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THE POLITICS OF ECONOMIC INTEGRATION IN LATIN AMERICA: A CASE STUDY OF THE ANDEAN GROUP, 1969-1995

by

Julio J. Chan-Sánchez

A dissertation submitted to the Graduate Faculty in Political Science in partial fulfillment of the requirements for the degree of Doctor of Philosophy, The City University of New York

1996

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Abstract

THE POLITICS OF ECONOMIC INTEGRATION IN LATIN AMERICA: A CASE STUDY OF THE ANDEAN GROUP, 1969-1995

by

Julio J. Chan-Sánchez

Adviser: Professor Kenneth Paul Erickson

This dissertation examines and confirms the hypothesis, through the study of the evolution of the Andean Group (a subregional economic integration unit in South America), that economic integration is a quasi-cyclical process involving phases of progress, stagnation, and decline. It is not a smooth linear progression. This quasi-cyclical evolution is fundamentally determined by the governments of the member countries. As such, the individual governments are the most important actors in setting the evolution of the economic integration process.

The integration process will progress when all the governments of the member countries find the Andean Group useful for attaining some of their objectives. The integration process will stagnate if a minority of the governments consider that integration does not further some of their aims. The process will regress if most of the

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member countries find that it does not help them to accomplish some of their national interests.

Research guided by this perspective will result in better understanding of the process of economic integration, which so far has defied successful explanation. Such understanding is especially important to help predict future developments of economic integration efforts. A better knowledge of these processes will allow us to entertain more realistic expectations about the possibilities and the limits of the integration processes. This study will also be of timely and practical use, considering the revival of integration processes all over the world. This research project is the first to cover the entire history of the Andean Group (1969-1995) and at the same time to present a comparative political economy analysis of the Andean countries.

The study focuses on the interactions among the Andean countries to understand the evolution of the integration process. It also examines the evolution through changes in the strategy of development, economic policies, and external factors influencing the governments of the member countries. Although it is important to analyze the domestic factors which affect national objectives, this type of analysis is left to other investigations.

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A la memoria de mi Papá

A mi Mamá

A mi Apo

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As nearly all Ph.D. candidates will attest, writing a dissertation is one of life's most solitary endeavors requiring a lot of self-discipline. At the same time, this lonely task cannot be successfully completed without the help of many others. Mentors, friends and colleagues in more than one way have given me their help, support, understanding, and good wishes that have made the task somehow less daunting, and have provided encouragement, guidance, and support.

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TABLE OF CONTENTS

LIST OF TABLES xviii

ACRONYMS, ABBREVIATIONS AND SELECTED DECISIONS OF THE COMMISSION xxi

MAP: THE ANDEAN GROUP xxv

CHAPTER I
ECONOMIC INTEGRATION: A ... GREAT LEAP FORWARD OR A ... LONG MARCH?

1.- THE PROBLEM OF EXPLAINING THE EVOLUTION OF INTEGRATION PROCESSES 1
1.1.- Theories of regional integration 4
1.2.- The practice of regional economic integration 11
1.3.- An alternative explanation for the evolution of economic integration processes 14
1.4.- The alternative explanation and the Andean Group 22
1.5.- Overview of the political economy of the Andean countries as a context of the evolution of the Andean process: 1969-1995 25

2.- METHODOLOGY 31
2.1.- Indicators 32
2.2.- Three levels of analysis 33

CHAPTER II
FROM SANTIAGO TO CARTAGENA (1945-1966): EN ROUTE TO REGIONAL INTEGRATION

1.- INTEGRATION ATTEMPTS FROM INDEPENDENCE UNTIL THE END OF WORLD WAR II 37

2.- ECONOMIC INTEGRATION BETWEEN 1945 AND 1960 40
2.1.- The role of ECLA 41
2.2.- International factors favoring economic integration 42
2.3.- Domestic factors favoring economic integration 47
2.4.- Progress of economic integration between 1945 and 1960 48

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3.- ECONOMIC INTEGRATION IN THE 1960s 49
3.1.- The Central American Common Market (CACM) 49
3.2.- The Caribbean integration: CARIFTA and CARICOM 50
3.3.- The Latin American Free Trade Association (LAFTA) 51
a) The Treaty of Montevideo 51
b) LAFTA's major problems and obstacles 53

CHAPTER III
FROM BOGOTA TO CARTAGENA (1966-1969): EN ROUTE TO SUBREGIONAL INTEGRATION

1.- THE DECLARATION OF BOGOTA AND THE DECLARATION OF THE PRESIDENTS OF AMERICA 58
1.1.- The "Report of the Four" 58
1.2.- The Bogota meeting 60
1.3.- The summit of Punta del Este 61
1.4.- "Bases for a Subregional Agreement" 62

2.- THE CARTAGENA AGREEMENT: ORGANS 63
2.1.- The Commission 63
2.2.- The *Junta* 65
2.3.- Other bodies 66

3.- THE CARTAGENA AGREEMENT: AIMS AND MECHANISMS 67
3.1.- Policy harmonization 68
3.2.- Industrial programming 68
3.3.- Tariff reduction program 69
3.4.- External tariff 69
3.5.- Special treatment for Bolivia and Ecuador 69
3.6.- Other mechanisms 70

4.- THE ANDEAN INTEGRATION PROCESS AS A POLITICAL ENDEAVOR 71
4.1.-Negotiating the Cartagena Agreement 72
a) Commercialists vs Developmentalists 72
b) National interests and the negotiation of the Cartagena Agreement 75
c) The Andean Pact: A political endeavor? 78
4.2.- The Cartagena Agreement: an economic or a political instrument? 79
4.3.- The Agreement as a reflection of governments' interests 81
4.4.- Organs: An assessment 82

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5.- ANDEAN PRINCIPLES AND MECHANISMS 83
5.1.- Main principles of the Cartagena Agreement 84
5.2.- Main mechanisms of the Cartagena Agreement 86

CHAPTER IV
FROM CARTAGENA TO CARACAS (1969-1973): OPTIMISM AND PROGRESS

1.- THE ANDEAN GROUP: 1969-1973 89
1.1.- Overview of its major achievements 90
1.2.- The admission of Venezuela 91
1.3.- Ideological pluralism 92

2.- PROGRESS IN THE ANDEAN PROCESS 94
2.1.- The tariff reduction program 94
2.2.- Common minimum external tariff 98
2.3.- Industrial programming 98
2.4.- Planning coordination and Andean development Strategy 101
2.5.- Policy harmonization 103
2.6.- Common treatment for foreign capital 105
2.7.- Intrasubregional trade 108

3.- VIOLATIONS OF THE CARTAGENA AGREEMENT AND DERIVED OBLIGATIONS 110
3.1.- Violations 110
3.2.- The *Junta* and the violations 114

4.- UNDERSTANDING THE PHASE OF OPTIMISM AND PROGRESS 116
4.1.- General Factors 116
4.2.- The role of the Commission and of the *Junta* 120
4.3.- Relations among the governments of the member countries, the Commission and the *Junta* 124
4.4.- Strategies of development and the Andean integration aims 125
a) Chile and Colombia 126
b) Peru and Venezuela 127
c) Bolivia and Ecuador 129
4.5.- National economic policies and the Andean mechanisms 132
a) Chile and Colombia 133
a.1) The tariff reduction program 133
a.2) Common tariff 136
a.3) Industrial programming 137
a.4) Decision 24 138

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b) Peru and Venezuela 139
b.1) The tariff reduction program 139
b.2) Common tariff 140
b.3) Industrial programming 142
b.4) Decision 24 142
c) Bolivia and Ecuador 143
c.1) The tariff reduction program 143
c.2) Common tariff 145
c.3) Industrial programming 147
c.4) Decision 24 147
d) Conclusion 149

CHAPTER V
FROM CARACAS TO AREQUIPA (1974-1978): DOUBTS AND STAGNATION

1.- MAJOR CHANGES IN THE ANDEAN PROCESS 150
1.1.- Overview 150
1.2.- Changes due to Venezuela's entry 151
1.3.- The withdrawal of Chile 153
1.4.- The Protocols of Lima and Arequipa 154

2.- THE ANDEAN INTEGRATION PROCESS BETWEEN 1974 AND 1978 155
2.1.- The common tariff 156
2.2.- The tariff reduction program 157
2.3.- Intrasubregional trade 160
2.4.- Industrial programming 163
2.5.- Common treatment of foreign investment 166

3.- VIOLATIONS AND DELAYS 169
3.1.- Non-compliance with the articles of the Cartagena Agreement 169
3.2.- Non-incorporation in the national legislation of the approved decisions 170
3.3.- Failure to comply with decisions incorporated in the national legislation 172

4.- UNDERSTANDING THE PHASE OF STAGNATION 175
4.1.- General factors 175
4.2.- The international environment at the end of 1960s and early 1970s 182
4.3.- The Commission, the *Junta,* and the governments, and the relationship among them 188
4.4.- Disagreements among the governments of the member countries 191
4.5.- Strategies of development and the Andean objectives 197
a) Chile and Colombia 198

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b) Peru and Venezuela 200
c) Bolivia and Ecuador 201
4.6.- Domestic policies and the mechanisms of the Andean Group 203
a) Chile and Colombia 204
b) Peru and Venezuela 207
b.1) The tariff reduction program 207
b.2) Common external tariff 209
b.3) Industrial programming 211
b.4) Decision 24 211
c) Bolivia and Ecuador 213
c.1) The tariff reduction program 213
c.2) Common external tariff 216
c.3) Industrial programming 216
c.4) Decision 24 217
d) Conclusion 218

CHAPTER VI
FROM AREQUIPA TO QUITO (1979-1986): PESSIMISM AND REGRESSION

1.- MAJOR CHANGES IN THE ANDEAN GROUP IN THE 1980s 220
1.1.- The debt crisis 221
1.2.- Winds of Democratization 223
1.3.- Regression of the Andean process 225
1.4.- The Quito Protocol 227

2.- THE MECHANISMS OF THE CARTAGENA AGREEMENT AND THE PHASE OF REGRESSION 228
2.1.- The tariff reduction program 228
2.2.- Common tariff 229
2.3.- Industrial programming 232
2.4.- Common treatment of foreign investment 235
2.5.- Other aspects 236
a) Expansion of the Andean integration process 237
b) Common Policies 238
c) Summit meetings 240
2.6.- Trade among the member countries 242

3.- THE VIOLATIONS AND THE ANDEAN INTEGRATION PROCESS IN THE PHASE OF PESSIMISM AND REGRESSION 245
3.1.- Violations of the articles of the Cartagena Agreement 246
3.2.- Non-incorporation of the Commission's decisions by the governments 247

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3.3.- Non-compliance with decisions incorporated into the domestic legal order of the member countries 249

4.- UNDERSTANDING THE PHASE OF REGRESSION 256
4.1.- The effects of the changes in the international economic system on the Andean countries and on the Andean process 258
4.2.- The community organs, the governments, the relations among them and the long march to revitalize the Andean integration process 259
4.3.- The decisions of the Commission between 1978 and 1987 267
4.4.- Changes in the strategies of development, and the regression of the Andean process 270
a) Colombia 270
b) Peru and Venezuela 271
c) Bolivia and Ecuador 273
4.5.- Economic policies of the member countries and the Andean mechanisms during the phase of regression 276
a) Colombia 277
a.1).- The tariff reduction program 277
a.2).- Industrial programming 279
a.3).- Decision 24 279
b) Peru and Venezuela 280
b.1).- The tariff reduction program 280
b.2).- Industrial programming 282
b.3).- Decision 24 284
c) Bolivia and Ecuador 285
c.1).- The tariff reduction program 285
c.2).- Industrial programming 288
c.3).- Decision 24 288
d) Conclusion 289

CHAPTER VII
FROM QUITO TO .... (1987-1995): RE-ROUTING SUBREGIONAL INTEGRATION

1.- THE RECENT EVOLUTION OF THE ANDEAN SUBREGIONAL INTEGRATION PROCESS: 1987-1995 292
1.1.- The two phases during the re-routing of the Andean process 293
1.2.- The new Andean model of economic integration 294
1.3.- Factors influencing the Andean economic integration process from 1987 to 1995 297

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2.- MAIN ASPECTS OF THE ANDEAN INTEGRATION PROCESS BETWEEN 1987 AND 1995 302
2.1.- The presidential summit meetings 302
a) The "Strategic Design" approved in Galapagos, December 1989 303
b) The "Act of La Paz," La Paz, November 1990 305
c) The "Act of Barahona," Cartagena, December 1991 306
2.2.- The tariff reduction program 306
2.3.- The external tariff 309
a) The common external minimum tariff (CMET) 309
b) The common external tariff (CET) 310
2.4.- Industrial programming 315
2.5.- Common treatment of foreign capital 317
2.6.- Policy harmonization 318
2.7.- Trade within the Andean Group 320

3.- VIOLATIONS OF THE ANDEAN OBLIGATIONS 322
3.1.- Violations of the Cartagena Agreement 322
3.2.- Failure to incorporate the Commission's decisions into the domestic legal systems of the member countries 323
3.3.- Violations of decisions already incorporated into the legal systems of the member countries 325

4.- UNDERSTANDING THE PHASES OF STAGNATION AND PROGRESS 329
4.1.- The first attempts to change economic policies in the Andean countries (1987-1989) 330
4.2.- The revival of the Andean Pact: The convergence of economic policies (1990-1992) 331
4.3.- The slow-down of the Andean process (1993-1995) 332
4.4.- The Commission's output during the phase of stagnation (1987-1989) and the phase of progress (1990-1994) 340
4.5.- The long-term economic aims of the member countries and the Andean Group 343
a) Colombia 343
b) Peru and Venezuela 345
c) Bolivia and Ecuador 348
4.6.- The economic policies of the Andean countries 351
a) The case of policy harmonization 352
b) Colombia 355
b.1) The tariff reduction program 355
b.2) Common external tariff 357
c) Peru and Venezuela 358
c.1) The tariff reduction program 358
c.2) Common external tariff 360
d) Bolivia and Ecuador 364

