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Colombia and the Andean Group: Economic and Political Determinants of Regional Integration Policy

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Colombian policymakers dedicate little time and effort to international relations. For example, in the period from 1974 to 1977, international relations, other than those pertaining to Andean Group negotiations, were never discussed by the Council of Ministers nor the Council on Economic and Social Policy (CONPES) (the two executive councils chaired by the President and which meet regularly). This does not mean that Colombia did not have a foreign policy. During this period, the President and Minister of Foreign Relations were closely involved in the Panama Canal negotiations and the nation signed various treaties delimiting continental shelf boundaries with neighboring nations. But decision-making was concentrated in the presidency and it was not felt necessary to involve other agencies of the government.

In contrast, issues concerning Andean Group negotiations were often brought to CONPES and sometimes to the Council of Ministers. In addition, the Consejo de Comercio Exterior met often to discuss in detail negotiating options and results. These meetings were attended by the Ministers of Development, Finance, Agriculture, and the heads of National Planning, the Central Bank, the Coffee Federation, IFI (Instituto de Fomento Industrial, the Industrial Promotion Institute), and Proexpo, the export promotion agency. In addition, special ministerial level working sessions were organized to hammer out negotiating strategies, and negotiating teams sent to Lima were often composed of technicians from the Ministries of Development (represented by personnel from INCOMEX, the Institute for Foreign Trade), Finance, IFI, and the National Planning Department.

In summary, this shows that Colombian policymakers have in the past viewed Andean Group decisions as important, and that such decisions affect the principal sectors of the economy, as represented by the economic ministries, in addition to the Foreign Ministry.

The attention given to the Andean Group by decisionmakers, is to some extent surprising, since as will be shown in this paper, the Andean Group has not affected such economic variables as trade, foreign investment, or industrialization in any perceptible ways. The foregoing does not mean, however, that time and effort expended on Andean Group issues by Colombian policymakers has been misspent or wasted.

A good case can be made for the proposition that the impact of the Andean Group on the Colombian economy will only show up in the long run, and that the amount of attention received by Andean Group affairs simply shows the interest Colombian policymakers have in long-term issues. This is, in itself, an interesting fact given the short tenure (usually less than 3 years) of ministers and a four-year presidential term. The attention given by policymakers to this and other long-term issues is, in some respects, surprising but it may largely explain the apparent continuity in economic policymaking in Colombia.

The imperceptible short-term effects of the Andean Group on economic variables may, however, lead to premature disappointment with the whole process. It may be that this phase began in 1980. For that reason, it is important to review the different mechanisms of Andean integration and to try to evaluate the impact of the different aspects of this process up to 1980, and the changes that the decisions now in force can have on the future shape of the Colombian economy.

Furthermore, the process of decisionmaking in Colombia with respect to the Andean Group may serve to illustrate the way economic policymaking is conducted, and how different interest groups influence such policies. This analysis can also suggest how the Colombian position vis-à-vis the Andean Group may evolve in the future.

THE TRADE LIBERALIZATION PROGRAM

The Andean Group seeks to become a full-fledged customs union. The major policy objective of a customs union is trade liberalization between member countries, within a common external tariff. The Andean Group has made progress in trade liberalization, but by 1980 it had only adopted a common *minimum* external tariff.

Recent research carried out at a leading private research institute (FEDESARROLLO) shows, interestingly, that the liberalization program has, in fact, had very little influence on Colombian trade [3]. This contradicts a study by the Junta of the *Acuerdo de Cartagena*, as well as the commonly held view among Colombia's Andean partners. This mistaken view stems from a superficial reading of the rapid growth of Colombian exports to Andean countries, without taking into account the increase in Colombian exports to third countries. Luis Jorge Garay analyzed export growth at a very disaggregated level,[1] and compared export performance before and after 1970 (when intragroup trade liberalization began), and contrasted the dynamics of trade with Andean countries with respect to that with Central America and the Caribbean, or that with the Latin American Free Trade Area (LAFTA). His conclusion was that trade liberalization has not changed the flow of commerce of Colombia with its Andean partners. Since these results are at variance with those assumed by many policymakers in the region, they are worth summarizing.

In the first place, it should be mentioned that Colombian exports to the Andean countries grew more slowly, or at best, no faster than those to third countries during the first six years of trade liberalization. This contrasts with a greater than average growth at the end of the sixties for exports to the Andean nations, *prior* to liberalization among Andean Group members.

Furthermore, there are no significant variations in the intersectorial structure of trade with the Andean Group between 1966–70 and 1971–76. This again suggests no effect of the integration effort on industrial or trade structure. In addition, Colombian regional exports do not appear to be less concentrated than those to third countries, thus suggesting that the integration process has not created important markets for new exports. Although it is true that the number of items exported to the Andean Group did grow more rapidly, the foregoing result suggests that the economic importance of this phenomenon (in value terms) was insiguificant.

The picture does not improve when we examine exports or imports included in the lists where tariff advantages were available. Only 48 percent of Colombian exports (in value terms) benefited from some type of Andean tariff preference, as opposed to 78 percent of Colombian imports from other Andean Group countries. Furthermore, trade in the items receiving preferential treatment did not grow faster after the preferences came into effect.

A justification often given for economic integration is that regional markets may serve as an export "platform" in the sense that when entrepreneurs learn to export even small quantities to neighbors who provide preferences, they can subsequently launch export drives to third countries. But if we examine the lag between exports to Andean countries and to other markets, the conclusion is that there is no evidence that exports occur first to the regional markets where preferences are available. It does appear that for Andean exports, there *is* a tendency to use the neighboring Venezuelan or Ecuadorian markets as export platforms, as shown by a lag between exports of various items to the Chilean, Peruvian, and Bolivian markets relative to those made to Ecuador and Venezuela. On the other hand, there is evidence that Colombia's imports from Andean Group members do displace imports that previously came from third countries.

