the viewpoint of various countries, allows to draw some interesting conclusions. In the first place, the higher volumes of foreign trade are carried out with countries of the highest relative industrial development: Chile, Perú, Colombia, Brazil, Argentina and Mexico, in this order. The bulk of exports to the above countries is basically made up of raw materials, while the imports carried out by Ecuador from the above areas comprise especially manufac-

TABLE VI - 11

TRADE OF ECUADOR WITH THE ALALC COUNTRIES, 1965 - 1975

(million dollars)

	FOB Exports		CIF Imports			Rate of annual growth (%)	
Year	Value	%	Value	%	Balances	Exports	Imports
1965	13.5	100.0	19.4	100.0	- 5.9	-	-
1966	13.9	103.0	11.5	59.3	2.4	2.9	-40.7
1967	14.7	108.8	28.9	148.9	-14.4	5.8	151.3
1968	16.3	120.7	20.5	105.7	- 4.2	10.8	- 29.1
1969	15.9	117.8	31.0	159.8	-15.1	- 2.5	52.1
1970	20.1	148.9	34.7	178.9	-14.6	26.4	11.9
1971	25.5	188.9	50.5	260.3	-25.0	26.9	45.5
1972	37.1	274.8	38.8	296.9	34.0	146.9	48.5
1973							
1974	187.9	1.391.8	117.9	607.7	70.0	105.1	104.7
1975	179.9	1.332.6	124.1	639.7	55.8	4.3	5.3

Source: MICEI, Statistical Department.

tured products. In the exports for 1975, Chile and Peru head the list, since, as already stated, out of their US$132 million in imports from Ecuador, about US$110 comprise oil. The main remaining export products of Ecuador to the ALALC countries are cocoa and its preparations, banana, fishing products and straw hats. Concerning the imports, it is noted that its range is considerable broader than the exports, and the main products comprise industrial elements and processed raw materials, mainly from Colombia, Chile and Brazil.

TRADE BALA

	1971		
	Export.	Import.	Balance
TOTAL ANDEAN GROUP	19.148	43.184	-24.036
Bolivia	95	6	89
Colombia	7.157	28.236	-21.079
Chile	6.522	4.606	1.916
Peru	5.276	3.177	2.099
Venezuela	98	7.159	-7.061
TOTAL ALALC (LAFTA)	25.439	50.472	-24.483
Argentina	4.248	1.962	2.286
Brazil	982	1.335	-353
Mexico	1.063	3.004	-1.941
Paraguay	3	840	-837
Uruguay	45	147	-102

Source: MICEI, Statistical Department.

2. The Andean Pact

The analysis of the ALALC embodies also essential elements of Ecuador's economic relations with the Andean Pact. Evidently the most dynamic group within the ALALC is represented by the Andean Pact, which contributes over 50% of the total. In accordance with Table VI-4, the Pact has become the third economic unit in the order of importance for the Ecuadorian foreign trade in 1975. The evolution of foreign trade with the Andean countries is shown in Tables VI-12 and VI-13. A drop is noted in the growth rate of exports for 1975, in spite of which a high level of commercial exchange within the area is maintained.

To the extent that the Andean Pact is an agreement of economic integration, higher than the zone of free trade, as ALALC, a more thorough study of Ecuador's commercial exchange with the countries of the subregion would be to the point. The above mentioned trend for the ALALC concerning the type of products exchanged, is kept along similar lines for the case of the Andean Agreement, while the products allocated in the various integration programs do not yet acquire importance in the economic relations with the Pact. Reviewing this situation in the light of the crisis faced by the process since 1974, it must be concluded that no great drive may be expected in

TABLE VI-13

TRADE OF ECUADOR WITH THE ANDEAN GROUP COUNTRIES, 1965-1975

(million dollars)

	FOB Exports		CIF Imports			Rate of Annual Growth (%)	
Year	Value	%	Value	%	Balances	Exports	Imports
1965	10.2	100.0	17.1	100.0	- 6.9	-	-
1966	11.8	115.7	9.6	56.1	2.2	15.7	-43.9
1967	11.6	113.7	24.3	142.1	-12.7	- 1.7	53.1
1968	12.3	120.6	17.2	100.6	- 4.9	6.0	-29.2
1969	11.4	111.8	26.6	155.5	-15.2	- 7.3	54.6
1970	14.6	143.1	29.4	171.9	-14.8	28.1	10.5
1971	19.1	187.3	43.2	252.6	-24.1	30.8	46.9
1972	30.3	297.1	27.3	159.6	3.0	58.6	-36.8
1973	76.9	753.9	36.7	214.6	40.2	153.8	34.4
1974	170.7	1.673.5	66.3	387.7	104.4	122.0	80.7
1975	158.7	1.555.9	76.7	448.5	82.0	7.0	15.7

Source: MICEI, Statistical Department.

the exchange of programs allocatted according to the program, and that the commercial trend in the future, should it be maintained, would only affect the exchange of traditional products, without achieving subsequently a more defined integration, as the initial expectations of the Cartagena Agreement allowed to assume.

B. Behavior of the external sector during the first semester of 1976

The trade balance of the first six months of 1976 shows a favorable balance of US$ 86.6 million. Of this total, exports exceed over US$100 million the figure for the same period of the preceding year, and are slightly lower than those for the second semester of 1975. Imports exceed over US$20 million those for the first semester of 1975, and are slightly higher than imports for the second semester of last year (Table VI-14).

1. Exports

Table VI-14 shows the evolution of exports during the first six months of 1976. Oil exports increased slightly during this period, which includes a price increase decreed by the OPEP and abided by Ecuador. Banana has dropped slightly in relation to the preceding year, cocoa has remained steady in relation to the poor year of 1975, while coffee has maintained the boom of the previous year.

TABLE VI-14

ECUADORIAN FOREIGN TRADE
DURING THE FIRST SEMESTER OF 1976

	Exports	Imports	Balance
January	83.647	70.694	12.953
February	71.517	65.186	6.331
March	75.275	63.663	11.612
April	77.705	55.338	22.367
May	99.520	73.506	26.014
June	80.977	73.642	7.335
Total	488.641	402.029	86.612

Source: Ecuador Central Bank.

2. Imports

Imports during the first semester of 1976 have remained more or less average in relation to the activity during 1975. This is then at a lower level than in previous years and shows a contrast with the situation of international currencies which have continued increasing during these first six months (Table IV-1).

H. Conclusions

The first conclusion to be drawn from this analysis is that the oil boom has begun to decline, and the foreign sector tends to a higher stability than the prevailing one up to 1972, without the marked unbalance that characterized the sector from way back.