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d.1) The tariff reduction program 364
d.2) Common external tariff 366
e) Conclusion 368

CHAPTER VIII
CONCLUSION:
THE LONG MARCH OF THE ANDEAN INTEGRATION PROCESS

1.- INTRODUCTION 373

2.- PROGRESS, STAGNATION AND REGRESSION IN THE ANDEAN PROCESS: A COMPARISON OF THE INDICATORS 375
2.1.- Implementation of the mechanisms 376
a) Optimism and progress (1969-1973), progress (1990-1995) 376
b) Doubts and stagnation (1974-1978) and stagnation (1987-1989) 378
c) Pessimism and regression (1979-1987) 380
d) The Output of the Commission as a reflection of the phases of the Andean integration process. 381
2.2.- Trade among the Andean countries 385
2.3.- Violations of the Cartagena Agreement and of the decisions of the Commission 385
2.4.- Conclusion 390

3.- EXPLAINING PROGRESS, STAGNATION AND REGRESSION 390
3.1.- The long-term aims of the governments and the principles of the Cartagena Agreement 391
3.2.- The economic policies and the mechanisms of the Agreement 392

4.- THE EVOLUTION OF THE ANDEAN INTEGRATION PROCESS IS A LONG MARCH AND NOT A GREAT LEAP FORWARD 394

BIBLIOGRAPHY 404

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LIST OF TABLES

I.1	Andean Countries' Ideologies of Economic Development	31
I.2	Indicators of Integration	34
I.3	Levels of Analysis	35
II.1	LAFTA: Trade Indicators 1960-1980 (in millions of us dollars fob and percentages)	55
III.1	Andean Group and Andean Countries Statistical Profile	73-74
IV.1	Andean Tariff Reduction Program	95
IV.2	Average National Tariffs (May 1969) by Type of Product and Common Minimum External Tariff (CMET)	99
IV.3	Andean Group Trade: 1969-1973	109
IV.4	Decisions not Incorporated into the domestic legislation by the Member Countries 1969-1973	111
IV.5	Delays in Implementing Trade Mechanisms by December 1973 (in months)	113
IV.6	Decisions Approved During 1969-1973	119
IV.7	Gross Domestic Product, 1969-1973; rates of growth	121
IV.8	Relationship Between Andean Aims and National Objectives: 1969-1973	131
IV.9	Chile: Andean Trade 1969-1973	134
IV.10	Colombia: Andean Trade 1969-1973	135
IV.11	Peru: Andean Trade 1969-1973	140
IV.12	Venezuela: Andean Trade 1969-1973	141
IV.13	Bolivia: Andean Trade 1969-1973	145
IV.14	Ecuador: Andean Trade 1969-1973	146
IV.15	Support for Andean Mechanisms	149
V.1	Venezuela's Entry Into the Andean Pact: Some Indicators	152
V.2	Andean Tariffs and Countries' Position Towards on the Common External Tariff (Proposal 70) in December 1975	158
V.3	Margin of Preference for Intrasubregional Trade 1970, 1975 and 1980	160
V.4	Andean Group Trade: 1974-1978	161
V.5	Net Private Foreign Direct Investment (millions of US dollars)	168
V.6	Decisions not Incorporated into the domestic legislation by the Member Countries, 1974-1978	171

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V.7	Delays in Implementing Trade Mechanisms by December 1978 (in months)	173
V.8	Dutiable Items of the Common Minimum External Tariff, Common External Tariff and Andean Trade Liberalization Program Violated by Member Countries, 1974-1978	174
V.9	Decisions Approved During 1974-1978	183
V.10	Relationship Between Andean Aims and National Objectives: 1974-1978	203
V.11	Colombia: Andean Trade 1974-1978	206
V.12	Peru: Andean Trade 1974-1978	208
V.13	Venezuela: Andean Trade 1974-1978	210
V.14	Bolivia: Andean Trade 1974-1978	214
V.15	Ecuador: Andean Trade 1974-1978	215
V.16	Support for Andean Mechanisms: 1974-1978	219
VI.1	Governments' Position in Relation to the CET Proposal	231
VI.2	Andean Group Trade 1978-1987	243
VI.3	Decisions not Incorporated into the domestic legislation by the Member Countries, 1978-1987	248
VI.4	Claims Made To:	250-251
VI.5	Dutiable Items Violated: 1978-1987	253
VI.6	Trade Situation in the Andean Group in 1985 (excluding oil and derivatives)	255
VI.7	Gross Domestic Product, 1978-1987 (rates of growth)	263
VI.8	Decisions Approved During 1979-1987	268
VI.9	Relationship Between Andean Aims and National Objectives in 1987	275
VI.10	Colombia: Andean Trade 1978-1987	278
VI.11	Peru: Andean Trade 1978-1987	281
VI.12	Venezuela: Andean Trade 1978-1987	283
VI.13	Bolivia: Andean Trade 1978-1987	286
VI.14	Ecuador: Andean Trade 1979-1987	287
VI.15	Support for Andean Mechanisms in 1987	290
VII.1	Latin America's Share of World Totals (%)	298
VII.2	Andean Economic Integration Approaches: 1960s and 1990s	301
VII.3	Shortening of Deadlines for the Creation of the Free Trade Zone	308
VII.4	Shortening of Deadlines for the Creation of the Customs Union	311
VII.5	Tariff Average in the Andean Group: 1986-1992	315
VII.6	Andean Group: Distribution of Dutiable Items (May 1992)	316
VII.7	Andean Group Trade: 1987-1994	321
VII.8	Decisions not Incorporated into the domestic legislation by the Member Countries, 1987-1992	324
VII.9	Dutiable Items Violated: 1987-1992	326

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VII.10 Claims Made To: 328
VII.11 Gross Domestic Product, 1987-1994: Rates of Growth 337
VII.12 Decisions Approved During 1988-1994 341
VII.13 Relationship Between Andean Aims and National Objectives 1987-1995 352
VII.14 Colombia: Andean Trade 1987-1994 356
VII.15 Peru: Andean Trade 1987-1994 359
VII.16 Venezuela: Andean Trade 1987-1994 361
VII.17 Bolivia: Andean Trade 1987-1994 365
VII.18 Ecuador: Andean Trade 1987-1994 366
VII.19 Relationship Between Andean Mechanisms and National Policies 1987-1995 369

VIII.1 Decisions Approved During 1969-1994 383
VIII.2 Andean Trade Growth: 1969-1994 386
VIII.3 Violations to the Andean agreement and Its Decisions 388
VIII.4 Support for Andean Aims: 1969-1995 393
VIII.5 Support for Andean Mechanisms: 1969-1995 395

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ACRONYMS, ABBREVIATIONS AND SELECTED DECISIONS OF THE COMMISSION

ALALC	Asociación Latinoamericana de Libre Comercio (see LAFTA)
ALADI	Asociación Latinoamericana de Integración (see LAIA)
ANCOM	Andean Common Market (Bolivia, Colombia, Ecuador, Peru, and Venezuela)
APEC	Asian-Pacific Economic Cooperation Forum
ASEAN	Association of South-East Asian Nations (Malaysia, Singapore, Thailand. Indonesia, the Philippines, and Brunei)
BID	Banco Interamericano de Desarrollo (see IDB)
CACM	Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua)
CAF	Corporación Andina de Fomento (Andean Development Corporation)
CARICOM	Caribbean Community/Caribbean Common Market (Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago. Associated members: British Virgin Islands and Turks and Caicos)
CARIFTA	Caribbean Free Trade Association
CEPAL	Comisión Económica para América Latina y el Caribe (see ECLAC)
CET	Common External Tariff
CMET	Common Minimum External Tariff
DECISION 4	Percentage contributions of the Member Countries to the Junta's Budget
DECISION 6	Bylaws of the Commission
DECISION 9	Bylaws of the *Junta*
DECISION 16	Agricultural Products Exempted From the Tariff Reduction Program
DECISION 22	Mechanisms and Procedures for Harmonization of Policies, and Coordination of Development Plans of the Member Countries
DECISION 24	Common Regime of Treatment of Foreign Capital and Trademarks, Patents, Licenses, and Royalties
DECISION 25	Products Reserved for Industrial Programming
DECISION 27	Products Subject to Automatic Tariff Reduction Program
DECISION 30	Common Minimum External Tariff
DECISION 36	Creation of the Tourist Council
DECISION 40	Agreement to Avoid Double Taxation Among Member Countries

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DECISION 46	Uniform Regime on Multinational Enterprises and Regulations Concerning the Treatment of Subregional Capital
DECISION 49	Directives for the Harmonization of the Legislation on Industrial Development
DECISION 51	Adoption of the Common Tariff Classification Scheme (NABANDINA)
DECISION 57	Sectoral Program of Industrial Development of the Metalworking Sector
DECISION 68	Creation of the Health Council
DECISION 70	Conditions for the Adherence of Venezuela to the Cartagena Agreement
DECISION 71	Creation of the Physical Integration Council
DECISION 76	Creation of the Agriculture Council
DECISION 85	Industrial Property
DECISION 91	Sectoral Program of the Petrochemical Industry
DECISION 97	Authorization to the Chilean Government to Sell its Public Enterprises to Foreigners
DECISION 99	Procedure to Approve the Remaining Industrial Development Proposals
DECISION 102	Cessation for Chile of Rights and Obligations Derived from the Cartagena Agreement
DECISION 104	Modification of the Common Minimum External Tariff
DECISION 100	Proposal to the Governments to Adopt the Protocol of Lima
DECISION 103	Modification of the Common Treatment of Foreign Investment
DECISION 109	Considering as Neutral Capital the Investment Done by International Organizations and Foreign Governments' Entities Devoted to Economic Development
DECISION 120	Andean Automotive Industrial Development Program
DECISION 124	Considering as Neutral Capital the Investment Done by International Organizations and Foreign Governments' Entities Devoted to Economic Development
DECISION 128	Proposal to the Governments to Adopt the Protocol of Arequipa
DECISION 129	Modification of the Metalworking Program
DECISION 130	Modification of the Petrochemical Program
DECISION 146	Modification of the Metalworking Program and Incorporation of Venezuela to it
DECISION 160	Siderurgical Industry Development Program
DECISION 162	Fertilizers Industry Development Program
DECISION 169	Andean Multinational Enterprise
DECISION 175	Creation of the Entrepreneurial Consultative Council
DECISION 176	Creation of the Labor Consultative Council
DECISION 178	Creation of the Industrial Policy Council
DECISION 179	Creation of the Science and Technology Council
DECISION 217	Proposal to the Governments to Adopt the Quito Protocol

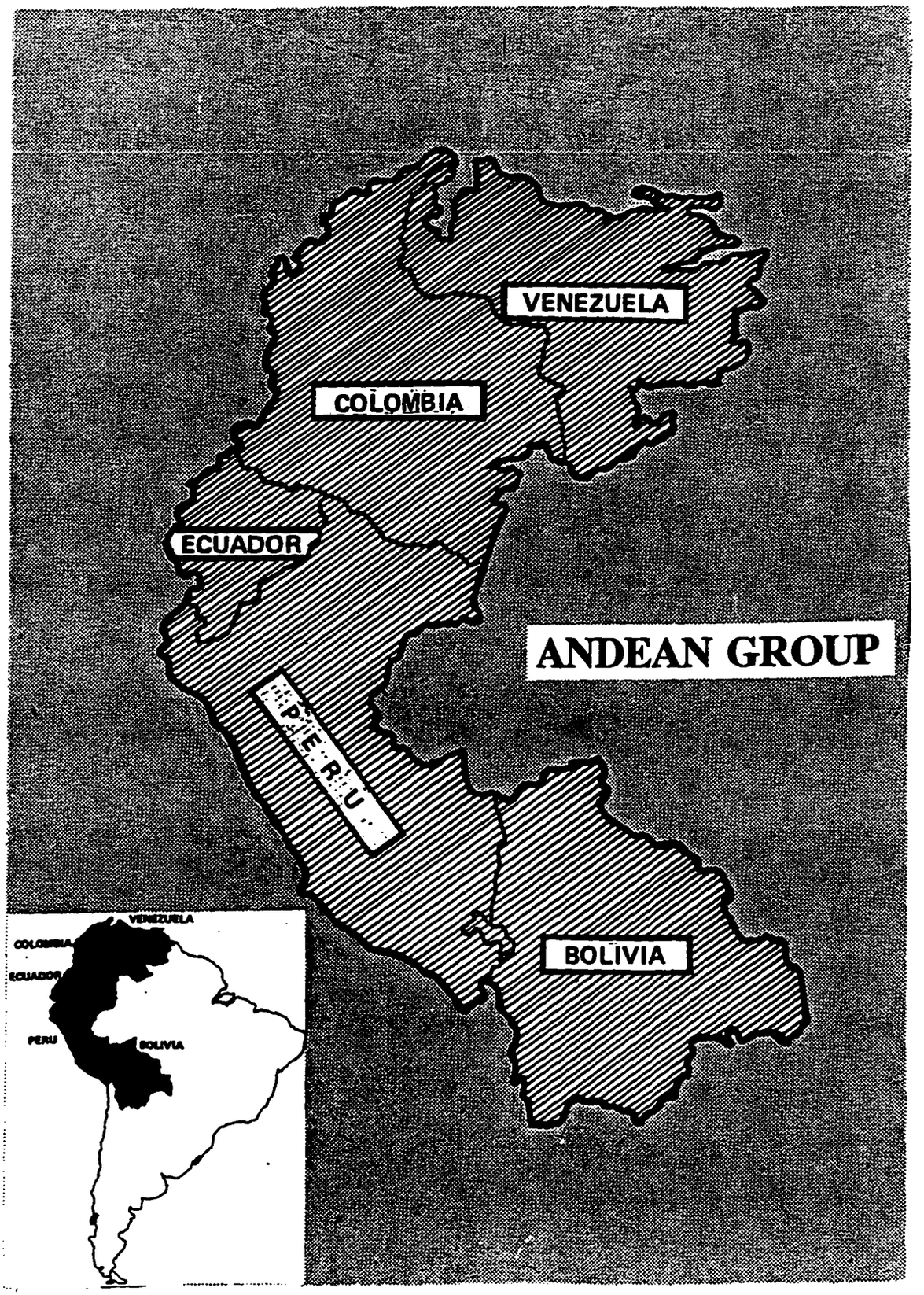
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DECISION 220	Modification of the Common Treatment of Foreign Investment
DECISION 223	Abrogation of the Automotive Program
DECISION 225	Transition Program to Restore the Observance of the Cartagena Agreement
DECISION 229	Scheme to Eliminate Trade Restrictions
DECISION 243	Rules by Which Ecuador will Begin Its Tariff Reduction Process
DECISION 244	Modification of Decision 169 on Andean multinational enterprises
DECISION 257	Modification of the norms about international road transportation.
DECISION 258	Implementation of the Strategic Design
DECISION 260	Modification of the Common Minimum External Tariff
DECISION 263	Reduction of the List of Products Reserved for Industrial Programming
DECISION 273	Modification of the Common Minimum External Tariff
DECISION 281	Deepening of the Strategic Design
DECISION 291	Modification of the Common Treatment of Foreign Investment
DECISION 293	Special Norms of Origin of the Merchandises
DECISION 303	Abrogation of the Fertilizers Program
DECISION 309	Modification of the Common Minimum External Tariff
DECISION 321	Peru's Temporal Withdrawal
DECISION 324	Creation of the Andean Free Trade Zone by February 1993, and Adoption of the Common External Tariff
DECISION 335	Common External Tariff
DECISION 350	Modification of the Common External Tariff
DECISION 353	Peru's Scheme to rejoin the Tariff Reduction Process.
DECISION 357	Modification of the Common External Tariff
DECISION 365	Modification of the Common External Tariff
DECISION 370	Common External Tariff
DECISION 377	Peru's Participation in the Free Trade Zone
DECISION 387	Abrogation of Decision 377
ECLAC	Economic Commission for Latin America and the Caribbean
ECSC	European Coal and Steel Community
EEC	European Economic Community
EC	European Community (Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, United Kingdom)
EU	European Union (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom)
FAR	Fondo Andino de Reservas (Andean Reserve Fund)
FLAR	Fondo Latinoamericano de Reservas (Latin American Reserve Fund)
GATT	General Agreement on Tariffs and Trade