Finally, Garay concludes that his various results suggest that there were no significant effects of trade creation or trade diversion in Colombia attributable to the Andean Group during the first six years of its existence.

The foregoing observations, however, do not mean that trade with the Andean Group is unimportant for Colombia. The region receives 25 percent of Colombian exports (excluding coffee) and contributes 7.5 percent of the nation's imports. Furthermore, 42 percent of intermediate goods and metal and machinery goods exports go to the member countries, and 40 percent of processed food imports come from the region.

From this set of results, it is tempting to conclude that the importance of the region for sophisticated Colombian exports created support for Colombian promotion and participation in the Andean Group, but that in the short run the group's mechanisms have not had the expected effect. However, the interesting question is: what was the constituency within Colombia that expected tangible results from integration? It can be safely said that many politicians and policymakers were bullish about the Andean Group, and were convinced that integration would contribute to industrial growth, particularly since it could make available the benefits of economies of scale. Integration was also attractive as a means of obtaining more independence from Colombia's major trading partners (the developed countries), and from the vicissitudes of commodity markets. In addition, the sector of the Liberal Party that was identified with the creation of the Andean Group (the Llerista faction led by former President Carlos Lleras Restrepo, 1966–70) presented the Andean Group as a major policy innovation and had exaggerated the benefits of such a scheme.

Interestingly enough, both orthodox theory and ECLA (the Economic Commission for Latin America) did not place much emphasis on trade liberalization between underdeveloped countries. Orthodox theory predicted few benefits, since little trade creation is expected primarily among economies which are not complementary. Most of the member countries had similar industries at low levels of technological advance, and agricultural goods were not generally given trade benefits. ECLA, on the other hand, postulated that a liberalization of regional trade would not achieve the transformation of the economic structures in the member countries. For that reason ECLA recommended the programming of industry by sectors, and a substantial amount of planning at the regional level to achieve real integration.

It could be argued, however, that the propagandizers of economic integration did not often spell out the limited effects such efforts would have in the short and medium run. On the contrary, integration was often recommended as the solution which might get the Latin-American economies back on the path of accelerated industrialization. Therefore, the enthusiasm of politicians and policymakers for the Andean Group is understandable.

ECONOMIC INTEGRATION AND PRIVATE INTERESTS

As Guillermo Perry has shown in his recent survey of Colombia's exchange and foreign trade policies [5] the tariff structure has been fairly constant since the 1930s, and those industries which obtained high protection at the start of industrialization are the ones that by 1980 still had the highest levels of protection. He furthermore concluded that there was a close relationship between levels of protection and growth of industry by sector, a result which implies that tariff structure does affect profits and industrial structure.

The constancy of the tariff structure suggests that there are powerful interests which make rationalization of tariffs difficult. Throughout the 1960s, agricultural interests were conscious that high protection to consumer-good industries discriminated against agriculture, and since 1967 most economists have recommended lowering protection levels of traditional industries, since one cannot justify infant industry protection for industries which have had it for more than 30 years. Additionally, the attack on protection was spearheaded by Alfonso López, an influential political figure throughout the 1960s, and effectively propagandized by his close associate Indalecio Lievano. This outlook enjoyed powerful support when in 1974 Alfonso López became President and Indalecio Lievano was named Minister of Foreign Affairs.

Despite the apparent political and economic strength of the forces opposing protection, the tariff structure did not change significantly during the 1960s or even after 1974, although the government attempted at various times to rationalize the protective structure.

The impression one receives is that in the Colombian system substantial opposition can be mobilized to oppose concrete measures that harm a specific interest group that is already strong. For example, the Lopez government was unable to eliminate the virtually infinite protection for textiles through import quotas due to the effective opposition of the interested parties, often working with the middle echelons of the bureaucracy. Nevertheless, there was no effective opposition to the Development Plan, which sought to restructure protection. A national plan, however, has no immediate effects until implemented. The plan was not attacked for its antiimport substitution bias, partly because rural and agricultural interests are quite strong in Congress. Most active politicians liked the strategy presented in the plan.

The exception was a group of politicians from Antioquia (a province where industrialization started and where the industries that were originally protected were located), where everything the Lopez administration did was considered harmful. Not only was the general economic policy of the government perceived as prejudicial to the industries in the region, but the very progressive tax reform passed in the first 100 days of the administration made the powerful industrial and cattle groups of Antioquia hostile. In other areas, such as the province of Valle, national industry was less protected and agricultural groups did not find the Lopez economic philosophy unattractive. In the rural areas of the coast, the tax bite was compensated by the increased administrative responsibility given the *costeños*, less emphasis on land reform, and a government committed to promoting development in that region. But the political and economic coalition in Antioquia, supported by ANDI based in Antioquia and dominated by the liberal Antioqueño industry, made the political cost of dismantling protection too high. For the Liberal Party losing electoral support in Antioquia is a serious matter. Furthermore, it can be argued that in Antioquia, where the Liberal Party was traditionally more identified with the urban economic elite than in other areas, the political class could turn against the progressive López government. In summary, the industrialists, supported by ANDI and given strength by the anti-López political coalition in Antioquia, were able to forestall a change in traditional protectionist policies.

The foregoing suggests that tariffs in Colombia are an area of policy where the stakes are high. It is not surprising, therefore, that policy with respect to the Andean Group became, from 1968–80, a high priority for successive administrations, since most Andean Group decisions in some way affect the levels of protection.