The end of the first boom of the oil exports will allow the Ecuadorian economy, on sounder basis, to plan more rational forecasts in the utilization of its economic resources. The drop in the level of imports may prevent an internal expansion in the economy, as could be expected due to the increasing foreign exchange obtained from oil. This expansion should especially be orientated towards an industrialization process, the success or failure of which can only be appraised in the medium term. Likewise, the role of the Andean Pact in promoting that internal economic expansion, can only be determined in the next few years, although in the light of recent events the eventual separation of Ecuador from the Group is foreseen. However, the trend to a new situation of balance will allow a clearer and more appropriate attitude on the part of all the national sectors in the economic management of the country.

PERU

General Velasco took office as President of Peru in 1968. His government set as main objective the transformation of Peruvian society with the purpose of having greater popular participation in the benefits of progress. This purpose implied the change of the peasants' status, improvement of income distribution and incorporation of decisions and economic properties to marginated social groups.

With that purpose, an important agrarian reform was initiated, mining and fishing companies were nationalized, the Labor Community Law was signed to grant participation to the workers in the profits of enterprises, and the Social Property Law was enacted seeking the participation of the workers in the management of enterprises. Unfortunately, the limitations of financial resources, some labor difficulties and foreign trade problems forced the strategy to confront great fiscal problems and caused international reserves to diminish rapidly in 1975. On the other hand, inflation accelerated and many of the government's efforts to improve popular welfare declined in view of the increasing rises in prices.

The main problems faced by Peru have been the contraction of domestic savings, a drop in the efficiency of productive sectors and a recession of private investment. Between 1970 and 1974 the gross internal product increased at an annual rate of 5.5%; gross investment, from 13% in 1970 passed to be 16% of the 1974 product, centering mainly in the mining and oil sectors. However, since consumption increased more rapidly than the product and great losses were suffered by public enterprises, the national savings participation dropped from 15% to 11% of the product between 1970 and 1974, thus producing an internal resource gap which had to be covered by foreign capital. This excessive growth of aggregate demand reflected in a rapid acceleration of the internal inflation rate which went from an annual average of 7.2% between 1969 and 1973 to 18% in 1974, and in an increase in the deficit of the balance of payments in current account from 0.5% to 6.2% of the product between 1972 and 1974. Therefore, Peru was forced to revert to foreign credit at long term at the same time that it experienced a fast erosion of international reserves.

Since 1975, the government adopted important measures to stabilize the economy. In January of that year, it increased indirect taxes and cut subsidies to foodstuffs. Finally, on September 26 it devaluated its currency in 14%. However, these measures were insufficient to correct the situation. On one part, the deterioration of the interchange terms seriously affected exports, while imports continued to increase. On the other hand, labor complications and the increasing fiscal deficit contributed to accelerate inflation.

In August 1975, the new government of General Morales adopted measures to improve financial conditions. In January 1976 taxes were raised and a reduction of public expense was decreed; sub= sequently, some subsidies in the mechanism of prices were reduced, and finally, a new monetary devaluation was decreed, more drastic than that of September 1975.

Although the position of the new government of Peru as it relates to social matters cannot be definitely assessed, and any opinion thereon is premature, it should be noted that it seems, at least, to have stopped the process of innovations initiated by General Velasco, and to have started a development strategy less interventionist and with greater participation from the private sector. In contrast with policies of agrarian reform, the new government has given emphasis mainly to encourage production. In the speech of May 31, 1976, where the orientation of the "second phase of the revolution" was raised, President Morales criticized strongly the schemes of social property for their antagonism with the private sector and set guidelines to announce the halt to the nationalization process. Furthermore, efforts to improve the financial balance have been made, seriously affected by a continuous dependency on the credits from the Central Bank to the central government and to the state's enterprises, and by a dangerous increase of external debts. Also importance has been given to the movement of internal resources to finance development plans.

VENEZUELA

As it is well known, by the end of 1973 the world prices of oil had an unprecedented increase. In fact, the price of crude[1] rose from US$ 3.71 per barrel in the average in 1973 to US$10.53 in 1974 and US$ 11.00 in 1975 (Table I-1 and Graph I-1). Venezuela, as other oil-producing countries, obtained through this raise appreciable financial benefits, however, it had to face new challenges and difficulties. As shown in Table I-2, the value of exports of merchandise increased from US$ 4,601 million in 1973 to US$11,109 million in 1974, to drop later on to US$ 8,899 million in 1975. Thus, in a short period, Venezuela was able to increase its net international reserves from US$ 2,474 million by the end of 1973 to US$ 9.387 million by the end of 1975. The revenues of the central government, in turn, more than doubled up in 1975 on account of the substantial collection of taxes and royalties on hydrocarbons: current revenues amounted to US$ 4.294 million in 1973 and went up to US$ 9,036 million during 1975, from the improved terms of exchange. All these financial benefits were obtained in spite of the

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1 There are two series of oil prices. The reference price applies to the production value for the purpose of tax estimates. The realization prices are the ones actually paid. The figures refer to the second one. Graph I-1 also shows details concerning the first mentioned prices.

drop in the average production volume of oil of 3.37 million barrels per day in 1973 to 2.35 million in 1975.

In 1974 an important series of economic indicators show a change: oil, in percentual terms of the gross national product, increases from 25% to 40%; the revenue of the central government finds 87% of its sources in oil income; oil covers more than 95% of the revenues in the balance of payments on export of merchandise. Thereupon the Government, as main collector of oil proceeds, had to resolve several aspects of economic policy: should the State channel the new resources through direct investment or leave the use of discretion to the private sector and channel the resources through credit funds? Should the capital be invested in the "productive" sectors of goods and services (agriculture, industry, transport and physical infrastructure), or was it more advisable to use the sources of income to rise the consumption level of the poorest social groups?