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GDP	Gross Domestic Product
GRAN	Grupo Andino (Andean Group)
IDB	Inter-American Development Bank
IMF	International Monetary Fund
INTAL	Instituto para la Integración de América Latina (Institute for of Latin American Integration)
ITO	International Trade Organization
JUNAC	Junta del Acuerdo de Cartagena
LAFTA	Latin American Free Trade Association (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela)
LAIA	Latin American Integration Association (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela)
MERCOSUR	Mercado Común del Sur (Common Market of the South) (Argentina, Brazil, Paraguay, and Uruguay)
NAFTA	North American Free Trade Agreement (Canada, Mexico, United States)
RLDC	Relatively Less Developed Countries (Bolivia and Ecuador)
SELA	Sistema Económico Latinoamericano (Latin American Economic System)
SPID	Sectoral Program of Industrial Development
WTO	World Trade Organization

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CHAPTER I

ECONOMIC INTEGRATION:

A ... GREAT LEAP FORWARD OR A ... LONG MARCH?

1.- THE PROBLEM OF EXPLAINING THE EVOLUTION OF INTEGRATION PROCESSES

In the late 1980s we witnessed profound changes in the international system. Chief among them was the end of the Cold War, the new impetus given to regional and subregional[1] economic integration processes throughout the world, and the formation of continental trading blocs.

After World War II, European economic integration was seen as a means to create a more peaceful international system. This process was originally assumed to contain the seeds leading eventually to supranationalism. Rival member states would

[1]Subregional economic integration processes denote schemes that encompass part of the generally accepted geographically and/or politically and/or culturally defined regions characterized, among others, by a sense of historical relations, political, and economic interactions, social similarity, cultural affinity, and land continuity. For a discussion of the concept of region see Bossier, 1993; Cantori and Spiegel, 1970; Kaiser, 1968; Neumann, 1994; Padelford, 1954; Russett, 1967; Thompson, 1973; Väyrynen, 1984. Wendt 1994.

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eventually be replaced by larger units after a short period of mutually beneficial and increasing cooperation. Time showed that this was not the case. We need to know more about what to expect from these processes in the evolving post-Cold War international economic environment. One way to do it is to study the evolution of economic integration processes. Understanding this will help us, on the one hand, to better assess the potential contribution of economic integration in reducing conflict, increasing cooperation, improving security, and, possibly, bringing about a more peaceful international system. On the other hand, the study of the evolution of the integration processes will help us to know better what forces and circumstances shape, define, and change the direction taken by the processes themselves.

This dissertation attempts to show, by using the Andean Group as a case study, that economic integration is a non-sequential process involving phases of progress, stagnation, and regression. Such quasi-cyclical evolution is fundamentally determined by the governments of the member countries. As such, the individual governments are the most important actors in setting the evolution of the economic integration process, a factor which theories of economic integration do not sufficiently consider (see section 1.1). The phases of progress, stagnation, and regression. can largely be explained by the extent to which member governments' objectives can be achieved through the instrumental use of the integration process. Integration processes function more like international organizations than supranational units.

In brief, this dissertation attempts not only to reassess the role of the governments but to demonstrate their paramountcy in guiding integration processes, and as such to

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provide a more adequate means to understand these processes.

For the purpose of this dissertation, economic integration is defined[2] as a political-economic process pursued by the governments of the member countries whereby they aim to achieve common economic objectives through closer economic relations. The most commonly used mechanisms are the reduction and/or elimination of discriminatory economic barriers among the member countries; the modification and harmonization of economic instruments and institutions, or the creation of new ones; and the intensification of their economic interdependence.[3]

The Andean Group (*Grupo Andino*[4] - *GRAN*) is a subregional economic integration process[5] whose aim is to contribute to fostering economic development of its members by means of trade expansion and economic policy harmonization. It was created in May 1969, with the signing of the Cartagena Agreement by the governments of Bolivia, Chile, Colombia, Ecuador, and Peru. Venezuela joined in 1973, and Chile withdrew in 1976. This subregional integration process was conceived as the boldest,

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[2]This definition is based on Balassa, (1961: 1); Cohen, (1984: 58); Kaplan, (1957: 98) Keohane and Nye, (1975: 366); and; Robson, (1987: 1). For discussions on the definition of integration see Cohen, (1984: 50-57); Nye, (1968: 856-860) and; Pentland, (1973: 19-22).

[3]Integration and cooperation are used sometimes interchangeably. Balassa (1966: 24), however, differentiates between the two. He considers that integration tends to eliminate economic discrimination (e.g., tariff removals) while cooperation tends to diminish discrimination (e.g., tariffs reductions) or to harmonize policies.

[4]It is also know as *Pacto Andino*—Andean Pact—and in English it has also been known as the Andean Common Market—ANCOM.

[5]The Andean Group considers itself a "subregional" integration process because it consists of part of South America. See footnote 1 for a definition of subregion.

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most innovative, and most ambitious. [6]

1.1.- Theories of regional integration

Most of the earlier theories of integration by both economists and political scientists have explicitly or implicitly assumed that once economic integration agreements were signed, they would progress uninterruptedly towards the final stage of total economic or political union. This was based on the assumption that benefits would be greater than costs, thereby creating the necessary incentives for a supranationalization process (Balassa, 1961; 1966; ECLA, 1965; 1970; Haas, 1958; Mitrany, 1966; Nye, 1968; 1971).[7]

In political science there are four discernible schools of thought which have dealt with international integration (Pentland, 1973: Part One; Taylor, 1984: chapter 3). These are the pluralist (transactionalist), federalist, functionalist, and neo-functionalist schools. The common thread of these schools is that they saw economic integration as a means to end war. Since rivalry among nation-states was seen as the main cause of World War II, lasting peace can be achieved by replacing nation-states with larger units encompassing former enemies. This was the case of the European Coal and Steel

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[6]Other existing integration processes in Latin America are: the Latin American Integration Association, LAIA, created by the Treaty of Montevideo of 1980, which replaced the Latin American Free Trade Association, LAFTA, established in 1968; the Central American Common Market created by the General Treaty of Economic Integration signed in 1960, in Managua, Nicaragua; the Caribbean Free Trade Association (CARIFTA) created by a treaty signed in Antigua in 1965, it was replaced by the Caribbean Community (CARICOM) created, in 1972, by the signing of the Treaty of Georgetown; the MERCOSUR (Southern Cone Common Market - *Mercado Común del Cono Sur*) created in 1985; and the Association of Caribbean States established in 1994. There is also a plethora of bilateral and trilateral free trade agreements.

[7]As it will be shown in this section, theories were later modified, to adapt them to the realities.

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Community, which included France and Germany as its main members. Scholars espousing this position have teleological and normative reasons to do so. They were committed to the construction of a more peaceful international system. The four schools, however, emphasized different aspects of it.[8]

The pluralist-transactionalist view focuses its attention on factors that lead to the establishment of a process of integration (Deutsch, 1953; Deutsch et al., 1957). It is assumed that there is a basic interest in developing a community of nation-states, and that there is some kind of communication (transaction) among interacting nations. As communication increases, there is a need to formalize interactions through the creation of common institutions with limited, specific, and delegated authority. Over time, this authority increases and will eventually lead to political integration, that is, the creation of a security community, where its members rule out aggression as a means to solve disputes.

The focus of interest of the federalist approach lies in the achievement of the end product: political union through the creation of a federal state. It assumes the existence of some commonalities, e.g., language, culture, geographic continuity. These features are the basis for the adoption of a common constitution and institutions. Consent and support of the citizens to the common institutions increase the legitimacy of the latter, which gradually evolve into a supranational state (Etzioni, 1965; Friedrich, 1968; Liska,

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[8]The contending school is that of the realist who sees the existing nation-states as the most important units of the system and assumes that they are here to stay. For realists, this is the reality to accept and deal with. Peace among sovereign states can be achieved through balance of power and international law. As with the theories of integration, the realist theory has also been modified. Recently some realists (or neorealists) based on the experiences of Western Europe are accepting the possibility that Europe would became a new unit, in the sense advocated by the theories of integration (e.g. Waltz, 1993).

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1967).

Functionalism centers its attention on the dynamics and maintenance of the process of economic integration. It argues that in present-day society there are many technical and non-controversial (functional) needs that cannot be fulfilled by single nations. These needs and functions are better met through collective efforts, via the transfer of specific and limited powers from the individual governments to a supranational executive authority. Success in the accomplishment of the task in one area will lead to "ramification" (integration) in other areas. This in turn will automatically result in the creation of a loose political community (Mitrany, 1966), political integration, then, will be the result of economic integration.

Neo-functionalists also focus on integration as a process. They consider, however, that there should be cooperation not only in technical (functional and non-controversial) issues but also in politically (e.g., controversial) important areas though with technically oriented problem-solution approaches. As in the case of the Functionalist school, this school agrees that common institutions must be created to achieve shared objectives. According to Neo-functionalism, there is a "spillover" effect[9] by which successful cooperation in one area will deepen cooperation in that particular area, and expand it to other areas (Haas, 1964; Haas and Schmitter, 1964). The key political actors fostering integration are the domestic organized groups (e.g., entrepreneurs and political parties) that perceive this process as a tool to advance their interests. These groups will pressure their governments to relinquish more functions and power to common institutions. This

[9]This is quite similar to the Functionalist concept of "ramification."

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process will result in the creation of a supranational authority.

Over time Neo-functionalists acknowledged that the creation of a supranational authority is not automatic, gradual, continuous, or incremental. The process of economic integration is guided by the concept of "fragmented issue linkage" (Haas, 1975: 25, 26; 1976: 180-189). This means the integration process is fragmented going from one crisis to another, dependent on the interests of the actors, and on the possibility to link the solution of one problem to another.

Among the other innovations, those proposed by Schmitter (1970, 1971) are relevant for this study. He introduced concepts that allow analysts to take into account different forms of progress, stagnation, and regression in the integration process. One form of progress is "buildup," in which the integration process would only continue to deepen in one area. A second form is "spill-around," in which the process would only expand to some other areas. One form of stagnation is "retrenchment," defined as deepening in some areas and withdrawal from others. Another is "muddle-about," in which there is a spread into new areas while at the same time the commitment is reduced in others. The third form of stagnation is "encapsulation," in which the integration process goes into marginal and insignificant changes. Finally, regression for Schmitter is a "spill-back" situation in which the integration process reduces the areas it covers, and also decreases the depth of the commitments in the areas it still affects.

The main criticism of all these theories is that they consider economic integration teleologically, as a process which will eventually reach its final objective, namely

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political integration.[10] Perhaps influenced by Modernization theories, international integration theories also saw economic integration as a unilinear process. Specific interests of the integrating partners and international factors which could jeopardize or foster commitments to the integration process are almost completely ignored, as is the role of their governments.

Economic integration is a process that, according to economists, can consist of different forms, which may or may not be consecutive. These forms are: preferential trade areas where the members grant each other some trade advantages on some or all commodities; free trade zones in which member countries eliminate all barriers to trade among themselves; customs unions where, besides free trade, member countries establish a common external tariff; common markets, covering the above, as well as the establishment of the free movement of capital and labor; economic unions, in which the harmonization of economic policies is pursued; and total economic unions, where member countries establish identical economic policies.

These various forms of integration are known as types of market integration. They have been classified into "pure market integration," in which trade is the most important mechanism (preferential trade areas, free trade zones, customs unions); and in "economic policy integration," where policy harmonization constitutes the most important aim (Common Markets, economic unions, and total economic unions).[11] Another form of

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[10]There are of course other criticisms, much more specific to each one of them. See for instance, Pentland, 1973; and Michelmann and Soldatos (eds.), 1994.