The effect of the Andean Group on Colombia's economy has not been large up to now, because the minimum external tariff adopted by the group is very similar to that existing in Colombia. Furthermore, since most imports from the member countries using the group's tariff preferences are natural resource-based goods,[2] the Andean Group has not yet created additional competition for local producers. After 1980, progress which is made within Andean Group mechanisms will, however, imply changes in the structure of protection.

INCOMPATIBILITY BETWEEN COLOMBIAN ECONOMIC POLICY AND REGIONAL IMPORT SUBSTITUTION

The philosophy behind the Andean Pact was developed at the end of the 1960s, when the import substitution strategy so widely employed in Latin America was no longer producing clear benefits, and various Latin-American leaders decided that only by extending import substitution to a regional level could the industrialization momentum be kept alive.

Garay analyzes the ECLA theory on economic integration in detail [4] and ex-president Carlos Lleras, although refusing to give CEPAL paternity for the idea, confirms that the founders of the Andean Group thought its main purpose was to make regional import substitution viable [7, p. 249]. Ex-president Lleras is careful to point out, however, that:

> Colombia adopted the Grupo Andino idea that within this arrangement a greater degree of competition for the benefit of consumers be achieved in those sectors not the object of special programming commitments, giving importance to the preference margin implicit in a customs union but without thinking that that margin can or

should be maintained at levels which will promote at the sub-regional scale the most obvious distortions that national protection has caused in those cases in which it has been maintained for a longer time than is reasonable. [6, p. 4]

This quote by one of the founders of the Andean Group clearly shows that in Colombia in 1979 (and probably in 1968), even the most interested partisans of the Andean Group cannot subscribe to an extreme import substitution theory of integration. President Lleras clearly supports the pact by conviction but also because it is one of the major achievements of his administration. The other major achievement of the Lleras administration was the foreign exchange and trade regime established in 1967 (Decree Law 444), in which Colombia began in earnest an export-promotion development strategy. For that reason, President Lleras implicitly suggested that the Common External Tariff should be lower than the present level of the national tariffs.

The attitude of the Venezuelan and Peruvian governments, and that of Chile before Pinochet, was quite different. Peru and Chile were not particularly interested in trade liberalization, but were ideologically committed to industrial programming and to preventing the market from determining industrial structure.[3] Venezuela, on the other hand, had made the commitment to "sow its petroleum." This meant investing revenues from oil in industry so that when petroleum reserves were exhausted, the country would have an industrial base to sustain its economic growth. Venezuela therefore emphasized the programming aspects of the Andean Group during the initial negotiations, since it wanted to invest in capital-intensive industries which needed a regional market to attain economies of scale. Regional programming opened up this possibility because the other countries did not have the capital to carry out the investments this strategy required. Bolivia and Ecuador also supported industrial programming, hoping through that mechanism to create capital and technology-intensive industries.

In the first years of the pact, the emphasis in negotiations was therefore on industrial programming and regional import substitution. The tendency was toward a level of protection of the Common External Tariff above the levels of the Colombian tariff, and toward a degree of state intervention in the economy that was not considered practical or desirable by Colombian policymakers. The latter therefore saw the Andean Group as a threat. They felt that unless progress was kept at a very low rate, decisions concerning the Andean Group would contradict the main lines of Colombian development policy.

The Colombian attitude toward the Andean Group has not been constant. In the years following a serious exchange crisis of 1966–67, trade policy had elements of protectionism and import substitution that seemed to dominate the export promotion efforts. Decree Law 444 of 1967 represented a turning point. Nominally, it was very protectionist, as most imports either required special licenses or were prohibited, and strict exchange controls were established.

At the time import substitution strategies were also being stressed for the automobile and petrochemical industries. In those years the import substitution strategy of the Andean Group coincided with what appeared to be economic policies prevalent in Colombia. In that early period, which included the negotiation of the Acuerdo de Cartagena, Colombia's active support for integration reflected the apparent lack of contradiction between the philosophy of regional import substitution and internal economic policy.

Actual economic policy between 1967 and 1970, however, did not follow the protectionist rhetoric of Decree Law 444, or of the older generation of ministers who took that rhetoric seriously. President Lleras took the initiative to devalue in real terms through a crawling peg system, substantial support was given to agriculture and exports, and the first steps were taken toward liberalization of the financial system. By 1970 Colombia had opened its economy to a surprising degree, and few people in or out of government wanted to return to import substitution. With a lag, INCOMEX negotiators began to take tougher stands in Lima. Accordingly, Colombia found itself in disagreement with most of the protectionist positions taken by the Junta, Peru, and Venezuela in the period 1974–78.

While in Colombia the main thrust of policy after 1970 was to downplay import substitution, there were different currents in Venezuela, Ecuador, and Bolivia. Whereas in Venezuela, Chile, and Peru state participation in industrial projects was becoming more important, in Colombia there was widespread disappointment with industries which had been promoted by the state development bank (IFI), and little inclination to foster a greater relative role for the state in industry.

It is therefore evident that one of the four main postulates of Andean integration was not very attractive to Colombia. The Junta of the Andean Group saw that the first postulate on which there appeared to be agreement when the *Acuerdo de Cartagena* was formed was that

> to the state there corresponds a decisive role in the general conduct of the process of development, a role more important than that traditionally recognized. This role is to be expressed through planning and direct investment in some strategic sectors. [7, p. 244]

In Colombia there was support for only a very mild version of this postulate, in which more planning only meant the rationalization of public investment.

The contradictions between the development strategies of Colombia and its partners have been mentioned because at the Junta del Acuerdo de Cartagena, at the Foreign Offices of the other countries, and in much of the literature, it has generally been thought that Colombia was the country that could always be counted on to support the Andean Group, since regional integration would clearly be beneficial to it. For example, to Colombian policymakers the matrix published by Tironi on degrees of support by country to the various integration mechanisms was very surprising. Colombia appears (see the table) in favor of all mechanisms, while in reality it rejected consistently both programming (PSDI) and the high level of common tariffs (AEC) proposed by the Junta.