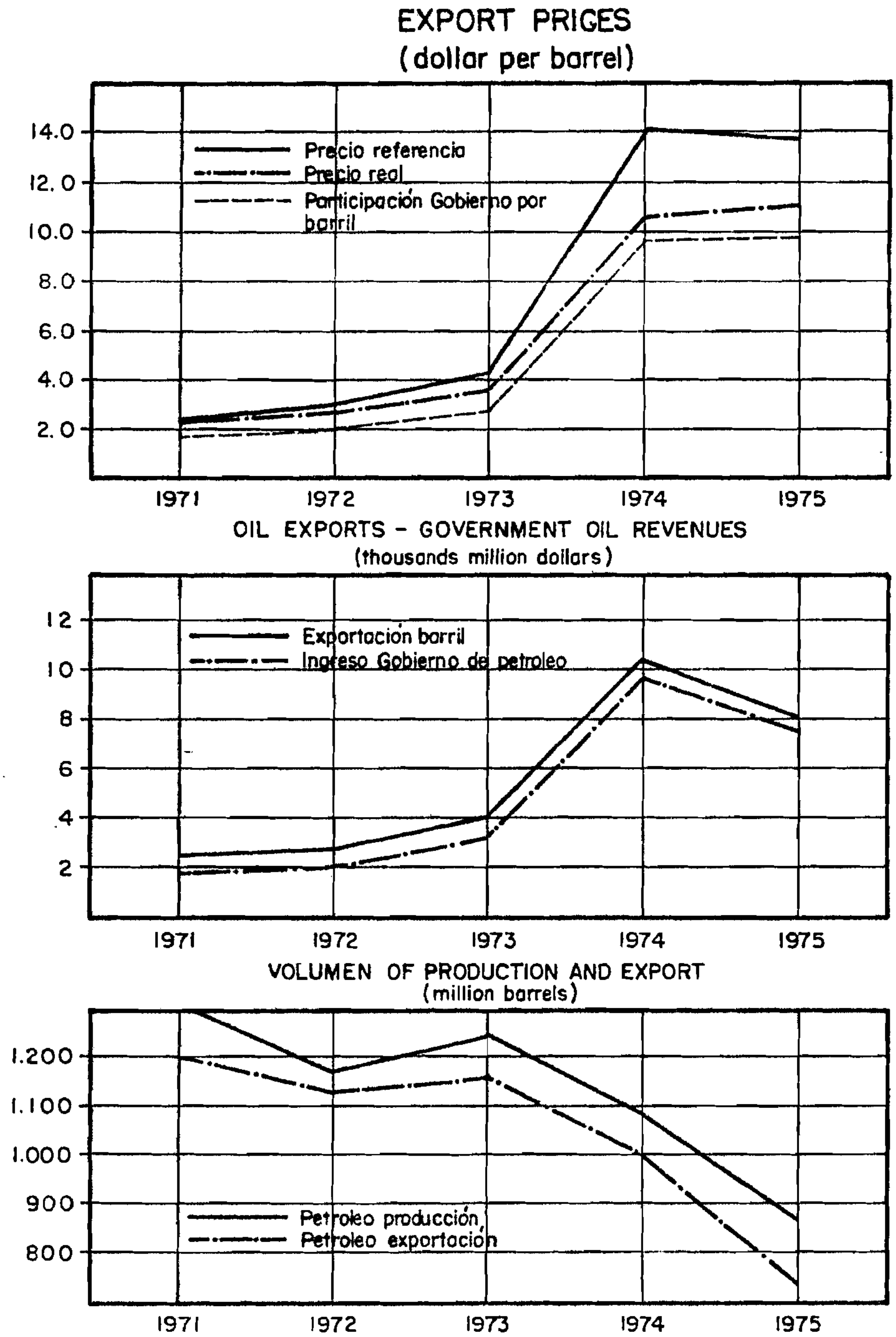
Aside from the financial profits, the Government faced in 1974 difficulties and challenges arising from the new situation, some related to the economic juncture and others from problems of structure and development. The first consideration was to avoid that such a large and fast increase of international reserves turned into expansion of the currency and consequently should reflect inflationary pressures. To prevent the monetary impact, the Venezuelan Investment Fund was created in June 1974, which invested a part of the reserves in securities of the international market of capitals. Thus in 1974 the Investment Fund received US$3,000 million and by the end of 1975 it had accrued US$3,900 million in international assets, apart from contributing some $500 million to the financiation of the foreign element of important development projects. If in 1974 the amount invested in the Fund had entered the currency flow, the means of payment would have increased over 213% in a short time.

The second consideration of the Government was to take the advantage of the financial situation to speed up the economic growth, diversify the economy, solve the problems of cost structure, and improve the living standard of the poorest groups through the action of the State if the social field. In other words, the idea was to "saw the oil" to ensure that the fruits of a financial gain, probably transitory, were reflected in actual and permanent profits through the development of the non-oil economy.

In the previous thirty years, Venezuela had already accumulated an experience of development almost unique in Latin America. In fact, by the end of 1973, it had an installed capacity of steel

GRAPH I-1

INDICATORS OF THE OIL ACTIVITY



Source: Ministry of Mines and Hydrocarbons

TABLE I-1

AVERAGE VENEZUELAN OIL PRICES, 1970-1976

(US$ per barrel)

		1970	1971	1972	1973	1974	1975	1976*
A.	Realization Prices							
	Crude Oil	1.76	2.25	2.43	3.56	10.40	11.03	11.10
	Refined Products	2.00	2.55	2.70	4.57	11.19	11.58	11.1
	Average	1.84	2.35	2.52	3.89	10.68	11.19	11.1
B.	Reference Prices							
	Average	1.83	2.37	2.95	4.41	14.35	13.90	13.8

Sources: Ministry of Mines and Hydrocarbons.

* Preliminary Projection.

and rolling plates production of 1.2 million tons per year at the Siderúrgica del Orinoco, SIDOR; a production capacity of aluminum of some 124.000 tons per year in Aluminio de Canoria, ALCASA; a privileged hydroelectrical development with a capacity of 2.300 MW; and a more extensive road network than many other countries in the continent. Perhaps to follow a familiar line, the Government decided to give priority to the development of basic industries. The Venezuelan Investment Fund had to finance an important part of these projects; studies were started to increase the output of steel in Sidor to 5 million tons per year; the possibility was reviewed to enlarge the aluminum production to 400,000 tons per year and the generating capacity of the Guri to 3,500 MW: and other projects were launched for reforestation of special areas, increase in the cement productive capacity, etc.

No doubt all of the above projects face problems for their execution. The transportation of such a large volume of steel, requires investments in the development of the railroad network, the capacity of seaports, warehouses and other aspects related to the distribution and sale of products. Likewise, the shortage of skilled labor is an important limiting factor, since a deficit of 13,000 skilled laborers is foreseen every year during the next five years, which should be filled either with migrations or with accelerated training of Venezuelan personnel. In short, the development of Venezuela faces problems of organization and management, since a substantial share of the resources are to be channelled through autonomous enterprisesof the State, which have to be coordinated, supervised and control to ensure coherence in action and avoid bottlenecks in the execution of the projects carried out by each one of them.

As far as social problems are concerned, it should be pointed out that Venezuela has the highest per capita income in Latin America (US$ 1,970 in 1974, according to the World Bank methodology), but at the same time, over 40% of the polulation receive an income under US$ 250. On the other hand, the educational and health systems have serious shortcomings, since their access is limited and their service deficient. Although the unemployment rate is low (6.5%), the disguised unemployment and subemployment increase to 15% the part of the labor force not used or poorly used. Finally, with the country's increasing revenues, the expectations of the marginal population have also raised, and the Government's action is imperative to ease their frustrations. In view of the above, special attention was given to programs of personnel training, nutrition and health. Also, when the oil revenues began raising in 1974, the Government decreed a salary increase between 5% and 25% and fixed minimum wages of US$ 3.50 per day (Bs. 15.00 per day) in order that a share of the gains could be reflected in highest levels of consumption and social welfare.

During the first years of President Pérez Administration, Venezuela granted important credits, both to international organizations (World Bank US$500 million, Interamerican Bank of Development US$500 million, International Monetary Fund US$700 million), and to some Latin American countries. Paradoxically, in 1976 the Government obtained authorizations from the National Congress to obtain international loans for US$5,000 million. Thus the country who is a lender, appears and prospective borrower. Apparently, the conservationist policy of oil and the magnitude of the programs of public investment, explain this change.