[11]The concept of pure market integration is similar to Tinbergen's concept of negative integration in which barriers to trade are dismantled; while economic policy integration is similar to positive integration in which new institutions and their instruments are established (1965: 77-79).

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integration not considered by neoclassical economists is production integration.[12] In this process industrial production is planned and coordinated. Therefore, the most important mechanisms are industrial planning and the specialization of production.

The economics literature has focussed mainly on customs unions and considers integration as a field of international trade theory. As such it deals only with market integration. Within market integration, this literature concentrates on some effects generated by "pure market integration," while the effects created by "economic policy integration" have not been considered (Pelkmans, 1980: 333-335). Among the aspects economists have been most interested on are the conditions under which the world's welfare would increase or decrease due to the reduction of trade barriers;[13] the process of policy harmonization; the economies of scale; the increased rate of growth; and the changes in the structure of production and efficiency. Important areas of inquiry, such as, financial, monetary, labor, and fiscal integration have not been adequately addressed. Furthermore, economics completely ignores production integration. Even within the narrow effects of pure market integration, it is assumed the benefits originating from the reduction of trade barriers could provide the impetus to pursue it until total economic union is achieved.

With the pursuit of economic integration in the Third World, analysts employed

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[12]This was the aim of the now defunct Council for Mutual Economic Assistance (CMEA). See for example, Brabant, 1988.

[13]To focus on changes in the world's welfare due to economic integration is unrealistic. For one thing, governments that join an integration process are not concerned at all with the effects this process would have on world's welfare. At most they would be concerned with the effects of integration on the integrating countries as a whole. More often than not, governments will be concerned solely with the effects of integration on their own country, as shown by US Congress debates, in 1993, surrounding the approval of the North American Free Trade Agreement.

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political science and economics theories developed for the European integration processes to understand and explain the phenomenon in developing regions. Federalists concluded that attempts to create federal states in developing countries have not been a success (e.g., the West Indies Federation, the Malaysian Federation, Mali Union, the United Arab Republic) due to lack of a political environment conducive to it, and of people's support (Rothchild, 1968: 7).

Functionalists, and more importantly, Neo-functionalists found that the elements favoring integration simply did not exist in developing areas. Factors such as a pluralist social structure, industrialization, economic diversification, low level of ideological politics, high degree of urbanization, and administrative skills were missing (Haas, 1966: 104-105, 117; 1967: 316). Neo-functionalists expanded their theory to include more variables, to make the approach more relevant to Third World countries, and to explain changes in the integration processes (Schmitter, 1971; Nye, 1971: Lindberg, 1971). Among these variables were: national actors, political leadership, nationalism, external factors, foreign capital and technology, political will, economic nationalism, and ideological pluralism (Haas, 1975: 3, 72; Hazlewood, 1982: 157; Mytelka, 1979; Nye, 1971: 207-208; Puyana, 1982: 157-162, 176-178). In the end it seems that, for analysts, everything was influenced by integration while integration, in turn, was also influenced by many factors. The relation of causality was lost, integration was termed "a multidimensional phenomenon" (Lindberg, 1971), and Neo-functionalism cease to have analytical relevance for the Third World integration attempts.

Economists also devoted their attention to the conditions, and the special

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circumstances of economic integration in developing regions (Balassa, 1965; ECLA, 1965; El-Agraa, 1982a, 1989; Hojman, 1981; Morawetz, 1974; Robson, 1987). Most economists thought that economic integration was not possible among developing countries, because of the similarity of the structure of production in the integrating countries, limited, and inefficient industrialization, inadequacy of their infrastructure, and underdevelopment of their market economies. Critics argue, however, that integration can help: to improve the terms of trade; to favor capital and labor movements; to modernize the productive structure; to foster equitable distribution of costs and benefits; to favor foreign investment; to promote economic development; to allow policy harmonization; to lower transportation costs; to improve infrastructure; and to reduce dependency (Andic, Andic and Dosser, 1971; Axline, 1984; Balassa and Stoujesdijk, 1984; Cohen 1984; Cooper and Massell, 1965; Dell, 1963 and; 1966; Furtado, 1976; INTAL, 1988; Kitamura, 1966; Linder, 1966; Martirena Mantel, 1969; Myrdal, 1957).

1.2.- The practice of regional economic integration

The early economic integration processes in Latin America put into practice the orthodox theory of international trade as applied to free trade zones and customs unions.[14] According to this theory (Viner, 1950; Meade, 1955; Tinbergen, 1965; Johnson, 1962), an endeavor for economic integration will be more beneficial to the world as a whole if it has many participants; if its members have a similar industrial

[14]LAFTA's objective was the creation of a free trade zone, the Central American Common Market aimed to establish a common market, but its previous stage was the establishment of a customs union, and CARIFTA, tried to create a free trade zone as a step towards a common market.

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production structures; if there is wide margin among the members in their production costs of similar or like products; if transportation costs are low; and if the pre-integration tariff schedules of the member countries were higher than those after integration. In practice, however, "when plans for economic integration moves from the blueprint stage to that of implementation, individual and group interests are immediately affected, and 'economics' very quickly becomes 'politics' ... " (Hansen, 1967: 97). That is, politics cannot be excluded from the process.

From the political and "pragmatic" point of view, economic integration processes in the Third World were modeled after the European predecessors. As such, the neo-functionalist theory served as a guide. For neo-functionalists, successful economic integration depends on the existence of three major preconditions: low levels of nationalism; economic, social, and political homogeneity and; a well functioning, effective, and efficient bureaucracy (Haas and Schmitter, 1964: 1-3). Given that these preconditions did not exist in the developing areas, "functional equivalents" were found as catalysts in the role of the "technocrats" and in the influence of external factors favoring or constraining integration (Haas and Schmitter, 1964: 59; Schmitter, 1970; Nye, 1968a; Cochrane, 1964; Denham, 1969; Schmitter, 1972). These "functional equivalents," however, together or separately do not explain the process of economic integration.

Political science and economics discuss mainly the conditions for successful integration processes among developed countries. Since economists and political scientists mainly stress, among developing countries, the lack of elements conducive to successful

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economic integration processes, it is necessary to question why these nations pursued such an endeavor; and more importantly, "why economic integration has not failed altogether in the underdeveloped world" (Lieber, 1972: 45). One answer to this is that there is a greater need for economic integration among poor countries than among more developed countries because most poor countries have markets too small to industrialize adequately (Hansen, 1969: 262-269). This is a compelling reason for pursuing integration, even though conditions are not those that theories prescribe for success. Insofar as resources are scarcer in developing countries compared to developed nations, and the issue at stake is how to better distribute them among the members, the problem becomes "one of premature overpolitization" (Nye, 1968a: 335-336). As such, since the process depends more on politics than on economics, its evolution is likely to be anything but gradual and steady.

Experience shows us that integration processes have not in fact progressed steadily or unidirectionally. The most successful have had serious reverses (as when, in 1966, France unilaterally imposed a *de facto* veto in the European Economic Community; and the Central American Common Market after the "Soccer War" of 1969), and some of them collapsed (e.g., the East African Community, in 1977; and the Council for Mutual Economic Assistance, in 1990). The Andean economic integration process is no exception.

The Andean Group's evolution can be characterized, based on the evidence presented in this dissertation, and loosely in the terminology proposed by Schmitter, as a process that has gone from a phase of optimism and progress (1969-1973), to one of

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doubts and stagnation (1974-1978), to another of pessimism and regression (1979-1986). Between 1987 and 1989 the process stagnated again, and from that year to 1992 a phase of progress, and reinvigoration was experienced. Finally from 1992, and up to now (1995), progress continued but at slower pace. This evolution could not have been foreseen or predicted on the basis of the existing theoretical and empirical studies.

What explains this quasi-cyclical evolution? Why has the process of integration not proceeded linearly as predicted by the theorists? Studies on integration suggest one or more of the following factors as explanations: lack of political will, economic nationalism, fear of losing sovereignty, ideological and political differences, lack of political support by the would-be beneficiaries, different levels of development, changes in the international environment, influences of foreign capital and multinational corporations, uneven distribution of benefits and costs, and negligible economic and physical interdependence (Bernales, 1974: 88-90; Bywater, 1990: 2, 7-16; ECLA, 1987: 99; INTAL, 1988: 31, 35; Mace, 1988: 420; Mytelka, 1979; Puyana, 1982: 156-164, 170-178, 272-274). The evidence from the Andean Pact suggests that all or most of these factors can be related or encompassed in an obvious, yet ignored, variable, namely the interests, policies, and behavior of the member governments.

1.3.- An alternative explanation for the evolution of economic integration processes

There is scant literature, however, devoted to the important role of the governments of the member countries in determining the pace, direction, scope, and dynamism of the economic integration processes. The writers who have considered

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governments to be the central or most important actors include Puchala, Bernales, Duffy and Feld, Tomassini, Tironi, and Moravcsik.[15] Their writings will serve to develop a hypothesis making the government the central factor.

Puchala (1972) proposes to study international integration schemes as a set of routinized processes that states engage in to achieve benefits. He identifies nation-states as the major units of the integration process and governments as the central actors, but not the only significant ones. Other actors from the subnational, national, transnational, and supranational arenas also participate. This constitutes a system very similar to the existing international nation-state system, but in successful integration processes it is one in which there are common or compatible aims among states rather than conflicting ones. When incompatibility of basic aims arises, the system will deteriorate. The existence of the integration system can be assured because in an era of globalization of the economy and technology, nation-states have recognized that sovereignty can best be preserved by pooling resources.

Puchala provides us with the valuable concept of integration process as a system similar to the international system. Thus, member countries' interactions define the integration system, and as such shape its characteristics, and its evolution. Puchala also contributes to our understanding of progress (existence of common aims), and of stagnation or regression (incompatibility of basic aims), but he is not explicit as to when

[15]More recently Axline (1994a: 27, 29; 1994b: 217; 1996: 214) argues in a similar vein, however he does not elaborate his argument. According to him integration among developing countries is the product of negotiations in which national interests of the partners are accommodated. Success, failure and patterns of an integration process will depend on the ability of the integration organization to satisfy the national interests of the member countries as shaped and influenced by external factors and the international system.

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these incompatibilities will led to stagnation alone, or further, to regression of the integration process. A related aspect is, what happens after the system deteriorates? How does it transform this deterioration into progress? Puchala takes into consideration the international system only marginally when he deals with globalization as the incentive to integration. In the case of the Third World countries, however, international influence is very important. Lastly, he does not take into account the constituent national systems as a factor influencing the evolution of the integration process.

Bernales (1974), in proposing a framework to study the political actors in the Andean integration process, considers governments to be the most important ones. They are influenced by domestic actors (e.g., industrialists and unions), and constrained by their dependence on the international system. Governments' support of integration will depend on how the common political model and its redefinitions reflect the political and economic interests of the governments as well of the domestic actors. Bernales argues that, should governments adopt national political models that are quite different or opposite to the one pursued at the Andean level, the process would be in crisis.

The author correctly suggests the existence of three levels of analysis: the international, the regional, and the national. Bernales also provides the basic and most acceptable reason for progress and for regression in an integration process. It progresses when it reflects governments' aims and it regresses when it does not reflect the objectives of the governments. Bernales also informs us that aims and mechanisms of the integration process can be changed in response to changes in the countries. This fact reaffirms the pre-eminence of the governments in the integration process, and their use of it as tool.

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The fact that the integration process can be modified provides an explanation of why only few integration processes have disappeared. He also suggests rationales for integration at the international and domestic levels. To reduce dependency is the reason in the first case, and to get political and economic benefits in the second. If this is so, then the government is the most important actor in the process but its acts are constrained by both international and domestic actors. Bernales points to crucial aspects with regard to the levels of analysis, the possibilities of progress and regression, the rationale for governments to integrate. Having said this, like Puchala, he does not take into account the most common possibility in the evolution of an integration process, namely stagnation—or in Schmitter's jargon "encapsulation."

Duffy and Feld (1980) propose a pre-theory based upon the idea that nation-states pursuing their national interests are the central actors in the integration process, and as such, nation-states are able to set the pace of both the scope and level of regional integration. These central actors are influenced by three intervening variables: internal (the decision-making process), systemic (the intraregional system), and global (the international system). For Duffy and Feld nation-states are paramount in defining the evolution of the process. They, however, do not provide an explanation of how governments determine the evolution of the process or what the factors are which make an integration process advance, stop, or go backwards. Nor do they develop any reasoning for the interrelations between the three intervening variables.

Tomassini (1985) and Tironi (1976, 1978) consider that economic integration is one of the tools available to the governments to achieve goals emanating from their

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strategies of economic development. Tironi also argues that an integration process begins when a group of countries identifies the existence of common economic objectives, and agrees on the mechanisms to achieve them.

Tomassini and Tironi correctly assert that economic integration is a tool for the member countries, and not an end in itself. Tironi develops this pragmatic view of integration by asserting that it is a process in which there are aims to be achieved through agreed mechanisms. Tomassini, for his part, in agreement with Bernales, asserts that changes in circumstances will change the goals of the process. He also says the process will be affected when common economic objectives, and agreement on the mechanisms disappear. Both, however, fail to say how these factors will influence the integration process. Will the process slow down, will it stagnate or decay? Do changes in the aims and mechanisms mean a reorientation of the integration process, or could they also mean its demise?

Finally, Moravcsik (1991; 1993), analyzing the adoption of the Single European Act (SEA) by the European Community, evaluates, and rejects a crucial theoretical claim: that supranational institutions and transnational business interests are the most important variables. He shows that the role of the negotiating governments and the convergence of national interests of the three major countries, Germany, France and Great Britain are the most important factors in explaining the adoption of the SEA. This phenomenon is called intergovernmentalism by the author. Moravcsik, however, finds no convincing explanation as to why the national interests of these three countries coincided. Besides, Moravcsik only cursorily analyzes the influence of external

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(international) economic factors. A more closely related issue to the present research is that for Moravcsik the European Community has proceeded in fits and starts, or in a start and stop process. That is, a sudden great leap forward followed by long or short periods of standing still.