Although one could argue with some of the non-Colombian rows in the matrix, for example by underlining PSDI for Venezuela and probably for Ecuador and Bolivia, it is clear that the image of Colombian support is misleading. First, one should underline the trade liberalization column for Colombia and change PSDI to rejection or doubt both on economic and ideological grounds. Decision 24 could be characterized by D (Doubt) instead of A (Support) when that letter denotes indifference or nondogmatic support. It is important to emphasize that within Colombia and even in government circles concerned with Andean Group negotiations, support has not been as widespread as is thought by the other member countries. Probably a good explanation for this situation can be found in the Garay study, which shows that through the 1970s trade liberalization had not had any perceptible benefits for Colombia. Since PSDI (industrial programming) is considered undesirable in Colombia for economic as well as ideological reasons, the less-than-enthusiastic support is understandable. The Garay results are also confirmed by the fact that private industry has shown little interest in getting involved in Andean Group issues. For example, Luis Prieto, an ex-president of ANDI, told me that except for one decision (Decision 24) industrialists showed no interest in Andean Group negotiations.

The attitude of Colombian policymakers to the Andean Group must also be viewed in the light of developments in the Colombian economy in the 1970s. First, one must take into account that both informed opinion and the economic literature seem to agree that the gradual opening up of the economy since 1967,

MATRIX OF ATTITUDES OF THE ANDEAN COUNTRIES WITH RESPECT TO THE DIFFERENT PROGRAMS OF THE SUBREGIONAL INTEGRATION PROCESS[a]

Country strategies	Trade liberalization	Common external tariff	Industrial programs (PSDI)	Decision 24	Net balance
Mixed economies					
Colombia	A	A	A	A	A
Venezuela	A	D	A	A	A
Ecuador	A	D	A	D	A
Bolivia	D_e	R_e	A	D	D
Planning strategy					
Peru	D	R_i	$\underline{A_i}$	A_i	D_i
Neoliberal strategy					
Chile	A	$\underline{R_i}$	D	R_i	R_i

Source: [7, p. 284].

[a]Symbols: A=support; D=doubt; R=rejection. Subscript e is for economic reasons while subscript i is for ideological reasons. Underlining of a symbol means that this item has the highest priority for the country in its development strategy.

and the shift from a mild import substitution to a mild export promotion strategy, made possible a significant acceleration of economic growth. In other words, except perhaps in the area of inflation, the Colombian economy has been performing well and it is clear that protectionism would not affect prices in the right direction. Therefore, Colombian policymakers have been and are reluctant to let the Andean Pact emphasis on high tariffs and regional import substitution bring about a change in what appears to be a successful growth strategy.

The Colombian model has performed well in terms of GNP growth, and it has also solved some of the more serious unemployment problems envisaged in 1967. Furthermore, a good case can be made for the proposition that income distribution in Colombia became less equal in periods of substantial import substitution (see [7]), and that the bias against agriculture in most of the proposals of the Junta del Acuerdo de Cartagena tends to decrease, in relative terms, the share of the rural population in total income, a result which clearly harms the poorest sectors of society. Given the problems which a return to greater protectionism could cause, the economic benefits from trade liberalization would have to be very large in order to obtain serious support for the Andean Group in Colombia.

The only constituency for the ECLA integration model would be among industrialists. But industrial programming decisions cover industries to be established, while the intragroup liberalization of trade does not benefit the traditional industries in the textile and consumer goods sectors, since these items were excluded by most countries from the list of goods that would receive tariff preferences. Only capital-intensive state enterprises and multinationals could possibly get involved in large investment projects. Neither is popular in Colombia, or capable of mobilizing politically relevant groups in their favor.

If lack of support for the Andean Group by important interest groups is so prevalent, it is interesting to consider why Colombia did not leave it. There are probably four reasons.

(1) As mentioned earlier, growth of trade with the Andean countries was substantial before 1970. Although the Andean Group has not resulted in significant expansion of such trade, leaving the group could be harmful. Trade is not negligible; in particular, exports of certain technologically advanced goods is important.

(2) Within the Colombian political structure factions of both the Liberal and Conservative parties have a programmatic commitment to the maintenance of the Andean Group. The creation of the group was one of the major achievements of the Lleras administration, and the first years of life of the Acuerdo are considered a triumph of the Pastrana administration. This makes leaving the Andean Group a difficult partisan issue with a political cost. Paralysis of progress in the negotiations between member countries, however, has little cost.

(3) Since Colombia has boundary problems with Venezuela, leaving the pact has a cost in terms of Colombia's major foreign policy problem: relations with Venezuela.

(4) There is a certain ideological commitment on the part of intellectuals and policymakers to the idea of becoming less dependent on trade with the developed world. This, and the idea of a greater unity among Latin-American countries, has substantial power for mobilizing support for the Acuerdo. One must remember that Colombia has little interest in broader foreign affairs, since it can have little influence on what happens in the world. In these circumstances, economic integration seems to be the only foreign policy option.

Some comments on the relative strength of these four reasons may be useful. The influence of firms exporting at present to the Andean Group is limited by the fact that a not insignificant amount of manufactured goods exports are made by foreign firms.[4] These companies find it difficult to influence Colombian government policy.

The importance of the political factor should not be ignored. However, developments since 1970 have weakened the weight of the Lleras faction in the Liberal Party, and since the Andean Group is identified with Ex-president Lleras, due to the dominance of the anti-Lleras groups within the Liberal Party, the commitment to integration of the majority political party is not as strong as it could be.