In 1973 the entrance of Venezuela to the Andean Group represented an important change in their development programs. The Andean Group opens up to Venezuela opportunities to improve the market of some of its industrial products, especially those related to intensive manufacturing products, and to spread out its capital in several countries of the subregion. However, the commitments fixed to Venezuela are not easy to fulfill inasmuch as the Customs protection is an essential element to secure high profit levels.

TABLE I-2

EFFECT OF OIL PRICE INCREASE

(million dollars)

		1970	1971	1972	1973	1974	1975	Project 1976
A	Export of merchandise	2.360	3.060	3.100	4.601	11.109	9.122	8.950
	Export of oil	2.210	2.815	2.827	4.267	10.572	8.503	8.030
	Increase (+) or decrease (-) of the oil exports	-	595	12	1.360	6.305	-2.070	-467
	Oil exports as percentage of the total (%).	94	92	91x	93	95	93	88
B	Current revenues of the Central government	2.167	2.564	2.898	4.294	10.834	9.036	8.030
	Oil revenues	1.328	1.715	1.956	3.188	9.464	7.116	5.620
	Increase (+) or decrease (-) of the oil revenue	-	413	241	1.232	6.281	-2.350	-1.491
	Oil revenues as percentage of the total (%)	61	67	67	74	87	79	70
C	Gross National Product at prices	11.533	12.970	14.179	17.368	26.345	27.917	31.000
	Oil Product	2.031	2.840	2.920	4.387	10.717	8.538	7.888
	Oil product as percentage of the total (%)	18	22	21	25	41	31	25
D	Net international reserves (end period)	1.025	1.532	1.868	2.474	6.829	9.387	8.415
	Increase (+) or decrease (-)	-	507	336	606	4.355	2.558	-868

Source: Venezuela Central Bank and estimates of FEDESARROLLO.
* Up to June 1976.

LIST OF THE 103 DECISIONS APPROVED BY THE COMMISSION

Decision No. 1. The Agreement of Subregional Integration is designated Cartagena Agreement.

Decision No. 2. The Commission delegates some of its faculties on the Board.

Decision No. 3. Appointing Members of the Board.

Decision No. 4. Establishing the contribution of the Member Countries to the Board's Annual Budget.

Decision No. 5. Approving the budget of the Board's exercise for 1970.

Decision No. 6. Approving the regulations of the Commission of the Cartagena Agreement (See Decision No. 14).

Decision No. 7. Coordinating by the Board of Government meetings.

Decision No. 8. Coordination of the Member Countries, in relation to the Complementary Agreements of the ALALC.

Decision No. 9. Regulation of the Board.

Decision No. 10. Participation of Ecuador in the Complementary Agreement No. 6 regarding the petrochemical industry.

Decision No. 11. Participation of observers in the meetings of the Commission (See Decisions 13, 21, 35 and 42).

Decision No. 12. Approval of the Common Minimum External Tariff for the products of the first section of the Common List. (See Decisions 30, 33 and 64).

Decision No. 13. Participation of Venezuela in the meetings regarding the Subregional Integration process (See Decisions 11, 21, 35 and 42).

Decision No. 14. Amendments to Article 32 of Decision No. 6. (See Decision No. 6).

Decision No. 15. Approval of the initial tax release points.

Decision No. 16. List of agricultural and livestock products for purposes of the application of Articles 72, 73 and 99 of the Agreement (See Decisions 43 and 66).

Decision No. 17. Regulation of the Economic and Social Advisory Committee. (See Decisions 17a and 55).

Decision No. 17a. Amending some articles of Decision No. 17. (See Decisions 17 and 55).

Decision No. 18. Programming of the petrochemical industry.

Decision No. 19. Regulations of the Consulting Committee.

Decision No. 20. Budget for 1971.

Decision No. 21. Participation of Venezuela in the meetings concerning the process of subregional integration. (See Decisions 11, 13, 35, 42 and 70).

Decision No. 22. Mechanisms and procedures for adjustment of policies and coordination of development plans of the Member Countries (See Decisions 36, 39, 53 and 68).

Decision No. 23. Initial tax release point expressed in NABALALC terms (See Decision No. 64).

Decision No. 24. Common regime of treatment to foreign capitals and covering also trademarks, patents, licenses and royalties. (See Decisions Nos. 37, 37a, 46 and 48).

Decision No. 25. List of products set aside for sectorial programs of industrial development. (See Decisions 26, 27, 28, 38, 51 and 59).

Decision No. 26. List of products which are not produced in any country in the Subregion and which have not been set aside for sectorial programs of industrial development. (See Decisions 25, 27, 28 and 38).

Decision No. 27. List of products not included in articles 47, 49 and 50 of the Agreement (See Decisions 25, 26, 28 and 38).

Decision No. 28. List of items not produced in any country of the Subregion, which have not been set aside for sectorial programs of industrial development, reserved for production in Bolivia and Ecuador (See Decisions 25, 26, 27 and 38).

Decision No. 29. List of products that will be liberated in favor of Bolivia and Ecuador on January 1, 1971.

Decision No. 30. Common Minimum External Tariff (See Decisions 12, 12, 33 and 64).

Decision No. 31. Preparation of the NABANDINA. (See Decisions 51 and 58).

Decision No. 32. Petrochemical industry.

Decision No. 33. Common Minimum External Tariff, fulfillment of the provisions of Article 2 of Decision No. 30 of the Commission. (See Decisions 12, 30, 64).

Decision No. 34. Preferential margins for Bolivia and Ecuador. (See Decision 65).

Decision No. 35. Creation of a Work Team made up by representatives of the Member Countries and Venezuela. (See Decisions 11, 13, 21, 42 and 70).

Decision No. 36. Creation of the Tourism Council. (See Decisions 22, 39, 53 and 68).

Decision No. 37. Adjustments to the common regime of treatment of foreign capitals and concerning trademarks, patents, licenses and royalties. (See Decisions 24 and 37a.)

Decision No. 37a. Adding a paragraph to Decision No. 37. (See Decisions 24 and 37).

Decision No. 38. Adjustment in Appendix to Decision No. 27. (See Decisions 25, 26, 27 and 28).

Decision No. 39. Creation of the Council of Social Affairs. (See Decisions 22, 36, 53 and 68).

Decision No. 40. Approval of the Agreement to avoid double taxing between the Member Countries and of the Type Agreement, for the celebration of Agreements concerning double taxing among the Member Countries and other States outside the Subregion.

Decision No. 41. Adjustments to the liberation program.

Decision No. 42. Incorporation of Venezuela to the Cartagena Agreement. (See Decisions 11, 13, 21, 35 and 70).

Decision No. 43. First measures to increase the trade of agricultural and livestock products. (See Decisions 16 and 66).