Aside from giving primary role to the governments (and not to the supranational institutions), Moravcsik sees the process as the functionalists and neo-functionalists in the sense that there is progress and at worst stagnation, but he provides no place for regression. This may be true, up to a point, in the case of integration in Europe, but not in other parts of the world. Furthermore, he considers (in the same vein of Bernales) progress or stagnation solely as a function of convergence or not of national interests. The author fails in this crucial aspect to point out a more general possibility. Progress, stagnation, or regression can be explained by governments' interests (not necessarily coincidental) being reflected or not by aims and mechanisms of the economic integration process.

Linking the basic ideas and concepts stated by the aforementioned writers, and the criticisms of them, it is possible to propose a framework which can be more useful in helping to explain the evolution of economic integration processes and the role of governments in it. This approach emphasizes that the governments are the most important actors influencing the process, and hypothesizes that their actions are guided by changing definitions of national interests. Applied in this study, this approach differs from these studies because it enables us to explain the changes in the evolution of the integration process.

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This framework can be expressed as follows. With actors from the subnational, national, transnational, and supranational arenas, nation-states participating in a process of economic integration constitute a regional system similar to the existing international system (Puchala), where nation-states, represented by their governments, are the most important players. In this system, however, it is expected that common or compatible ends are the rule and not conflicting interests, which is the rule in the international system. Governments, being the most important actors, are able through their interactions to shape both the scope and level of regional integration (Duffy and Feld, Moravcsik), but are influenced or constrained by domestic, intraregional, and international systems and actors (Bernales, and Duffy and Feld).

Economic integration is considered to be a set of routinized processes of bargaining and negotiation in which states engage to pursue benefits (Puchala) or national interests (Duffy and Feld). Integration is thus a tool of governments to achieve the goals defined in their strategies of economic development. The process of integration begins when countries identify common economic objectives, and agree on the mechanisms to achieve them (Tomassini, Tironi). Cooperation among governments and their support for economic integration depends on how their individual national interests are served by the process (Bernales), especially those of the most powerful governments (Moravcsik).

The integration process will deteriorate and changes will occur in it when conflicts and incompatibility of aims arise due to changes in the national strategies of development, in the economic policies, in domestic politics and/or in the international arena (Puchala, Bernales, Tomassini, Tironi). Deterioration can take the form of

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stagnation or regression of the integration process. Stagnation (or lack of progress) occurs when a minority of the members (or a group of the least powerful countries) find that their interests are not being achieved through integration. Regression (reduction of the scope of the integration process), happens when the majority of the countries (including the powerful countries) finds that integration does not serve their national interests. To progress, the integration process needs the member countries to find integration a useful tool to achieve their goals, that is, that the integration aims and mechanisms reflect their national strategies of development, and economic policies.

This framework for analyzing the role of governments in the evolution of economic integration processes is more comprehensive and encompassing than the ones developed by Puchala, Bernales, Duffy and Feld, Tomassini, Tironi, and Moravcsik, on which it is based. Although all of these authors consider the government (or the state) as the most important actor in determining the process, none of them develops a comprehensive framework to understand how the governments influence the dynamics of economic integration. This dissertation improves the explanation of the evolution of integration processes, which is not towards supranationalism, an idea still being proposed as late as 1992 with the signing of the Maastricht Treaty, but towards whatever member countries want it to be. Through the study of the Andean Group, this dissertation reinforces the neo-realist proposition that nation-states are, and will continue to be, for the foreseeable future, the main actors in international economic processes. This study is the first to attempt to understand the evolution of the Andean integration process since its inception, and could serve as a model to understand other integration processes.

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There is no doubt that international and domestic factors influence government actions (as pointed out by Bernales, Duffy and Feld, and Moravcsik). It is also important to analyze the factors which explain changes in the domestic sphere which in turn affect national objectives, but this type of analysis is beyond the scope of this dissertation and must be left to other investigators. This study focuses on the evolution of the integration process. To explain this evolution, following Axiline (1994b: 216, 217, 218), it examines the external factors and their influence on the changes in the member governments' strategy of development, and in economic policies, but does not deal with domestic factors that shape these changes. This study thus attempts to analyze the area where the domestic and the international fields intersect.

1.4.- The alternative explanation and the Andean Group

This dissertation attempts to explain the evolution of the Andean Pact by testing the following hypothesis. That, in any stage, the Andean Group's experience of progress, stagnation, or regression is determined to a significant extent by the degree to which the member governments find integration aims and mechanisms useful to achieve national objectives. These objectives stem from the nations' development models, strategies, and policies they pursue. The extent to which the Andean governments find that subregional integration enables them to achieve their goals determines the usefulness to them of the Andean Pact, and in turn shapes the evolution of the process. The means to achieve their objectives is determined by negotiation. In this process, governments of the member countries behave as if they were in the international system. The outcomes of bargaining

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and negotiations, as in the international system, are highly influenced by the most powerful countries.

This research project hypothesizes that the Andean process progresses when interests pursued by the governments of the member countries are served by the process. The process stagnates when a minority of the member countries find their interests are not furthered by the integration process. It regresses when the majority of the governments consider that the integration process does not reflect their national interests. The Andean Group thus can be perceived less as an end in its own right than as another instrument for the attainment of national interests which change over time. This may explain why the Andean Group did not become an end in itself or a supranational organization with a life of its own, as foreseen by the integration theories. It is in this sense that the role, and the synchronous behavior of the governments—which are influenced by domestic and external factors[16]—constitutes a fundamental variable in explaining the evolution of the Andean Group.

The hypothesis of this research project and the influences on it can be restated in terms of the Andean Group as follows. By concentrating mainly on the interactions among the Andean institutions, and the governments of the member countries,[17] it will

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[16]Changes in the international environment (global, and regional), in the national environment, in the relations among member countries, and between each one of them with other nations, and other international actors will modify governments' behavior. These changes will be reflected in modifications in the domestic situation, and in variations in the way national interests are pursued by each country. These changes will in turn increase or decrease the usefulness of GRAN.

[17]"The evolution of the Latin American integration as a political and as an economic process cannot be conceived only as a function of intraregional variables; it also significantly depends on the conditions of the extraregional international environment. During the period in which the international framework was favorable for integration, it effectively progressed, although, as is well known, with great limitations and insufficiencies" (Wilhelmy, 1982c: 199).

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be possible to consider the relations among the Andean countries as a subregional system of states similar to the international one (Puchala). In this system, nation-states represented by their governments are the most important actors (Bernales, Moravcsik), and their pursue national political, and economic interests (Duffy and Feld, Tomassini, and Tironi) are presumed to be common to all (Puchala). Changes in the evolution of the Andean process (progress, stagnation, or regression) will be traced back to the changes in governments' policies, which in turn reflect redefinitions of their national objectives (Tomassini and Tironi) and hence the ways they seek to affect the aims and mechanisms of the integration process (Bernales).

In other words, governments act not in the common interest of the group but in their own individual interests. Thus political factors have to be taken into account in order to be able to explain the Andean integration process. This means that, although economic integration is a scheme with economic aims and it uses economic mechanisms, it has political goals and means. Moreover, it is a political endeavor which uses economic means and goals, in which government behavior has the crucial role in its evolution.

Research guided by this perspective will result in better understanding of this process, which so far has defied successful explanation. Such understanding is especially important to help predict future developments of the Andean process in particular and of economic integration efforts in general. A better knowledge of these processes will allow us to entertain more realistic expectations about the possibilities and limits of the integration processes. This research project is also of timely and practical use,

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considering the revival of integration processes all over the world and the formation of continental economic blocs.[18]

1.5.- Overview of the political economy of the Andean countries as a context of the evolution of the Andean process: 1969-1995

During the 1960s and part of the 1970s, as was the case of other Latin American countries, the common development model asynchronically pursued by the Andean Pact's governments, was one of inward oriented industrialization model. The strategy used was import substitution. Although widely varied among countries, the model and strategy, as proposed by the United Nations' Economic Commission for Latin America (ECLA), aimed basically to produce progressively more sophisticated goods, given the limitations of the human, material and financial resources, and the size of the market.[19] The main policy used to achieve the aims was market protectionism. This convergence of the models and strategies of development (which Hirschman (1971: 270-311), called "ideology of economic development"), of the member countries coincided with the first phase of progress of the Andean Group. Between 1969 (when the Cartagena Agreement creating the Andean Pact was signed) and 1973, there was a rapid advance in the

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[18]We should not overlook, however, the process of political disintegration going on in Eastern Europe, in the former Soviet Union and other parts of the world. For an analysis of disintegration see Holsti, 1988; Chatterjee, 1993; and Gurr, 1994.

[19]"The industrialization process has not taken place in all the Latin American countries [including the Andean nations] simultaneously or at the same pace. .... Despite these differences, all the countries have pursued a very similar policy as regards the conduct of the import-substitution process, and all have continued to export primary products" (ECLA, 1970: 137).

"In the Agreement's discussion period and during the first years that it was in force, a certain congruency existed in the economic policies of the member countries ... To a greater or lesser extent, they were all "Cepalian", progressing towards import-substitution ..." (Puyana, 1984: 296).

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implementation of important aspects of GRAN.

From the mid-1970s to the 1980s, changing domestic and international conditions gradually led governments to divergent ideologies of economic development. As a response to these challenges, the Andean countries, at different paces and in different forms, gradually and with forward and backward leaps began to shift to a model of development based on an outward oriented industrialization.[20] The strategy changed to one of increasing exports by improving efficiency and competitiveness and augmenting the capability of the domestic economic structure to respond to international and domestic changes. The new policies aimed at seeking free trade, market competition and at maximizing comparative advantages.[21]

This protracted process of redefining and changing ways to pursue national objectives led GRAN first to stagnation (1974-1978) and then regression (1979-1986). By the second half of the 1970s, infringements of the Agreement and commitments derived from it by the member countries became widespread, as they pursued what they perceived as their own national interests. The violations, during this period of stagnation of the process, were basically the reaction of governments to the economic problems they were confronting. These problems originated by the United States unilateral declaration of August 1971 of the inconvertibility of the dollar into gold, and thus changing the basis of the international monetary system, and by the increase in the price of oil in the last

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[20]According to Gereffi (1990: 18), inward and outward oriented industrialization models are not mutually exclusive but complementary. This argument was voiced earlier by Robock (1972). However, it was not widely perceived as such in the 1970's and 1980's.

[21]Weintraub, 1991 and Cohen, 1993, among others, discuss this shift of the ideology of economic development.

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quarter of 1973.

The Andean integration process also stagnated (1974-1978) due to two inherent problems that diverted the attention of the governments from furthering the process. One of them was the entrance of Venezuela into the Andean Group in December 1973. It increased the number of actors, and augmented the difficulties in reaching agreements. This oil rich country, moreover, was able to exert an important influence in the Andean process while the reverse was not true. The second inherent problem that led to the stagnation of the Andean process was a consequence of the overthrown of the Chilean Socialist government of Salvador Allende in 1973. In 1974, the Chilean military government adopted an outward oriented model of economic development, and a strategy based on free trade, private initiative, and government withdrawal from the economy. This ideology of economic development was, at that time, considered by the other governments incompatible with the one they pursued and incongruous with the aims of the Andean Pact. The discrepancy was eventually solved, in 1976, with the withdrawal of Chile.

The member countries modified some basic mechanisms and deadlines in the Protocol of Lima of 1976; and in the Protocol of Arequipa, 1978. These Protocols reflected changes the governments were interested in introducing in the Cartagena Agreement in response to the new circumstances effecting their national environment. They were also the legal answer to the need to update deadlines that were already missed, clearing the way for the process to resume its progress. The new deadlines, however, were not met.

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The phase of regression (1979-1986) began, paradoxically, with an attempt to revitalize the process. The Presidents of the Andean Group met in May 1979 to commemorate the tenth anniversary of the Cartagena Agreement. As a result of this meeting the Andean Court of Justice and the Andean Parliament were created in October 1979 and November 1979 respectively. These attempts did not revitalize GRAN. The treaties came into force only in 1983 (the Court) and in 1984 (the Parliament). By the time the Court began to function, the governments had reached a "gentlemen agreement" not to bring cases to the Court because governments were not ready to fulfill their obligations. As for the Parliament (constituted by five representatives of each of the national congresses) it has only the power of recommendation. A Court without cases and a toothless Parliament were incapable of inducing the governments to amend their behavior. On the contrary violations became widespread not only in magnitude but also in importance. For example, trade restrictions were applied to Andean trade. This caused trade flow to diminish by almost half between 1982 and 1986 (see table VI.2).

In addition to the violations, the representatives of the governments were not able to reach agreements on matters that were fundamental for the process to progress, such as the common external tariff. When some important decisions were adopted, most of the time they were not implemented by the governments.

The behavior of the governments reflected the increasing economic strains imposed by the second oil price rise (1979), and by the increasing external debt. The Andean process as a tool for the governments became irrelevant to and was neglected by them, since governments perceived that economic integration could not be of much help

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to them in coping with the pressing socio-political situation. The governments, instead, began to apply policies which over time led to a different strategy of development. As a result governments find no important objectives to be fulfilled by the Andean Pact. Regression, thus, was characteristic of this period.

The new ideology of economic development that emerged among the member countries from the mid 1980s defined an outward oriented industrialization model and an export-led strategy based on exporting goods for which each country had comparative advantages, and in reliance on the market economy. In 1987, while this ideology of economic development was still being hesitantly implemented, Andean countries adopted the Quito Protocol. The protocol signaled an attempt to revitalize the Andean process based, again, on the governments finding new compatible aims to be fulfilled through the Andean process. The aims were to help restructure the economies of the countries to increase their economic efficiency and competitiveness, to make them more flexible and adaptable to changing international conditions, and to improve the negotiation capability of the Andean countries in the international political and economic arenas (JUNAC 1990a: 13-21). It was not until 1989, however, that GRAN began a phase of rapid progress again due to changes in the most important members. First in Venezuela and then, in the same year, in Colombia and, in 1990, in Peru drastic changes in economic policies signaled a clear and decisive adoption of the export oriented model.[22] It was at that time that the objectives stated in the Quito Protocol began to reflect governments aims. Violations were quickly eliminated, trade increased, and the creation of an effective

[22]Bolivia had, since 1985, already moved decisively to it. Ecuador did it in 1992.