The argument concerning relations with Venezuela is crucial, but support of the Andean Group for ideological reasons is a consideration which must also be taken into account by policymakers. The benefits of economic integration have been so propagandized by its partisans that any break with the Andean Group would require a very active campaign of explanation.[5] On the other hand, the issues being negotiated are so complicated that a standstill in integration is much easier than a break. Furthermore, as the economic process of integation has come to a standstill, the member countries have found that a common Andean Group position has some impact on Latin-American affairs. Although it is hard to see how such a common position can be translated into concrete benefits for Colombia,[6] the newfound importance of foreign policy acting through the Andean Group is an additional incentive for policymakers in government to make sacrifices in order to keep Colombia in the pact.

It is ironic that the Andean Group started to develop a common foreign policy only when it became obvious that integration could only have a marginal economic effect. As in the case of Latin-American governments, there is a negative correlation between internal economic success and foreign policy activity.

COLOMBIA: THE GAULLIST MEMBER

The foregoing analysis suggests that Colombia would follow a policy of hindering the progress of the Andean Group mechanisms, particularly after the original promoters of the idea left government. Until then policymakers who helped create the Acuerdo could only find their political stature diminished if the pact were to fail, and they were willing, therefore, in negotiation, to sacrifice some Colombian interests because it was clear the costs would only appear in the long run. With time, however, the Colombian export-oriented model became more successful, and the older import substitution strategy became less and less popular, even in its regional version. Furthermore, political power seemed to shift within the majority Liberal Party away from proindustry to proagriculture politicians. Furthermore, the 1960s school of Colombian economists who started being active in government in the 1970s were also quite anti-ECLA. All of this made Colombian growth strategy more and more incompatible with the import substitution and proindustry bias of the Andean Group as reflected in its charter, in the philosophy of the Junta staff, headquartered in Lima, and in the role Peru and Venezuela envisaged for the group.

The result was that Colombia supported the trade liberalization scheme, which coincided with its export promotion efforts, but tried very hard to avoid decisions leading to greater protection through changes in the Common Tariff or ambitious industrial programs coordinated for the region as a whole.

Industrial programming in particular seemed dangerous to policymakers. First, it implied high tariffs for the products negotiated, and second, there was no assurance that Colombia would be able to produce the goods assigned to it under the negotiations. It appeared that only capital-surplus Venezuela could make all the investments assigned to it in an ambitious industrial program, and that in many of the capital-intensive industries programmed, only transnational corporations or the government could mobilize the investment capital. Since the Colombian government had no surplus funds, many social programs to finance, and had shown itself to be an inefficient industrial entrepreneur, it was not logical to support industrial programming. The exception was automobile programming, since the government was already heavily involved in the industry, and there it was felt that any rationalization would improve productivity.[7] It is telling, however, that programming should make significant progress only in areas where state intervention is strong in Colombia, such as automobiles and petrochemicals. In all other industrial areas, the state plays a limited role relative to other large Latin-American nations, and one would therefore expect Colombia to be reluctant to allow progress in the industrial programming effort.

In summary, Colombian policymakers dedicated much time and effort to the shaping of policy with respect to the Andean Group, primarily to prevent the dynamics of integration from modifying the implicit economic strategy put in place after 1967. Both industrial and agricultural interests support that strategy, and have done well with it. Organized urban labor, which has done less well in the 1970s, on the other hand, saw no particular advantage in, or even understood fully, the integration issues. Therefore, the programming mechanisms which were so important to Venezuela, Peru, Bolivia, Ecuador, and Allende's Chile, had few friends in Colombia. Thus Colombia later found itself often in accord in the Andean Group with Chile under Pinochet, since Chile then wanted to downplay programming and protectionism.

THE EFFECT OF INDIVIDUALS AND INSTITUTIONS IN INTEGRATION POLICY

General analysis, however, should never ignore personalities. Jorge Valencia Jaramillo, President Lleras's representative in the original negotiations of the Andean Pact, was the minister in charge of Andean Group at the start of the subsequent Pastrana administration. For personal political reasons he was interested in having the pact survive, and therefore was more willing to compromise than his successors, a crucial fact given the importance of the decisions taken in the first years of life of the Acuerdo. Also, during the second half of the Lopéz administration (1976–78) Antonio Urdinola was one of the few economists in government who did not believe in freeing trade and who favored greater public investment in industry, a view that had some influence on the negotiating position of Colombia in the Andean Group. In a sense it is inevitable that prointegration people should staff the agency in charge of Andean negotiations, since such an attitude makes Colombian foreign relations less difficult and also makes partisans of integration appear to be successful negotiators. For example, Urdinola's predecessor had reflected Colombian opposition to the pact too bluntly, and this complicated presidential foreign policy in other areas considered important.[8]

The institutional framework for policymaking has also had an effect on policy outcomes. The establishment of a decision-making board (the Junta) with permanent country representatives meant that, in each of the countries concerned, a specific government entity separate from the two traditionally strong ministries of foreign relations and finance was given the coordinating and negotiating role for Andean Group affairs. The result was that the agency in charge of integration had a vested interest in avoiding any breakdown in the process.

In Colombia the decision was taken to centralize integration coordination in the Consejo de Comercio Exterior (Council on Foreign Trade), which is in fact the Board of Directors of INCOMEX, the import control agency administratively dependent on the Ministry of Development. This agency was created to control imports at the time of the exchange crisis of the mid-1960s. By 1970 Colombia had more foreign exchange, and the import rationing function of INCOMEX was no longer very important. In those circumstances, its role in the Andean Pact negotiations became the major justification for its continued existence. Therefore INCOMEX employees were very prointegration.