Decision No. 44. Budget for 1972.

Decision No. 45. Regulations to avoid or correct the practices that may distort the competition within the Subregion.

Decision No. 46. Standard regime of multinational corporations and regulation of the treatment applicable to the subregional capital (See Decisions 24, 37, 37a, 47 and 48).

Decision No. 47. Minimum percentage of participation of the State or companies in the State in mixed capital enterprises (See Decisions 24, 37, 37a, 46 and 48).

Decision No. 48. Regulations applicable to the investments made by the Andean Development Corporation in any of the Member Countries (See Decisions 24, 37, 37a, 46 and 47).

Decision No. 49. Rulings for the adjustment of legislations concerning industrial promotion (See Decision No. 49a).

Decision No. 50. Temporary internation of private vehicles (See Decision 69).

Decision No. 51. Approval of NABANDINA (See Decisions 31 and 58).

Decision No. 53. Amendment of Article 5 of Decision No. 22. (See Decisions 22, 36, 39 and 68).

Decision No. 54. Cost reduction of transport affecting Bolivia.

Decision No. 55. Amending the Regulations of the CAES. (See Decisions 17 and 17a).

Decision No. 56. International road transport.

Decision No. 57. Sectorial Program of Industrial Development of the M etalmechanic sector. (See Decision No. 57a.).

Decision No. 57a. Amendments to Decision No. 57. (See Decision 57).

Decision No. 58. Amendments to NABANDINA. (See Decisions 31 and 51).

Decision No. 59. List of Products set aside for Sectorial Programs of Industrial Development expressed in terms of NABANDINA.

Decision No. 60. List of products not manufactured in any country of the Subregion which have not been reserved for Sectorial Programs of Industrial Development expressed in terms of NABANDINA.

Decision No. 61. List of products not included in article 47, 49 and 50 of the Cartagena Agreement, expressed in terms of NABANDINA. (See Decision 64).

Decision No. 62. List of items not produced in any country of the Subregion, not reserved for Sectorial Programs of Industrial Development, which were set aside to be produced in Bolivia and Ecuador, expressed in terms of NABANDINA.

Decision No. 63. List of products liberated in favor of Bolivia and Ecuador, expressed in terms of NABANDINA.

Decision No. 64. Program of Liberation and Common Minimum External Tariff for the products covered by Decision No. 61. (See Decisions 12, 23, 30, 33 and 61).

Decision No. 65. Preferential margins for Bolivia and Ecuador, expressed in terms of the NABANDINA. (See Decisions 34, 41 and 51).

Decision No. 66. List of agricultural and livestock products for the purposes of application of articles 72, 73 and 99 of the Agreement, expressed in terms of NABANDINA. (See Decisions 16 and 43).

Decision No. 67. Appointing Members of the Board.

Decision No. 68. Creation of the Health Council (See Decisions 22, 36, 39 and 53).

Decision No. 69. Regulation of the regime of temporary internation of private vehicles (See Decision 50).

Decision No. 70. Conditions for the adherence of Venezuela to the Agreement. (See Decisions 11, 13, 21, 35 and 42).

Decision No. 71. Creation of the Council of Physical Integration.

Decision No. 72. Amendment of the Regulations of CAES.

Decision No. 73. Budget for the Board for 1974.

Decision No. 74. Amendment of the Regulations of CAES.

Decision No. 75. Clarifies the scope of item 90.16.01.02. of NABANDINA.

Decision No. 76. Creation of the Agricultural and Livestock Council.

Decision No. 77. Amendments to the NABANDINA.

Decision No. 78. Starting Point of Venezuela, PPV to fulfill the Liberation Program.

Decision No. 79. Amendments to Decision 64.

Decision No. 80. List of agricultural and livestock products for purposes of the application of articles 72, 73 and 99 of the Agreement expressed in terms of NABANDINA.

Decision No. 81. Amendments to the Common Minimum External Tariff.

Decision No. 82. Financiations of the Andean Trade.

Decision No. 83. Regulations on items not produced.

Decision No. 84. Basis for a subregional technological policy.

Decision No. 85. Regulations for the application of provisions on industrial property.

Decision No. 86. Projects of technological development in the are of copper metalurgy.

Decision No. 87. Andean projects of technological development in the area of copper hydrometalurgy.

Decision No. 88. Increase of 1974 budget.

Decision No. 89. Andean projects of technological development in the area of tropical forest resources.

Decision No. 90. Budget for the Board for 1975.

Decision No. 91. Sectorial Program of the Petrochemical Industry.

Decision No. 92. Agricultural and Livestock Sanitation.

Decision No. 93. Agricultural and Livestock Commercialization.

Decision No. 94. Andean road network system.

Decision No. 95. Budget of the Board for 1976.

Decision No. 96. Designation of the Members of the Board.

Decision No. 97. Authorization of the Chilean Government.

Decision No. 98. Special Program of support to Bolivia.

Decision No. 99. Procedures for the consideration of the proposals of industrial development.

Decision No. 100. Recommendation to sign the Additional Protocol to the Cartagena Agreement.

Decision No. 101. Special treatment to Bolivia as a mediterranean country.

Decision No. 102. Agreement derived, rights and obligations, cease for Chile.

Decision No. 103. Reforms to the common treatment to foreign capital (decision 24) and about marks, patents, licenses and royalties.

Up to dic. 6 /76 , seven more decisions (until No, 110) have been approved.

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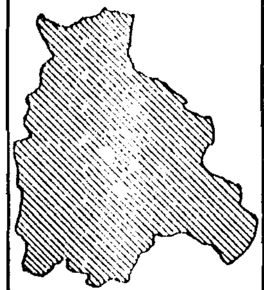 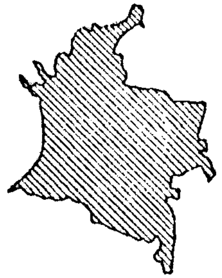 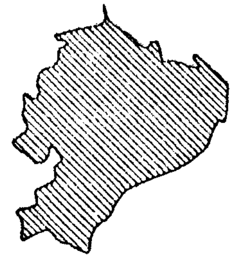   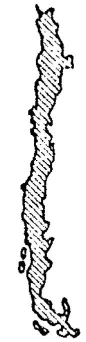