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free trade area advanced rapidly.

Progress lasted until August 1992 when the Andean Group slowed down its advancement. It reflected the differences among the governments, especially between Peru and the rest of the members, about the pace and depth of the domestic implementation of the new ideology of economic development. As a result, Peru "temporarily withdrew" from the process.[23] Another reason for this slow down of the process was the perception of Venezuela and Colombia that an immediate integration of their markets, the largest and most dynamic of the Group, provided greater benefits for both, and could be done without the participation of the other Andean members.

Presently, the developmental model common to all Andean countries is outward-oriented industrialization. The strategy is to promote exports by pursuing a policy of free trade with the rest of the world based on comparative advantage. Table I.1 presents a summarized comparison between the two "ideologies of economic development" applied from the 1960s to the 1990s in the Andean nations.

This succinct review of the evolution of GRAN shows that economic integration is a political endeavor which is shaped by government interests. The Andean Presidents officially acknowledged for the first time, on the occasion of the tenth anniversary of the Andean process, in May 1979, the political nature of economic integration (JUNAC, 1979b: 57). At the twentieth anniversary, in 1989, the presidents also officially

[23]Peru's self-exclusion of from the process was agreed among the representatives of the five member countries ignoring the fact that the Cartagena Agreement does not consider this possibility. This is one of the most obvious example supporting this dissertation hypothesis, namely that the individual governments of member countries are the most important actors in the Andean integration process. As such they act, when necessary, above and beyond the rules they have sovereignly agreed upon.

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TABLE I.1
ANDEAN COUNTRIES' IDEOLOGIES OF ECONOMIC DEVELOPMENT

	1960s-1970s	1980s-1990s
Model	Inward-oriented industrialization	Outward-oriented industrialization
Strategy	Import substitution	Export promotion
Policies	Market protectionism	Market competition and comparative advantage
Government role	Direct intervention	Arbiter
Andean Pact major emphasis	Market and production integration	Pure market integration

recognized that GRAN served as a complementary tool in the pursuit of shared national interests (JUNAC, 1990a: 16, 69).

2.- METHODOLOGY

To explore the hypothesis that the evolution of the Andean Group has been overwhelmingly determined by the governments of the member countries, this dissertation has divided the Andean process into five phases. They correspond to turning points in the history of the Andean process: 1969-1973 termed as one of progress, 1974-1978 a phase of stagnation, 1979-1986 a phase of regression, 1987-1989 again a phase of stagnation, and finally from 1990 to 1995 another of progress.

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2.1.- Indicators

Several indicators have been developed in order to ascertain the main characteristics attributed to each of these phases. One indicator is how the main mechanisms have evolved. During a phase of progress the main mechanisms would be implemented with only minor problems and delays. In a phase of stagnation implementation would become more difficult and delays would begin to spread. A phase of regression would show great difficulties in implementing the main mechanisms and the abandonment or replacement of some of them.

Another indicator is the amount (value) of trade among member countries. Progress of the process would be evident if the value of trade among member countries increases every year. The process stagnates if the value of intra-subregional trade decreases in one or a few years. The process would be in a phase of regression if trade among Andean countries decreases in several or most years.[24]

A third indicator is the fulfillment of obligations by member countries. There would be progress if the violations are minimum; stagnation if they become larger, but they do not constitute an obstacle to the process. There would be regression should violations became widespread, and create major obstacles to the main mechanisms of this process. It is clear that this is not an obvious quantitative indicator. What it intends to show is that there would be more violations of the Cartagena Agreement when the process is in a regression phase than when it is in a phase of stagnation.

The fourth indicator is the number of decisions approved by the Commission, the

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[24]Trade among the member countries "is one of the most accurate indicators of success of economic integration" (UNCTAD, 1989: 2).

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political body of the Andean Group. A greater number of decisions dealing with new issues would be approved by the Commission during a phase of progress; fewer would be passed during a stage of stagnation, while during regression even fewer decisions on new issues would be approved. Parallel to this, during the phase of progress there would be more decisions modifying previous decisions which would strengthen the process than during the phase of stagnation. In turn during the phase of regression there would be fewer decisions of this type than in a phase of stagnation. On the other hand, modifying decisions that weaken accords would be more common during a phase of stagnation than in a phase of progress, and even more frequent in a phase of regression. Unimportant decisions would be more common in a phase of regression, than in a phase of stagnation or in a stage of progress. Table I.2 summarizes these indicators.

2.2.- Three levels of analysis

If findings from an examination of the implementation of the mechanisms, of trade, violations, and decisions confirm the existence of the phases the Andean Pact has gone through, the next endeavor is to find out the factors that can explain the different phases. This can be accomplished by analyzing, for each of the phases, how the strategies of development, the and the policies to be pursued by the governments were reflected by the aims and mechanisms of the Andean process. This is to be done concurrently with the analysis of the interactions of the governments of the member countries to achieve their objectives and the examination of the activities of Andean institutions. This proposition yields three levels of analysis, or three different

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TABLE I.2
INDICATORS OF INTEGRATION

Indicator	Phase		
	Progress	Stagnation	Regression
Implementation of main mechanisms	Little difficulties and delays	Difficulties and delays	Great difficulties and retreat
Trade among Andean countries	Increases every year	Decreases in some years	Decreases in several years
Violations	Minimum	Increasing	Widespread
Decisions:			
New issues	Many	Few	Almost none
Modifying Decisions - Improving - Weakening	 Many Few	 Few More	 Almost none Even more
Unimportant Decisions	Few	More	Even more

perspectives to explain the evolution of the Andean process.

The first level examines the interactions of the *Junta* with the governments of the member countries, and of the governments among themselves pertaining to their positions on the general situation of the Andean process, and on specific issues being negotiated.

The second level is the analysis of short-term domestic policies being implemented or modified by the member countries, and how these policies are reflected by the Andean integration. This analysis will allow us to identify the similarities and differences of the domestic policies in relation to the main mechanisms of the Andean Group, and the

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possible changes in the importance of the Andean Pact for each member government, as well as the changing short-term goals to be achieved through this process.

The third level analyzes the asynchronous shifting of the countries' strategy of development. This will be done through the analysis of the strategies of development being implemented by the economic plans and the long-term policies adopted by the member governments as well as the analysis of the economic, political, and overall situation of the countries. They will be compared with the aims of the Cartagena Agreement to see how the domestic interests are reflected by the Andean purposes. These three levels of analysis are summarized in table I.3.

TABLE I.3
LEVELS OF ANALYSIS

LEVEL	TYPE OF ANALYSIS
1	Interactions among governments and Andean institutions
2	Analysis of national short-term policies
3	Analysis of national strategies of development

At each one of these levels it will be possible to determine the extent to which the Andean Group reflects the interests of the member governments. If progress in the Andean economic integration process coincides with the existence of harmonious relations between government and Andean aims, if stagnation can be related to the lack of harmonious relations between Andean objectives and the interests of a minority of the

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member countries, and if regression is linked to the majority of the member countries not being able to relate their interests to the aims of the Andean Group, then the proposed hypothesis to explain the evolution of the Andean Group will have established its validity.

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CHAPTER II

FROM SANTIAGO TO CARTAGENA (1945-1966): EN ROUTE TO REGIONAL INTEGRATION

1.- INTEGRATION ATTEMPTS FROM INDEPENDENCE UNTIL THE END OF WORLD WAR II

From the time the former Spanish colonies in America began their efforts to become independent, they simultaneously but unsuccessfully attempted to integrate in one way or another. Until the end of World War II, these undertakings were primarily aimed to achieve political integration following confederal or federal models. Since World War II, these endeavors have focused on some form of economic integration.

Several Latin American leaders and writers of the past century dreamed that it was possible to create a larger political unit encompassing sizable parts of the continent. The most common aim was to have a strong and prosperous nation capable of protecting itself from external threats. The main bases for this dream were the commonalities of language, religion, culture, history, civilization, and the longing for reestablishing a

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hypothetical and unrealized unity in colonial Spanish America. Chief among the proponents of this integration was Simón Bolívar. Under his leadership the independence of what are today Venezuela, Colombia, Panama, Ecuador, Peru and Bolivia was attained. Bolívar first proposed the idea of political integration in 1815 in his "Jamaica Letter" ("*Carta de Jamaica*"). In that letter he proposed the creation of a confederation modeled after the ancient Greek confederacy called the amphictyony (Belaúnde, 1983: 124-125). The objective was to protect the nascent republics from European powers. The forces toward disintegration, however, were stronger, and by the late eighteen thirties, the four former Spanish viceroyalties (New Spain, New Granada, Peru and Rio de la Plata) had splintered into eighteen countries.

From 1826 to 1865 four inconsequential international conferences were held aiming to create political alliances against European attempts to reconquer the area. From 1865 to the end of World War II, the Latin American countries placed more reliance on this time from the United States.[1]

Inter-American conferences were also held from the end of the XIX century on.[2] They were not successful in attempting to pursue some form of economic cooperation

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[1]The Latin American met several times, among them in, Lima, 1877-1880; Caracas, 1883; and Montevideo, 1888-1889 but nothing important came out of them.

[2]At the first Inter-American conference, 1889-1890, Secretary of State James G. Blaine proposed the creation of a continental customs union. It was rejected by the Latin Americans due to the existing anti-American sentiments, and because it was perceived as running counter to Latin American interests (Martz, 1993: 30-34).

During the Seventh International Conference of American States, Montevideo, 1933, Secretary of State Cordell Hull proposed bilateral tariff cuts. The aim was to increase trade and to ease the problems created by the Great Depression and the 1930 Smoot-Hawley Tariff Act (This Act increased the average *ad valorem* tariff level from 38.2 to 55.3 percent, the highest of this century [Milner, 1990: 141; Lake, 1991: 133]). The Latin American governments rejected the suggestion because they were highly dependent on tariff revenues.

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between the United States and Latin America.[3]

Between the two World Wars, attempts by Latin American countries to create customs unions among themselves were opposed by the United States and by Great Britain because they violated the most favored-nation principle.[4] As far as the United States was concerned, any customs union formed in this hemisphere ought to fulfill the conditions set forth in the Conference of the Commissions of Inter-American Development, New York, 1944 (Grunwald, Wionczek, and Carnoy, 1972: 69-70). These criteria were: a) the customs union should be open to any country, b) tariffs and other trade restrictions among the members should be eliminated in the shortest time possible, c) the common external tariff should be equal to or lower than the ones that were applied before the existence of the union, and d) the members should participate in international conferences aimed at reducing trade barriers.

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[3]For a study of US foreign economic relations with Latin America in the 25 years period, 1906-1931, see Seidel, 1973. The author termed this period as Progressive Pan Americanism. It was aimed "at expanding trade, building investments opportunities, and tapping sources of agricultural and mineral raw materials in Latin America", ... in order "to aggrandize United States economic interests and enhance domestic prosperity", while at the same time it tried "to allay Latin American fears of its might and suspicious of its intentions. Yet ... [it] could not completely replace Latin fears and suspicious with an ideology of politico-economic progress that would be realized under benevolent and non-coercive United States Stewardship" (2, 646) At the end of this period, "[i]n the emerging [of the Depression], as so often before, the interests of the United States took precedence over general hemispheric remedies" (ibid., 9).

[4]For example, in 1939, a free trade agreement was signed by Argentina and Brazil. Argentina tried to expand and deepen it with a 1941 treaty creating a customs union between Argentina, Bolivia, Brazil, Paraguay, and Uruguay. The treaty was not ratified due to US opposition. A similar fate was encountered by a customs union treaty, signed in 1943, between Argentina and Chile.

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2.- ECONOMIC INTEGRATION BETWEEN 1945 AND 1960

After World War II, Latin American nations renewed their attempts to integrate among themselves in order to increase their international standing through economic rather than political integration. Economic integration processes "were founded on the joint economic and political goals of accelerating economic development and achieving economic independence" (Bryant, 1984: 79). Since the very beginning decision-makers were aware that economic integration would be only one of the many tools available to them to further economic growth and hopefully socio-economic development. More concretely, "[t]he primary goal of integration [was] development, with an emphasis on industrialization" (Mytelka, 1975 38). Industrialization, "[t]he motive for subregional integration in Latin America and the Caribbean during the 1950s and 1960s, [aimed] to expand the scope for import substitution; ..." (Weintraub, 1993: 10).

Governments were also aware that integration by itself would not avoid the difficult and painful measures to deal with their socio-politico-economic problems, although they had hoped that economic growth fostered by integration would help to do the job.

> ... regional integration is no panacea for Latin America. It will not diminish the need for political, economic and social reform. ... and certainly will not obviate the need for greater access to the markets of the developed countries. ..., however, ... the concerting [sic] efforts on a region-wide basis could significantly accelerate the attainment of these goals (Dell, 1966: 14).

> Few governments were willing to undertake the kind of fundamental redistribution of wealth required to create a sizeable domestic market. Instead, they opted for regional free trade agreements, hoping that by grouping the middle classes ... they could reach the market size required for industrial take-off (Green, 1995:19).

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As stated by the then head of the powerful Peruvian National Planning Office:

> the Latin American integration process emerges as a common necessity, a meeting place of national development policies and a means to make possible a self-sustaining development. Within this concept, integration is necessarily a complementary road to be used. As such, integration would accelerate the adoption of measures that in turn would reduce internal disequilibria and would allow a more rational social structure (Marcó del Pont, 1969: 76).