Since the agency's other function is import control, it is structurally biased towards protectionism, which again makes it pro-Andean Group. This protectionist bias is reflected even in the sources of income of INCOMEX, which receives no budget money to finance its operations. It depends exclusively on a fee charged on the sale of documents required to obtain import licenses. Since export promotion is the function of another autonomous agency (PROEXPO), there are within INCOMEX no bureaucratic divisions dedicated to export promotion or trade liberalization. In addition, INCOMEX seldom reports to the Minister of Foreign Affairs, and deals mostly with the Ministry of Development. The latter is the most protectionist Ministry in Colombia, and the place industrialists take their complaints concerning "unfair" competition.

In summary, the institution in charge of Andean Group negotiations would lose all importance, which is substantial at present, if "integration" is not pursued actively. It is not surprising, then, that the INCOMEX staff is more pro-integration than any other sector of the bureaucracy. This has had two effects. On the one hand, it has made negotiators from this agency willing to compromise in order to avoid a crisis in the Andean Group, and on the other hand, it has led negotiators from the other countries, whose main contact is INCOMEX, to think Colombians have a greater interest in the Andean Group than is in fact the case.

In the same way that other member countries, through their contacts with INCOMEX, have been misled into believing that Colombia supports the Andean Group more than it in fact does, Colombian negotiators (as well as the author) may have taken too seriously the Peruvian and Venezuelian support for high protection levels and industrial programming. While the Secretaria de Integracion of Peru took strong positions in favor of high tariffs and programming, other agencies in that country may have had more liberal policies. In Venezuela, the Ministry of Finance, continually trying to control inflation, was much less protectionist than those in charge of integration policy. In other words, if similar studies were carried out in the other countries of the region, they would probably also show a pattern of support for the different instruments of integration that is somewhat different from that which appears in official pronouncements. Such studies would probably show greater similarities than are implicit in the official negotiating positions, particularly after recent shifts in economic policy in Peru. In that case, the possibilities for progress in the process of integration would be greater than in the 1974–78 period.

CONCLUSION

The Andean Group model of economic integration presupposes an enhanced role for the state and planning activities. The major purpose of integration is to achieve industrialization through import substitution at the region level. Both of these postulates imply a reform of the economic model followed by Colombia with success since 1967. Therefore Colombia could not legally support accelerated progress in the integration process. On the other hand, the political costs of leaving the Andean Group were not negligible. This logically led to a policy of delaying decisions in areas which went against the interests of the country, particularly in industrial programming and a common (and high) external tariff.

The lack of short-term benefits from trade liberalization also made policymakers increasingly reluctant to compromise on tariffs or industrial programming (PSDI) in return for continued progress or the maintenance of trade liberalization. Furthermore, the limited opportunities for exports created by the Acuerdo account for the fact that no important national group has been mobilized in its support.

The failure of the Peruvian experiment and of some of the Venezuelan publicly owned industries have led to shifts in economic policy in these countries in the direction of the Colombian position. In the future, Peru and Venezuela may put less emphasis on industrial programming and on a high common external tariff to promote regional import substitution.[9] One would thus expect greater progress towards a customs union in the near future.

With respect to the decision process in Colombia the conclusions suggested by this case study are:

(1) Specific interest groups, such as the industrialists in ANDI, have the power to avoid changes in policy which affect their interests in a significant way, particularly if they manage to obtain regional political backing for their position. This suggests that special interests with a regional label can be quite influential in policymaking. These interest groups, however, cannot initiate policy.

(2) Individual government policymakers have substantial "initiative space." If the initiative does not produce a veto from an important interest group, it will probably be implemented. The veto, however, will only be effective against an earnest executive when the interest group can translate its opposition into political opposition from some group of one of the two traditional political parties, the Liberals and Conservatives.

(3) There is a substantial current of feeling against state industries and public investment in productive enterprises in Colombia.

The first proposition can be derived by analyzing the role of the National Industrial Federation (ANDI) in Andean Group decisionmaking. Although the protectionist strategy of the Acuerdo de Cartagena should be attractive for industrialists, ANDI never mobilized effective support for the Junta's tariff proposals. On the other hand, ANDI has been able to block government attempts to lower tariffs, and its veto in this area has been made possible by identifying its position with that of the Antioquia region. A showdown with respect to tariffs would therefore involve the government in a serious political clash with the Antioqueños in both political parties.

The second proposition can be derived by observing the amount of influence individual policymakers have had on policy. A minister can initiate policy without consulting the political parties, the interest groups, or his cabinet colleagues.[10] If there is no substantial opposition, he can pursue his policy by administrative means, even if he has little support from the parties, or Congress. Jorge Valencia Jaramillo was, therefore, able to make substantial commitments for Colombia, which will affect future trade and industrial structure, even if these commitments would not have obtained majority support of his cabinet colleagues or of Congress. When he proposed policies which would affect specific private interests or basic principles in a very direct way, he was defeated. This was the case when he committed Colombia to more state industry in the negotiations concerning Decision 24, or when he ran into frontal conflict with the construction interests over his proposed urban reform.

In this case study the large "policy space" of an individual policymaker is illustrated by the change in trade policy brought about by Antonio Urdinola in 1976–78. With support from the Minister of Development, he downplayed the opening up of the economy favored by the President and some of his ministers. He was able to do this because no single measure he took hurt the agricultural partisans of lower protection, but he did get support from the industrialists and the Andean Group negotiators.[11]

The third proposition can be derived from various parts of the story presented here. For example, although ANDI had an interest in promoting the Andean Group proindustry and protectionist policy, it did not actively support the Andean Group because the philosophy of the Junta implied a greater degree of government intervention than deemed acceptable in Colombia. The detailed planning involved in industrial programming could only diminish the freedom of action of private industry. ANDI's opposition to Decision 24 also concentrated on eliminating the clause that gave government the first option to the stock of foreigu companies that divested. ANDI, in fact, supported the divesting clause. There has been little support for industrial programming also due to the awareness that such a policy can be effective only with a massive increase in public investment in industry.