	BOLIVIA	COLOMBIA	ECUADOR	PERU	VENEZUELA	CHILE
Territorial extension (Km^2)	1.098.581	1.138.338	270.670	1.280.219	898.805	756.945
Total population in 1975	5.633.800	23.415.800	6.690.000	15.615.000	11.993.100	10.253.000
Percentage of urban population	30.9	66.8	42.0	63.5	82.6	80.5
Annual rate of demographic growth (percentage)						
Average 1970-75	2.7	2.7	2.9	3.0	3.1	
Gross internal product in 1975						
(millions of dollars of 1970* 1973)	1.565.2	10.825.6	4.255.0*	7.792.3	17.280.5	7.774.0
Gross internal product per capita						
(millions of dollars of 1970* 1973)	278.0	462.0	636.3*	493.0	1.440.0	762.1
Annual growth rates (percentage)						
GIP - total in 1960-75	5.4	5.4	6.8	5.5	5.6	3.6
GIP per capita in 1960-75	2.8	2.4	3.6	2.9	2.2	1.6
GIP - total in 1975	6.0	3.8	8.0	4.0	6.6	2.7
Gross composition of capital in 1974						
(millions of dollars of 1973)	273.4	2.508.2	588.8	1.686.3	4.709.0	1.960.3
Foreign trade in 1975 (millions of dollars):						
Exports	443.2	1.442.6	885.0	1.378.0	10.214.0	1.661.0
Imports	502.0	1.502.6	943.2	1.990.0	5.220.0	1.811.0
International reserves (millions of dollars):						
December 1975	156.2	523.0	285.6	509.3	8.861.0	109.0
External public debt (millions of dollars):						
December 1974 - 1975*	895.0	2.716.0	530.0	3.013.0	1.709.0	4.461.0
Rate of exchange (units of national currency for each dollar):						
December 1974	20.0	28.69	25.0	38.70	4.28	1.87
December 1975	20.0	33.09	25.0	45.00	4.28	8.50
Rise in the cost of living in 1975 (percentage)	6.0	19.0	13.2	24.0	10.4	340.7
Tributary income of the central government						
(percentage of GIP)	12.7	7.6	11.3	13.1	25.4	19.6
Percentage of total expenditures of the national government for:						
Education	25.9	19.5	23.0	19.4	9.4	13.8
Health	9.8	7.4	7.2	4.8	3.2	6.5
Housing	1.2	0.8	1.0	1.1	3.7	6.2
Birth rate per one thousand inhabitants	40.0	34.2	44.0	43.6	37.3	25.4
General death rate per one thousand inhabitants	19.0	9.4	10.8	13.7	6.3	7.4
Child mortality per one thousand born alive	159.0	93.8	71.5	65.1	46.6	63.3
Expected years of live at childbirth	45.0	61.0	60.6	54.6	66.4	62.6
Percentage of illiteracy	57.0	80.6	75.1	67.7	77.1	89.7

SOURCE: Nueva Frontera, August, 1976.

LATIN AMERICAN INTEGRATION - ANDEAN GROUP

LAFTA*

Formed by:

1 - Countries with major development
- Argentina
- Brazil
- Mexico

They were benefited by LAFTA due to:
- greater industrial base
- greater favor clauses

2 - Countries with intermediate development
- Colombia
- Chile
- Venezuela
- Peru
- Uruguay

They were affected because of having a minor development and insufficient markets

so:

3 - Countries with minor relative development
- Bolivia
- Ecuador
- Paraguay

they form the Andean group within LAFTA's framework, to accelerate the development process and they give preferential treatment to those with minor relative development, thus:

- Advantages in sectorial programs of industrial development (PSDI's)
- Greater terms in tariff tax release
- Exclusiveness in certain industries
- Primacy in CAF's loans

More effective mechanisms were established to encourage trade and industry.

*Latin American Free Trade Association (ALALC)

IMPLICIT DEVELOPMENT STRATEGY OF THE CARTAGENA AGREEMENT

1. Industrialization

- Complementary among countries
- For fair development of all
- Distribution of benefits among member countries
- Protectionist model of industrialization, based on:

1.1 Substitution of imports

- emphasis on basic manufactures
- with scale economies, profitable under extended markets conditions for subregional demand and external competence.

1.2 Requires active participation from:

1.2.1 State:
- Planning and carrying out sectorial development plans
- Long term and high risk investments required by basic industry
- Procurement of internal savings

1.2.2 Foreign direct investment:
- Technological contributions
- "Risk Capital" contribution

1.3 Common and restrictive treatment to foreign capital and to the transfer of technology

- So that foreign investment would not monopolize benefits produced by industrial protection.

INSTRUMENTS OF THE AGREEMENT

1. Of Institutional Nature

1.1 Commission: Maxim legislative agency - one representative for each country
1.2 Board: Technical agency - three members of the subregion
1.3 Consultant Committee: contact with the member countries

2. Complementary

2.1 Andean Development Corporation - CAF
- financial agency:
  financing
  technical assistance
  procurement of internal and external resources
  cooperation in the study and carrying out of multinational projects
  its investments are considered as national

2.2 Advisory Committee: economic and social - CAES - representatives, contractors and workers
2.3 "Hipolito Unanue" agreement for public health and sanitation (signed in 1976)
2.4 "Andres Bello" agreement for educational cultural and technological integration
2.5 Specialized advisory councils: (fiscal policy, agriculture, etc.)

3. Of Legal-Economic Nature (see Charts)

3.1 Sectorial Programs of Industrial Development - PSDI
3.2 Program of tariff release
3.3 Common foreign custom tariff (AEC)
3.4 Compatibilization of policies:

3.4.1 Foreign investment (Statute of Capitals - Decision 24)
3.4.2 Multinational enterprises and subregional capital
3.4.3 Treatment of CAF investments and of enterprises in which the state participates
3.4.4 Adjustment of industrial development legislations:
- Custom tariff, fiscal, exchange, monetary and financial policies
3.4.5 Technological policy
3.4.6 Industrial policy
3.4.7 Tax and fiscal policy
3.4.8 Commercial competition

3.1 SECTORIAL PROGRAMMING OF INDUSTRIAL DEVELOPMENT - PSDI

Element that seeked a true economic integration and that exceeds thesis of common market.

It requires development of the industry as a whole and in a complementary manner.

SEEKS:

1. To take advantage of opportunities generated by extended markets
2. To diversify production
3. To define areas of specialization
4. Maximum utilization of available resources: with extended markets, activities may be programmed to provide independence to the Andean Group.
5. To utilize technologies in scale economies.

CONTENTS OF EVERY PSDI:

- Exact determination of the products that it will contain
- Definition of plant's location
- Scheme of investments at subregional scale and measures to insure financing
- Scheme of liberation for trade among countries
- Definition of the common foreign custom tariff (AEC) which represents cost of inefficiency to be paid by the countries
- Establishment of terms within which the above commitments are in force.

ACCOMPLISHMENTS

Programmed Sectors:

- Metal mechanical
- Petrochemical

Sectors under Negotiation:

- Automotive
- Fertilizers

PROBLEMS

1. Inherent to the programming mechanism
   a. Negative experiences of LAFTA's product to product negotiations, which the Cartagena Agreement which had been attempted to overcome have been repeated the process of assignment of plants within sectorial programs.
   b. The existence of some productions in the subregion compels the countries to refuse to close existing plants.
   c. The assignment of plants under complementary agreement No. 6 of LAFTA regarding petrochemistry, had to be respected, allowing a greater margin of inefficiency. This agreement did not include Ecuador.
   d. In the case of petrochemistry, every country wanted to have a petrochemical industry, which amounted to a 60% of inefficiency.
   e. The interests of transnational industries hinder negotiations -- such is the case of the automotive industry.
2. Problems presented in the integration process
   a. Changes in the conceptions of industry development, mainly on the part of Colombia and Chile.
   b. As a consequence of Decision 100, the countries are allowed to remain out of the principle of industrial programming, through the non-participation in the PSDI's. Industrial programming based on four countries was accepted. This means a regressive step to what LAFTA used to be, since in practice it is a return to the philosophy of complementation programs.