In other words, integration could not be an end in itself, but ought to be an additional policy tool, and only part of an overall strategy for development.

2.1.- The role of ECLA

When World War I interrupted trade, Latin American countries had to produce as many products as possible that were formerly imported. The import substitution process was an unexpected by-product of the severance of trade links. It was fostered when the Great Depression greatly hurt Latin American exports, drastically limiting the importation of manufactured goods. Between the wars import substitution was abandoned. World War II, however, forced the Latin American countries to produce locally goods that until then were imported.

After World War II, the United Nations Economic Commission for Latin America (ECLA)[5] provided the rationale to further import substitution as a explicit strategy for industrialization and the promotion of economic development. This strategy was accompanied with a proposal to enlarge the domestic markets through economic

[5]ECLA was created in 1948, in 1984 was renamed ECLAC: Economic Commission for Latin America and the Caribbean.

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integration.[6] A Latin American common market was necessary to overcome "the splitting of the industrialization process into as many watertight compartments as there are countries, without the advantages of specialization and economies of scale" (Prebisch, 1959: 268). Greater emphasis was given to the integration mechanism promoting industrialization, than to the one fostering trade integration.[7]

Latin American governments found ECLA'S recommendations politically useful and they began to apply them. ECLA's willingness to play an economic and a political role, in part, the result of the personality and the work of Raúl Prebisch, ECLA'S second Executive Secretary (Bawa, 1980: 4-7). As a result, this United Nations institution was able to play a very important role in promoting import substitution and economic integration (Gregg, 1968: 313-319, 328-332; Axline, 1994a: 9; 1994b: 184).

2.2.- International factors favoring economic integration

International factors also created an environment conducive to the gradual acceptance of ECLA's economic integration proposal by the Latin America. The most important ones were the post World War II political and economic orders. In the political realm, the new world order was characterized by a bipolar system dominated by the two continental superpowers. The new international order established new monetary, financial and trade systems. The General Agreement on Tariffs and Trade (GATT), the

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[6]It was argued that the success of the policy to replace imports for domestic production was due basically to the possibility of having larger regional markets (U.N., 1952: 7).

[7]"... it was realized in the beginning that the integration of trade should proceed side by side with industrialisation, ... [but] industrialisation was the cardinal principle of the Prebisch Thesis ... (Bawa, 1980: 150).

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International Monetary Fund (IMF), and the International Bank for Reconstruction and Development (IBRD-The World Bank) were created to maintain these systems.

With bipolarity came the Cold War. Because of it and specifically due to the Korean War, the prospects of a continuing lack of availability of industrial goods led the governments to recognize the need for guided import substitution industrialization as a permanent strategy. This conclusion was reinforced by the problems to establish the new international economic order. The IMF was unable to deal with the existing monetary disarray. GATT, which was intended only as a temporary procedural guideline for tariff negotiations, became the sole treaty dealing with one aspect of international trade, namely commercial policy.[8] Finally, resources of the IBRD were to be dedicated to reconstruction rather than to development (Wionczek, 1966: 73-74; Kaufman, 1990: 120-126; Hirschman, 1971: 85-123; Spero, 1990: 33-35, 154-155, 159-160, 203-208; Walters and Blake, 1992: 13-16, 40-45, 70). Given this scenario, currencies continued to be unconvertible, trade restrictions in the countries devastated by the War were maintained, and resources for development were not forthcoming.

On the other hand, there were pressures on the Latin American governments to comply with the newly created international economic order. These pressures came primarily from the IMF, which compelled these countries—chiefly Argentina, Brazil, Chile and Uruguay which had a relatively large reciprocal trade in raw materials—to

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[8]The agreement creating the International Trade Organization (ITO), was an all encompassing treaty on trade. Its creation was prevented when the Truman administration decided, in 1950, not to send the treaty to the Senate. He feared that it would be defeated.

In December 1993, among the accords reached in the latest GATT negotiations, the Uruguay Round, was the creation of the World Trade Organization, WTO, as the institution dealing with all issues related to international trade.

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reduce their controls over trade and payments policies. According to the IMF, this should be done through promoting trade liberalization, extending tariff preferences on a multilateral basis, creating freely convertible currencies, and eliminating their bilateral payment agreements.[9]

As a consequence, trade among the Latin American countries steadily declined, creating payments problems.[10] This situation persuaded the countries, principally the aforementioned four, to look for mechanisms that would allow them to reestablish the level of trade and solve the payments difficulties. One of these means was the creation of a free trade area in harmony with United States conditions and with Article XXIV of GATT (and specifically paragraph 5).[11]

Another international factor contributing to economic integration as a viable

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[9]Most of the Latin American countries had bilateral trade agreements with the United States since the early 1900s when protectionism became the main feature of the US trade policy. These agreements were quite disadvantageous to Latin America. It seems that the IMF was successful in its pressure because the United States promised to accept the abrogation of these unfavorable treaties.

[10]These twin problems imposed from abroad of forced industrialization and free trade led to the Latin American nations to a developmental model with two parallel strategies. One of them was outward-looking to the international market, especially through the exports of raw materials, and the other was the inward-looking import substitution scheme which was very protectionist and thus, very inefficient (Valdés, 1981: 448).

[11]"... the provisions of this agreement shall not prevent, ..., the formation of a customs unions or of a free trade area ..." (Dam, 1970: 432).

"Art. XXIV of the GATT exempts from the basic requirement of nondiscrimination [that is, the application of the most favored nation clause, stated in Arts. I and II of GATT] to: a completed customs union or free trade area and an "interim agreement" to achieve such a union or area "within a reasonable length of time" according to a plan and schedule that is not disapproved by the Contracting Parties" (Evans, 1968: 83).

"[A]lthough they are technically incompatible with the most-favored-nation-principle and are undeniably discriminatory, such arrangements are, or at least once were thought [by the time of the negotiation of the General agreement], to constitute a movement toward the GATT goal of freer trade" (Dam, 1970: 19).

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political option was the deterioration of the terms of trade.[12] Positing that problem out constituted one of ECLA's major contributions. It made the Latin American governments aware of the vulnerability caused by the reliance on the vagaries of the international market to obtain the foreign exchange they needed for development (ECLA: 1970).

The Treaty of Rome, 1957, which created the European Economic Community (EEC) also influenced politicians and thinkers (Gutiérrez and Wilhelmy, 1991: 482). The Community was the model for Latin America. European integration, ever since it began to be proposed in 1946, was supported and actively promoted by the US government (Machlup, 1977: 8-12; Hallstein, 1962: chp. 2; Hackett, 1990: 6-7; Simai, 1977: 12).

The United States, however, opposed economic integration in Latin America. Between the end of World War II and 1960 the United States policy towards Latin America was focussed mainly on security matters. The Latin American countries, on the other hand, were concerned with economic issues (Bawa, 1980: 16). At the economic level, the United States government believed that its interests and of the world would be better served with global trade liberalization. The government was concerned that "trade diversion" would be greater than "trade creation in the cases of economic integration processes among developing countries."[13] The United States was also worried that

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[12]Terms of trade is defined a the ratio between the average international price of exports of a country (or a region) and the average price of its imports. A deterioration of the terms of trade, means that over time a country (or a region), is getting less for its exports and/or paying more for its imports.

[13]Given a intra-regional trade liberalization process by which country members reduce or eliminate import tariffs reciprocally in a part or all of the universe of products, trade creation is a situation by which local production is replaced by imports from a partner country which is more efficient. Trade creation will lower for consumers the price of the products in the importing country by the amount of the eliminated tariff plus the amount of the difference between the price in the importing country before the abolishment of the tariff and the price after its elimination.

Trade diversion is a situation by which cheaper imports from non-member countries are replaced by imports from more expensive productions coming from a partner country. The importing country will

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economic integration would affect adversely its commercial interests, and that this process could make the region less dependent on the United States. To accept the creation of a process of integration, the United States demanded that in addition to the criteria stated in 1944 (see above, section 1), the process must be beneficial to new private foreign investment, and insure free competition within the integrating area (Thompson, 1970: 108).

As for security matters, with few exceptions, Latin America was "free" of the Communist peril and was within the United States' sphere of influence. For this reason the region enjoyed a low priority in both political and economic terms. Between 1948 and 1958 "... Latin America received only 2.4 percent of Washington's foreign aid, ranking behind every other region in the World" (LaFeber, 1984: 95). In the 20 year period, 1945-1965, Latin American countries (excluding the Caribbean) received US $3.92 billion (Thompson, 1970: 52). The Marshall Plan allocated US $17 billion to reconstruct

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be paying more for the products now coming from its partner, but the price paid by the consumers will be equal or lower than before tariffs abrogation. This phenomenon will occur because the partner country has the advantage of not being charged with the import tariff—which is applied to imports originating from non-member countries.

These concepts were first coined by Viner (1950). They were subsequently developed and expanded by Meade (1969), Gehrels (1956-1957), Lipsey (1957), Johnson (1962), Markower and Morton (1953), and Krauss (1972). For and overview of the theories see Lipsey (1960), Krauss (1972), and Pelkans (1980).

Trade creation is deemed as positive, in terms of world's welfare because efficiency has increased. Trade diversion, in the contrary is considered negative because efficiency has decreased. This factors do not hold if only the interests of the integrating countries are taken into account. Several political effects can be analyzed. Two of them will be dealt with here. In the first case (trade creation), the less efficient partner, which looses its production, may consider it as unacceptable for its consequences in employment and income generating activities, while the successful partner might be increasing its exports only slightly. In the second case (trade diversion), the country which stops buying from third countries to buy from a less efficient partner is not only losing fiscal revenues because tariffs are being eliminated on imports from the partner, but also, by definition, the country is paying a higher price than otherwise. This country will be "losing" twice, forfeiting budget income and buying dearer, while the winning country may only export marginally. In both examples the "losing" country will be unhappy with the situation, even more so, if the integration agreement does not consider effective compensatory devices. In the case of the "winning" country, increase in exports may be only minimal.

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Europe.

2.3.- Domestic factors favoring economic integration

At the domestic level, many Latin American nations were undergoing profound changes and facing similar problems. Chief among them were demographic explosion and rural migration to the cities. These problems created a need to industrialize, to provide urban jobs and to meet the increasing demand for goods. Other common economic problems were stagnation, chronic inflation, balance of payments deficits, and deterioration of the terms of trade. These problems led to social and political unrest.

Import substitution industrialization changed the structure of production in Latin America. Industry increased its share in the gross domestic product at the expense of agriculture. Over time, industry grew at a slower pace and more inefficiently than expected, while agriculture stagnated. The import structure changed. The importation of semi-finished products and capital goods became more important than the importation of consumer goods.[14] The structure of exports remained almost unchanged. Major exports continued to be raw materials and minerals. Imports rose due to the deepening of the industrialization process and the increasing demand for manufactured consumer goods.[15] The price of exports tended to remain the same or to decrease due to vagaries of the market, which stagnated agricultural output even more. Deficits in the trade balance

[14]This meant that dependency on foreign goods increased because it became more difficult for imports to be reduced in case of a decrease in foreign exchange earnings. This was so, due to the fact that a decrease in imports of intermediate and capital goods would almost immediately slow down industrial activity, which in due time would affect economic growth.

[15]The latter was originated by the increase of urban population due to internal migration.

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ensued, capital borrowing increased, as well as debt service. Consumption rose at a faster pace than production, and investment lagged because of low rate of savings. Unemployment increased because industrial production was capital intensive.

ECLA's regional economic integration proposal allowed these countries not only to continue the strategy of import substitution industrialization, but permitted them to increase exports of traditional goods, and more importantly of semi-manufactured and manufactured goods within the region. This in turn would free foreign exchange to be used for imports from outside the region of goods not produced within it. In addition, economic integration, by creating an expanded market, would generate the incentives to establish new industries in these countries. Existing industries would increase efficiency and would become competitive in the international market. By doing so, Latin America could diversify its exports, and therefore change its export structure. In turn, increased exports would increase regional production, would make import substitution more efficient, and would decrease reliance on imports, thereby reducing the vulnerability and dependency of the region. Economic integration was proposed as the instrument by which a vicious cycle of underdevelopment could be transformed into a virtuous circle of development.

2.4.- Progress of economic integration between 1945 and 1960

Between 1945 and 1960, several avenues were pursued towards the creation of the common market. In 1954, a Group of Experts summoned by ECLA supported the need for "... greater integration of the national economies in wider spheres ..." (Lleras

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Restrepo, 1972: 64), and to limit the scope of the most favored nation clause. In 1955, ECLA, in its Sixth Session, created a Trade Committee which proposed the constitution of a common market. It should be created gradually, should cover all goods, should provide special treatment to the relatively less developed countries (RLDC), should further production complementarity, should have a payments system and safeguard clauses, and should foster competition (U.N., 1962: 38).

The Central American countries were the first to agree to pursue some sort of economic integration. In 1952 the Central American Committee for Economic Cooperation—CCCE—(*Comité Centroamericano de Cooperación Económica*) was established. Between 1954 and 1960, the Committee was able to create some regional institutions, and to negotiate a series of treaties that led to the creation in 1960 of the Central American Common Market (CACM).

3.- ECONOMIC INTEGRATION IN THE 1960s

During the 1960s, the Latin American integration process began to take shape in the form of the Central American Common Market (CACM), the Latin American Free Trade Association (LAFTA), and the Caribbean Free Trade Association (CARIFTA).

3.1.- The Central American Common Market (CACM)

The CACM was created by the General Treaty of Economic Integration (*Tratado*

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General de Integración Económica), signed in 1960 in Managua, Nicaragua. The aim was to create a customs union with a high degree of economic policy harmonization to foster the economic development of the region.