NOTES

* This paper was prepared while I was a fellow at the Woodrow Wilson International Center for Scholars of the Smithsonian Institute.

1. In most of the paper, analysis is carried out for at least 76 export items and 104 import items.

2. [3], p. 7. Garay, after reclassifying slightly processed industrial goods as belonging to the agricultural or mining sector, concludes that 58 percent of Colombia's imports from the Andean Group are resource-based.

3. Personal interview with Francisco Thoumi, the negotiator for Colombia of the minimum external tariff, relates that at the end of the Frei government, Chilean

tariff ranged from 0 to 10,000 percent, and that the first proposal of the Chilean delegation for the minimum tariff was a 300 percent average level, with a range from 0 to 10,000 percent.

4. In a sample of firms that export to the Andean Group carried out by CEPAL, the percentage of total exports covered by foreign-owned firms was somewhat higher than 50 percent. See [2].

5. It is interesting to note that in principle most newspapers and commentators are for integration. One can think of no public figure with on-the-record opinions against integration.

6. Venezuela and Ecuador can derive clear benefits by acting through the Andean Pact, since this counteracts the negative reactions for the US and other Latin-American nations generated by the OPEC affiliation of these countries. The recent US-Andean Pact agreement gave Ecuador and Venezuela access to the US generalized tariff preferences which had previously (1975–79) been denied to OPEC members by the Trade Act. On the other hand, Colombia's support of the Nicaraguan insurgents through the Andean Group was altered into a sea platform-border problem instigated by the new government. Furthermore, Peru voted against the Colombian candidacy for the Security Council at the UN and in favor of Cuba.

7. It is interesting that according to Luis Prieto, ex-president of ANDI, the only private sector interest in the Andean Group was shown by the only private automaker. That company clearly felt that in negotiations for the automotive program in the Andean Group it would probably lose out to the two government-supported automakers. The government automakers, on the other hand, were represented by IFI, which believed in industrial planning, and therefore liked the scheme of the Andean Group.

8. The other delegations went to the extreme of letting the Colombian government know that they would not go to the sessions of the Junta which would have to be chaired by Alberto Galeano. Thus a veto occurred of a Colombian chief negotiator who was following instructions, although perhaps with less diplomacy than desirable. Personalizing the conflict was useful, since Colombia then named Urdinola, who was more protectionist than the rest of the government.

9. Venezuela's balance of payments and government finance problems also makes less interesting the strategy of investment in government-owned and capital-intensive import-substituting industries.

10. This same aspect has been documented by Bruce Bagley in his case studies on decision-making. See [1].

11. Antonio Urdinola, who kindly read this paper and made perceptive comments which will be extremely useful for a more complete analysis of the way pressure groups operate in Colombia, commented that within the Andean Group his negotiating position was made easier by the fact that his colleagues were aware that he had a more proindustry and protectionist position than most of the people in the government he represented. Clearly Antonio Urdinola influenced negotiating results by giving greater weight to his own ideological viewpoint, but being both a very able negotiator and very knowledgeable about the Colombian economy, the fundamental economic model of Colombia was probably very effectively defended by him.

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Comment on "Colombia and the Andean Group"

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My comments on this informative and interesting paper are directed toward two topics. First, I provide an evaluation of the analysis that underlies Urrutia's assertion that Colombia has not benefited from its membership of the Andean Group. Second, I relate the paper to the long-running debate on the merits of economic integration programs between developing countries.

As Urrutia indicates, his conclusions about the negligible benefits that Colombia has so far reaped from its membership of the Andean Group are based on the research of Luis Jorge Garay [1], a colleague of his at Fedesarrollo. He was kind enough to send me a copy of this paper, which I read with interest. I am not, however, convinced that the statistical analysis of that paper justifies such strong conclusions as Urrutia has drawn. Let me explain why.

The main measure used in the analysis is the *acceleration* in the rate of growth of exports, disaggregated by product and market. It was found that this acceleration was not in general greater for intra-Andean trade than for Colombian trade with other parts of the world, so that the proportion of Colombian noncoffee exports destined for partner countries remained at much the same level (some 25 percent) at the end as at the beginning of the period under study (having fallen in the interim and then recovered). The shortcoming in this analysis is that it fails to allow for changes in the relative size of the various markets. Constancy in the proportion of exports destined for partner countries may be consistent with sizable effects of integration in stimulating trade, if it happens that the markets in those partner countries have been growing more slowly than those in other countries. In recognition of this fact, economists who have estimated the effects of trade liberalization[1] have developed a variety of alternative methods of normalizing for changes in the size of markets. Since the main measure of integration effects used in this study[2] did not use any of these normalizations, one is not in my judgment justified in drawing any strong inferences from the results. I concede that one can accept the results as evidence that the Andean Group has not had any dramatic positive impact on Colombian exports comparable with that of the EEC on the trade of its original six members, but not as evidence that there has been *no* worthwhile stimulating effect.

In fact, there are three snippets of information in the study that suggest that the trade effects of integration may have been positive.

(1) The proportion of Colombian *imports* from partner countries did in fact rise modestly, from 5.6 percent to 7.4 percent. This is more significant than the constancy in the distribution of *exports,* given that the correction for differing growth in market sizes is not necessary on the import side.

(2) There is fairly clear evidence of trade expansion in metallurgical products. Some 42 percent of Colombian exports in this sector are destined for partner countries, and there is clear evidence that exports of new products in this sector occur first, or indeed only, to other members of the Andean Group. This is surely significant so far as metallurgical products are precisely the type of product that was not extensively produced in the area in the past, and whose production and trade the group was intended to promote.