3.2 PROGRAM OF CUSTOMS TARIFF RELEASE

It is the main objective of the Andean Group because it is the way to obtain an extended market, a fact which is possible if a free movement of products exists among member countries.

SEEKS

That the liberation be:

1. Total: that customs tariffs reach zero
2. Universal: that it covers all products
3. Gradual: No country can liberate suddenly. Time should be given to the enterprises to improve their efficiency level.
4. Automatic: to prevent that the integration process be subject to negotiate product to product as it happened with LAFTA and which had a exceedingly slow process. The automatic liberation implies that it is not subject to negotiations.

What was done in the Liberation Program?

First of all, Bolivia and Ecuador were differentiated from the remaining countries, giving them preferential treatment.

Peru-Colombia-Venezuela	Bolivia-Ecuador
Various systems were established:	
1. List of liberated articles by LAFTA (1st. group of the common list). These articles were liberated further to the Cartagena Agreement's coming into effect.	1. The same situation
2. Immediate abolition of the system of non-tariff barriers (trade restrictions other than those of the custom tariff). Withe the exception of articles subject to programming.	
3. Articles that the Andean Group wanted to assign to programming shall be left to be assigned as part thereof.	3. The same situation, although they are favores in industrial programming.
4. Articles not produced in the subregion are divided into two categories:	
b) the remaining products are liberated immediately and may be produced by any country.	a) articles that are reserved to these countries.
5. List of exception: each country prepares a list of products to be protected to except them from the liberation program. This list remains stationary for some time until said industries improve their efficiency.	5. They enjoy special advantages. In the case of products originated in these two countries, the norm of the list of exceptions is not inflexible. When significant trade exist between these two countries and any member country that makes exceptions, this one opens its doors to imports from Ecuador or Bolivia.
6. The remaining products, that is those not contemplated in the above cases, which are the majority, are those subject to automatic tax release.	6. Automatic tax release in these countries operates in different manner.

HOW THE TAX RELEASE OPERATES

The starting point is the lower tax in the custom tariff of each product. This tax is what is known as tax release initial point - PID. It may not exceed 100% ad valorem over the CIF value of the imports. From the PID the tax should be reduced 10% annually until the total liberation is reached in 1980.

AMENDMENT (Lima Protocol: Decision 100 - Article 8)

"The remaining taxes after the reduction of December 31, 1975, shall be eliminated by means of six annual and successive reductions of 7% each, the first to be made on December 31, 1976 and the last, of 8%, to be made on December 31, 1982".

3.3 COMMON EXTERNAL TARIFF - AEC

For imports coming from countries outside the subregion.

Definition criteria for protecting regional industry
- generation of employment
- technological contribution
- characteristics of the incipient industry

PREVIOUS STAGE TO AEC

To set a minimum common external tariff - AEMC - basic tariffs for imports coming from outside the subregion. Its pursose is:

a. To establish an adequate protection to the subregional industry and to encourage its efficiency.

b. To create progressively a margin of subregional preference.

c. To facilitate the adoption of the AEC.

It was established that:

- December 31, 1975 would be the term for the full application of the AEMC.
- After December 31, 1971 the member countries with tariffs applicable to imports from outside the subregion, lower to those of the AEMC, would be moved near it in an annual, lineal and automatic way up to the date indicated.
- Countries with tax levels (effective on May 26, 1969) higher than those established in the minimum common tariff, could not apply, to imports from third countries, levels lower than those approved in the AEMC.
- After 1975 the AEC is approved and its application should start immediately until it reaches complete functioning in 1980.

AMENDMENTS

They take place due to change in the conception of development of the countries.

These amendments, according to Decision 100, are the following:

a. In the terms - the approval of the AEC was extended two years, that is, up to December 31, 1977, to put it into effect in 1982.

b. The AEC is changed to a "Customs tariff braket" which establishes a maximum and a minimum to be fixed at the moment of approval of the tariff. One of the fundamental aspects remains undetermined, if the margin is not precisely defined.

3.4 COMPATIBILIZATION OF POLICIES IN EACH COUNTRY

3.4.1 FOREIGN INVESTMENT.

STATUTE OF CAPITALS - DECISION 24

It relates to the establishment of a system common to foreign capitals and, among others, regarding trademarks, patents, licenses and royalties.

CLASSIFICATION OF ENTERPRISES

National:
It owns more than 80% of national capital and that said proportion reflects itself in the technical, financial, administrative and commercial management of the enterprise.

Mixed:
Property of nationals between 51% and 80% of the invested capital and reflecting what is stated in the preceeding point.

Foreign:
Foreign capital exceeding 51% or when it reflects power from the foreign capital.

Two cases are recognized to the effects of Decision 24:

a) For foreign enterprises existing at the moment of Decision 24 coming into effect, option is given to:
   - Continue as foreign enterprises without participating in the advantages of the extended market.
   - Transform into national or mixed enterprises, gradually, within a term of 15 years. They would enjoy the advantages of the extended market.

b) New foreign enterprises are compelled to transform into national or mixed enterprises independently from their participating or not in the extended market.

Limits established by Decision 24 to rationalize foreign investment:

1. Obligation to establish an organism to control foreign investment in each country of the subregion, before which the foreign investment should be registered, and which will or will not approve it according to the criteria of each country.

2. Control of the remittance of profits; limits are established at 14% annually over the invested capital.

3. Control of the reinvestment; limit is established at 5% annually over the invested capital.

Concessions:

Foreign enterprises established in the sector of basic products (hydrocarbons -- liquid and gaseous, minerals, gaslines, oil pipelines, forestry exploitations) during the first ten years of the statute's life may continue their activities as foreign enterprises under the system of concessions, provided that these do not exceed a term of 20 years.

Note: When the partner of the foreign capital is the state with no less than 30%, enterprises are regarded as mixed provided that the state has a determinant capacity in the management of the enterprise.

AMENDMENTS

By means of Decision 103 of 1976 the following amendments are made:

a. The percentage of profit remittance is increased from 14% to 20%; a greater percentage may be established according to the decision of each country.

b. The authorized reinvestment percentage is increased from 5% to 7%.

c. Investments of international multi or bilateral financial or Cooperating agencies are regarded as neutral capital and consequently they shall not be estimated neither as national, nor as foreign in the enterprise in which they participate.