(3) The Balassa-type analysis also undertaken by Luis Garay found evidence of trade creation in four, and of trade diversion in three, of the 21 product groups examined. (Balassa's method does, of course, make an appropriate allowance for relative changes in market size.) Given the very partial nature of integration in the Andean area to date, with most agricultural and consumer goods excluded in principle and few programming agreements concluded, it is not obvious that this result is derisorily low.

Nothing I have said should be construed as claiming that the integration effort of the Andean Group has been a major success, or as challenging Urrutia's denial that any benefits to Colombia have been more than marginal (as is apparently believed by its partners). But I hope that my remarks will caution against jumping to the opposite conclusion that the Andean Group has been a demonstrable failure.

Let me now turn to my second topic, the role of trade integration between groups of developing countries. I am moved to take up this subject because of a dissatisfaction with the existing literature. Some of the reasons that have been advanced to explain the difficulties experienced by Latin-American integration attempts strike me as quite fanciful — the lack of currency convertibility, rivers that flow the wrong way, cantankerous politicians. I intend to argue that those difficulties are, on the contrary, a direct and inevitable result of the nature of the exercise in question, and can be understood as such in terms of the most basic concepts of customs union theory, trade creation, and trade diversion.

An increase in exports to a partner country in a customs union is always beneficial to the exporter. In a classical full-employment fixed-resources model, the benefit takes the form of a terms-of-trade gain. In a Keynesian variable-employment fixed-resources model, there will be an additional gain in terms of increased output. In a developmental variable-employment variable-resources context, there may be yet a further gain through the establishment of a viable infant industry in the exporting country. Note that even if the goods cost more to produce than their value on the world market, the act of exporting still benefits the exporter, since it is the importer who pays the excess.

An increase in imports from a partner country brings a long-run benefit to the importer if the trade was "created," albeit generally with some accompanying short-run adjustment cost. The situation is the opposite when the new imports represent trade diversion: there is no adjustment cost, but imports are permanently more expensive. The importer therefore suffers a long-run loss from trade diversion. So, on classical full-employment fixed-resources assumptions, does the world as a whole, though not necessarily, if there is a possibility of improving the terms of trade, the union as a whole.

These basic analytical facts are consistent with the experiences of the EEC. The expansion of intratrade in industrial products consisted predominantly of creation rather than diversion, thus both exporter and importer gained. Moreover, since member countries already possessed comprehensive industrial establishments, trade expansion was predominantly *intra*industry — which minimizes the pain of adjustment. Ergo, there were no net losers, and the customs union met general acclaim. The story has of course been very different with regard to agricultural trade, in substantial part because trade has in this case been predominantly diverted rather than created.

Contrast this with the situation in the Andean Group. The object of Andean integration is, as Urrutia has said, the promotion of import substitution at the regional level. Now import substitution at the national level is the exact opposite of trade creation — one might even term it "trade destruction." Correspondingly, import substitution at the regional level gives rise to trade *diversion* — the replacement of low-cost imports from third countries by high-cost imports from partner countries. This diversion may, on nonclassical assumptions, bring benefits to the union as a whole — whether or not it does so is the familiar infant industry question. The crucial point is that *all* the benefits (indeed, more than the total net benefits) accrue to the particular country where the new industry is located, while the importing countries face a net cost when the union succeeds in doing what it was intended to do. It is misguided to lament the fact that customs unions between developing countries divert trade — that is their purpose. But it is also naive to "reject" customs union theory as irrelevant on account of that fact; the theory tells us that the importing countries will lose, and that fact is of vital importance.

For it is surely a fact (and one to which Urrutia's paper is indeed eloquent testimony) that countries will cooperate in integration efforts only if they expect to benefit in consequence. Since a union intended to promote import substitution will harm its members to the extent that they import more from their partners and benefit them only to the extent that they export more, it has to ensure a balanced distribution of new industries between the member countries if each of those members is to gain from their participation. Hence the imperative of industrial programming in such unions. Urrutia has now pointed out yet one more possible obstacle to successful establishment of an import-substituting union: the possibility that some members may lack either the desire or the capacity (or both) to accept programmed industries, but rather seek the chance for their unprogrammed industries to compete. Furthermore, when integration is seeking trade diversion to support the establishment of new industries, the chances are that the new industries will prefer to concentrate geographically, since this typically yields certain economies — albeit sufficiently modest economies as not to prejudice the emergence of intraindustry specialization in a union between countries which already possess a full slate of established industries. Once again, a union aiming to promote import substitution is more likely to lose that balance of advantage between its members that is essential to its success.

Does this imply that developing countries would be well advised to abandon attempts at regional economic integration? Not necessarily. The case for such integration is one degree stronger than the case for infant-industry protection, since any given level of infant-industry protection will be that much more effective and less costly (for the union as a whole) than it would be if undertaken solely on the basis of individual national markets. While I would be the last to wish "extreme" import substitution policies on anyone, I believe that continuing modest pressure to push forward the margin of import substitution constitutes part of a rational development strategy. Hence I wish integration efforts like the Andean Group well. The burden of my preceding analysis is not that they are undesirable or irrational, but that there are very basic economic factors which make their success inherently more difficult than analogous movements between developed countries. Success will demand a higher order of statesmanship.

NOTES

1. See, for example, the survey of the approaches developed up to 1970 in [2].
2. The study does contain an indirect method of testing for the effects of differential market growth, involving a regression of the acceleration in export growth of different products on (inter alia) the weighted growth of export markets. However, this seems to me so indirect as to be of questionable value.

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