3.4 COMPATIBILIZATION OF POLICIES IN EACH COUNTRY (Con..)

3.4.2 MULTINATIONAL ENTERPRISES AND SUBREGIONAL CAPITAL

By means of Decision 46, guidelines were set for the establishement of multinational enterprises, their field of action was defined, as well as maximum and minimum percentages of participation on the part of the shareholders as per their nationality, norms for their constitution and taxation, attributions of their directive divisions and the prerrogative that the countries would grant them.

Likewise, the treatment applicable to the capital of subregional investors was determined; this will rule by the norms of Decision 46 when it participates in multinational enterprises and by regulations of Decision 24 in other cases. The investment of subregional capital is regarded as national capital, which should be previously authorized by the competent autharity of each country.

3.4.3 TREATMENT TO CAF's (ANDEAN DEVELOPMENT CORPORATION) INVESTMENTS AND TO ENTERPRISES IN WHICH THE STATE PARTICIPATES

CAF's direct investments, authorized and registered in accordance with provisions of Decision 24, receive the same treatment as national capitals. (Decision 48). Enterprises in which the state or state agencies participate are considered as mixed if their proportion in same is at least 30%, provided that decision-making capacity in their management is kept (Decision 47).

3.4.4 ADJUSTMENT OF INDUSTRIAL DEVELOPMENT LEGISLATIONS

Decision 49 contains certain instructions for the adjustment of legislations on industrial development in the member countries, which are related to the following aspects and which, in certain cases, require specific regulations as yet not approved:

a) Customs Tariff Policy - foresees the elimination of exemptions, reductions and restitutions of taxes on imports affecting the application of the common external tariff. Modalities for its compliance are established, as well as transitory exceptions and particular treatment in the case of Bolivia and Ecuador;

b) Fiscal, exchange, monetary and financial policies - instruments of industrial development related to these policies should be adjusted in accordance with the Cartagena Agreement. However, it is established that in matters of taxes, rates and other internal taxes, products originating in a member country shall enjoy, in the territory of the remaining countries, a treatment not less favorable than that applicable to similar national products;

c) Exports development - as long as no common norms are adopted, the countries may continue to apply their national measures to exports directed to the subregion as well as to countries outside of it.

d) Industrial development - joint actions in this field refer mainly to:
   1) purchases made by the countries;
   2) industrial information and research;
   3) the rendering of engineering services and economic evaluation of an industrial nature;
   4) the formulating of technical norms and the establishment of quality control systems;
   5) promotion and protection of development of subregional technology, and
   6) efficient utilization of foreign technology and control in the use of same.

3.4.5 TECHNOLOGICAL POLICY

Decision 84 has passed legislation on the following aspects: conceptual bases for a subregional policy of technological development, establishment of Andean programs of technological development and assistance to programs as they relate to technology and to Decision 24 on foreign capital and trademarks, patents and royalties. The bases are as follow:

- To promote application of knowledge compatible with the socio economic situation of the member countries.
- To overcome the limitations that condition the autonomy.
- To produce their own technologies, adequate to the industrial development stage faced by the countries and to the supply of raw materials.
- To utilize, jointly, human, financial, scientific, technical and infrastructure resources.
- To evaluate applications for the importation of technologies in accordance with development needs and socio economic aspects, bearing in mind the following:

  a) Effects on the technological development as the creation of demand for scientific and technological activities in the subregion, the utilization of local engineering and consultant services and the possible effects derived from the technology incorporated into the project;
  b) Effects of technology on employment;
  c) Contribution to specific development plans which are of interest to the country or to the region;
  d) Effects of the balance of payments and generation of income, and
  e) Effects on the environment.

- To promote, generation and assimilation of technology in their territories, giving preference to contracting natural persons, mixed national or Andean multinational enterprises for research, consultant and advisory services and, in the case of contract with third countries, said services should be rendered with national or subregional participation.
- To consider the effect of every sectorial program of industrial development on the technological development of the member countries, particularly as it relates to the creation of scientific-technological demand and with the adequate incorporation of new technologies seeking jointly the alternatives.
- To prepare qualified personnel for the study, assemblage, management and execution of industrial projects related to the program.
- To establish a subregional system of technological information, capable of identifying alternative sources in the international market and determining the best negotiating conditions.
- To insure participation of the Andean Development Corporation in activities derived from the common technological policy.

From a practical point of view, special technological development programs have been adopted in the areas of copper metallurgy and of development of tropical forestal resources.

3.4.6 INDUSTRIAL PROPERTY POLICY

With the approval of Decision 85, the common regulation for the application of norms on industrial property has been established, whereby important conceptual advances have been introduced as to invention patents, industrial drawings and models and trade names or services. Likewise, it regulates patent requirements for the registration of trademarks, proceedings and procedures and the rights and obligations conferred by trademarks and patents.

3.4.7 FISCAL AND TAX POLICY

In this field, by means of Decision 40, the Agreement to avoid double taxing among member countries and the Type Agreement to avoid double taxing among member countries and states alien to the subregion, were approved. These agreements ratify the exclusive right of the source country to tax the income and patrimony of enterprises and persons.

3.4.8 COMMERCIAL COMPETITION

Decision 45 was approved as an initial approach to the subject, containing some norms to prevent or correct practices that may distort competition within the subregion, whether from the territory of member countries or from a third country. A procedure is established to solve concrete problems but it is admitted that based on experience obtained in the development of the integration process, more precise norms should be adopted to allow the identification, prevention and correction of such practices of disloyal competition.

COUNTRY'S EXTREME POSITIONS IN RELATION TO DEVELOPMENT STRATEGY

Country's positions in relation to development strategy

I. ONE EXTREME:

Free Market Forces: (1) Colombia and (2) Chile

Lack of internal savings (2): denationalization of enterprises industries; attraction of foreign capital

Less emphasis in industrialization: (1) and (2)

- rejection of import's substitution
- back to comparative advantages of traditional division of labour
- minimize public sector participation: affects PSDI's efficiency
- programmed industries are not priority
- economic policy is against them

II. OTHER EXTREME:

Increased Participation in Planning and Programming from the Part of the Andean Pact and the Public Sector: (5) Peru and (6) Venezuela

For different reasons development strategies coincide. Supporters of:

- PSDI
- High AEC

(6) - Availability of financial resources in hands of government
- Incipient industrial development
- Andean Pact = chance to become industrialized
  extended and protected markets

(5) - Development of basic and strategic industries are crucial to break "dependence"

III. IN THE MIDDLE, closer to (5) and (6)

(3) Bolivia and (4) Ecuador

- Low industrial development:

  Depend on imports
  Mono-exporters of primary goods
- Require integration for placing dynamic industries PSDI's benefits higher than costs
- Intermediate AEC levels (3)

Note: Chile (2) and Bolivia (3) are politically attracted by south cone (Brazil) (Change in U.S. strategy: strength Brazil and Mexico as poles). The rest (1), (4), (5) and (6), believe in the convenience of the Andean Pact geopolitical division.