At first, progress was highly impressive but problems among member countries, which had existed from its inception, began to mount. Two of the most acute problems were the unequal distribution of trade benefits and of industrial production. The most developed countries—Guatemala and El Salvador—benefitted the most, while the least developed ones—Nicaragua and Honduras—benefitted the least. Political problems made the situation even more difficult. In 1969 El Salvador and Honduras fought the "Soccer War." In the 1970s there was a series of trade retaliatory measures imposed primarily because of economic stagnation. By the end of this decade, most of the restrictions to trade among the countries were lifted, but by then civil wars in Nicaragua, El Salvador and Guatemala brought the process to a halt until the early 1990s when some attempts were being made to revitalize it. Currently, emphasis is given to infrastructure and to create a common market among themselves and with other Latin American countries.[16]

3.2.- The Caribbean integration: CARIFTA and CARICOM

The treaty creating CARIFTA was signed in Antigua in 1965. The aim was a gradual creation of a free trade zone in the Caribbean. In 1972 the Caribbean Community (CARICOM) was created with the signing of the Treaty of Georgetown. It encompass the Caribbean Common Market and a system of functional cooperation and coordination

[16]See for instance Caballeros, 1992; Cáceres, 1992; and Rojas, 1992.

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in specific areas. Its members expected that integration would bring about accelerated and balanced development, greater economic independence, and increased leverage in international negotiations.

Although some progress has been achieved towards the creation of the common market, problems still abound. As in the case of the CACM, the unequal distribution of benefits seems to be the major difficulty, accompanied by a weak linkage system among these insular countries. Since the mid-1980s, renewed attempts to further Caribbean integration have been made. More recently, a report of the West Indian Commission (1992) suggesting new actions to deepen and expand integration was presented to the Heads of State. "Despite frequently declared ambitious plans, intra-regional trade still faces much higher barriers than most exports to the outside world" (Inotai, 1994: 59).

3.3.- The Latin American Free Trade Association (LAFTA)

a) The Treaty of Montevideo

The Treaty of Montevideo creating LAFTA was signed in February 1960, and went into effect in June 1961.[17] The original seven members were Argentina, Brazil, Chile, Mexico, Peru, Paraguay, and Uruguay. In 1961 Colombia and Ecuador joined the association, Venezuela did it in 1966, and, lastly Bolivia, in 1967. The original aim was the creation of a free trade zone over a period of 12 years, 1961-1973.

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[17]An unofficial English text, translated by ECLA (United Nations, Department of Economic and Social Affairs, *Multilateral Economic Co-operation in Latin America, Vol. I: Text and Documents*, New York: United Nations, 1962), was published in Wionczek (ed.), 1969: 43-66.

Other English translations of Treaty of Montevideo have been published in Inter-American Institute of Legal Materials, 1975: 3-25; and in Dell, 1966: 228-257.

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The most important instrument was intra-regional trade liberalization. Every year, new tariff reductions were to be negotiated bilaterally, and product-by-product. The treaty also provided for limited industrial integration. There were provisions to protect agriculture from trade intra-regional liberalization, to apply the most favored nation clause only among the member countries, and to provide a trade treatment favorable to the RLDC. Finally a weak institutional structure was created.

By 1964 LAFTA was stagnating. New and broader goals were to be planned, and decisions had to be taken at the highest level, if this institution was to be revitalized (Haas and Schmitter, 1964). Two different approaches were proposed. One, was to convert LAFTA into a common market. The second approach was subregional integration. The latter was the aim of some of the medium-sized countries, particularly Chile and Colombia which had realized that the Latin American common market would be quite difficult to achieve. These two countries were the most dissatisfied with the lack of substantive progress of LAFTA.

In December 1965, the Council of Ministers of Foreign Relations was created.[18] In 1966 a limited payment system began to operate.[19] Furthermore, in 1967 the Summit of American Presidents, which met in Punta del Este, Uruguay, decided to create the Latin American Common Market in fifteen years beginning in 1970. By 1968, however, it was clear that the dynamism required to overcome the obstacles to the free trade zone

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[18]The Protocol was signed in December 1966. For the texts of Resolution 117 creating the Council and the respective Protocol see Wionczek (ed.), 1969: 87-88 and 67-70 respectively; and also Inter-American Institute of Legal Materials, 1975: 116-119.

[19]In 1965 a rudimentary and cautious Multilateral Payments Clearing agreement among the Central Banks of the LAFTA's members was created. See the text in Wionczek (ed.), 1969: 350-353.

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was lacking. The need to modify the Treaty was raised by Peru in May of 1968, and by Mexico in July of the same year. Discussions went on until December 1969 when the member countries could only agree, through the Caracas Protocol, to extend the deadline to create the free trade zone from 1973 to 1980.[20] This postponement did not help at all, and by the end of the 1970s, a new treaty was being negotiated. It was signed in Montevideo in 1980.[21] It replaced LAFTA with the Latin American Integration Association (*Asociación Latinoamericana de Integración - ALADI*).

ALADI's official aim is the gradual and progressive creation of a Latin American common market. The new treaty, however, makes most of the obligations even less stringent than in the previous treaty. It doesn't set a timetable to achieve the aim. Some of the mechanisms of the old scheme were retained but greater negotiation and operational flexibility were allowed. New mechanisms facilitate the adoption of bilateral as well as multilateral agreements which do not have to include all of the member countries. The less developed countries are treated more favorably than in the Treaty of Montevideo. A new category of countries—those of intermediate development—was created. These countries receive some advantages over the most developed countries, but they are not as extensive as those accorded to the less developed members.

b) LAFTA's major problems and obstacles

From the outset LAFTA was plagued by a series of difficulties. Negotiations for

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[20]For the text of the Caracas Protocol see Inter-American Institute of Legal Materials, 1975: 26-28.

[21]To differentiate this treaty from the first one signed in the same place, the second treaty was officially designated as "Tratado de Montevideo 1980" (Art. 64).

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furthering the free trade area quickly became an impossibility since no country wanted to disrupt powerful domestic protectionist interests. LAFTA became a scheme to sell excess production, and to buy what was not met by domestic production, but not for fostering industrialization. The cumbersome tariff reduction system, the broad safeguard clauses, and the clauses limiting agricultural trade allowed for this.

Intraregional trade, nevertheless, increased over the years (see table II.1), but it was marginal, only 14 percent of total trade. Paradoxically, this percentage was reached in the last two years of life of LAFTA. The major beneficiaries of the trade were the three largest countries. Around 60 percent of the total intraregional trade were generated by the big three: Argentina, Brazil, and Mexico, while the five medium-size countries—Chile, Colombia, Peru, Uruguay, and Venezuela—shared 30 percent of the total intraregional trade. Only 5 percent of the trade was shared by Bolivia, Ecuador, and Paraguay (Morales, 1978: 64). Most of the intraregional exports from a given country went to two or three other member countries. For example around 50 percent of intraregional exports of Argentina, in 1980, went to Brazil and Chile. For Brazil 58 percent of its intraregional exports went to Argentina, Colombia and Chile. In the case of Chile, this country concentrated 65 percent of its intraregional trade with Argentina and Brazil (Guerra-Borges, 1991; 160-161).

A more important indicator, the percentage of intraregional trade enjoying tariff reductions in relation to total intraregional trade went down from 88.7 percent 1966 to only 40 percent by the end of the 1970s. This last figure, in turn, was only 6 percent of LAFTA's total trade (Blejer, c1985: 19). Exports of products enjoying tariff reduction

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TABLE II.1
LAFTA: TRADE INDICATORS 1960-1980
(In millions of US dollars FOB and percentages)

	1960	1965	1970	1975	1978	1979	1980
1	7,345	9,389	13,787	29,664	44,630	60,729	78,134
2	567	842	1,266	4,010	5,838	8,575	10,921
3	7.7%	9.0%	9.2%	13.5%	13.1%	14.1%	14.0%
4	----	5.6%	9.4%	23.0%	16.8%	36.1%	28.7%
5	----	9.7%	10.1%	43.4%	15.2%	46.9%	27.4%

1.- Total exports by LAFTA countries.
2.- Total intraregional exports.
3.- Percentage of intraregional exports over total exports.
4.- Annual average rate of growth of total exports with respect to the previous data.[22]
5.- Annual average rate of growth of total intraregional exports with respect to the previous data.[23]
SOURCE: Fuentes and Villanueva, 1989: 103-104.

were not important for Bolivia, Paraguay and Venezuela, while 80 percent of Brazilian intraregional exports were enjoying these reductions.

The second major instrument, industrial complementation agreements, which were designed to help further import substitution by promoting industrial specialization, was a failure. Complementation agreements were, in practice, accords among private entrepreneurs that were sanctioned by their governments. For this reason, these

[22]This indicator is calculated as the percentage difference between the value of trade of a given year with respect to the previous data shown in the table and divided by the number of years that are in between the two data. This percentage result merely indicates the average percentage that trade has increased with regard to the earliest data.

[23]See previous footnote.

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understandings were of limited scope and were of little effect. Most of the agreements involved basically enterprises of the three major countries. The main beneficiaries appeared to be foreign enterprises and oligopolies (IDB, c1985: 69; Guerra-Borges, 1991: 158).

The main reasons for the failure of industrial complementation agreements were: a) the unwillingness of the governments to coordinate industrial planning and policies; b) their lack of interest in relinquishing the possibility of developing production of specific goods; c) the impossibility of determining *a priori* a balanced agreement; d) the unequal distribution of benefits derived from these agreements; e) the lack of sufficient financial resources, both at national and at international levels, and f) the different levels of development of the member countries (Bawa, 1980: 59; IDB, c1985: 69-70; Morales, 1974: 66; Guerra-Borges, 1991: 158).

The non-fulfillment of the expectations of the medium-sized and small countries led to a demand for compensations from the larger members in the form of greater access to their markets. The largest countries, however, were content with the *status quo* and unwilling to make additional concessions. This situation led to an increasing polarization of LAFTA and to its paralyzation by the middle of the 1960s.

The benefits were concentrated in the three major countries and created a disillusionment of the medium-sized and small countries. The different abilities to take advantage of the gradual and limited creation of the Latin American Free Trade Area were principally related to "the great differences of the economic dimensions and structures of its member countries" (Salgado, 1984: 81), that is, to their different levels

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of development.

In all, these problems reflect that "national interests dominated regional interests, and the region remained an afterthought to more pressing concerns" (Rothstein, 1977: 197). This conclusion was more clearly expressed by Vacchino[24] (quoted by Mármora, 1990: 54), who stated that "[t]he LAFTA scheme adapted itself, without major difficulties and complications to the role reserved for economic integration in the national development strategies, that is, a secondary and subordinate role to national and international priorities." It is then not difficult to understand why there was no "political will" among the governments of the member countries to adopt the measures needed to pursue a common endeavor that from the view point of economic rationale would have benefitted all.

[24]Vacchino, Juan Mario; "Teorías, esquemas y experiencias de integración económica regional," in: *Nuevo Mundo*, Año 5, Nos 15/16, Jan-Jun 1982, p. 175.

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CHAPTER III

FROM BOGOTA TO CARTAGENA (1966-1969): EN ROUTE TO SUBREGIONAL INTEGRATION

1.- THE DECLARATION OF BOGOTA; AND THE DECLARATION OF THE PRESIDENTS OF AMERICA

1.1.- The "Report of the Four"

Trying to revitalize the Latin American Free Trade Association (LAFTA), the new president of Chile, Eduardo Frei, asked on January 6, 1965, four outstanding Latin American economists for advice on how to accelerate the Latin American economic integration process. They were Felipe Herrera, then President of the Inter-American Development Bank; Raúl Prebisch, then Secretary-General of the United Nations Conference on Trade and Development; Carlos Sanz de Santamaría, then President of the Inter-American Commission for the Alliance for Progress; and José Antonio Mayobre, then Executive Secretary of the Economic Commission for Latin America.

Their answer, in April of the same year, was the "Proposals for the Creation of

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the Latin American Common Market."[1] They said that the lack of a general integration policy (with clearly and distinctively established objectives, methods and deadlines) is the major reason why economic integration is progressing so slowly. They recommended the conversion of LAFTA and the Central American Common Market (CACM) into the Latin American Common Market. To achieve this, a definition of major objectives, the adoption of political decisions at the highest level, and the adoption of new mechanisms were needed.[2] These four prominent economists thus reiterated the importance of political decisions and of institutional structure.[3]

The recommendations of the "Report of the Four," as this document was known, were not acted upon. "The first conference of LAFTA foreign ministers, held in November 1965, considered the report ... [but] did not adopt any of its major proposals ... . Another LAFTA conference at the end of 1966 also failed to resolve any major issues" (Grunwald, Wionczek and Carnoy, 1972: 55). This was a reflection of the divergent national objectives of the participating members toward LAFTA.

In the meantime (1965-1967) the movement towards subregional integration began to be discussed in earnest. The Chilean President again was its promotor (Frei, 1976:

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[1]For the texts in Spanish of Frei's letter and the answer the see García Reynoso et al., 1965. For the English translation of these documents see Dell, 1966: 279-310.

[2]Among the mechanisms suggested were automatic across-the-board tariff reductions, industrial programming, foreign investment promotion, a payment system, and a strengthened institutional structure.

[3]In other words, they gave the neo-functionalist and federalist approaches greater relevance than the functionalist one. As it has been mentioned in chapter I, neo-functionalism focussed on a political decision to deepen the process. In this case, the four prominent economists suggested deepening the process by converting the two Latin American integration processes into a common market. Federalism focussed on the creation of institutions as the tool to achieve integration. The advice to strengthen the organs of the Latin American integration process was in line with this approach. Functionalism stressed cooperation only on technical, non-political issues.

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11). President Raúl Leoni of Venezuela and President-elect Carlos Lleras Restrepo of Colombia supported the initiative (Elgueta, 1976: 24-25). Moreover, as President-elect, in July 1966, Lleras Restrepo visited the presidents of Venezuela, Ecuador, Peru and Chile and invited them to meet in Bogota, Colombia in order to adopt the basis of a future Andean Community (Frei, 1976: 11; de la Puente, 1988: 214; Valdés, 1984: 63).

1.2.- The Bogota Meeting

In August 1966, in Bogota, the Presidents of Chile, Eduardo Frei Montalva; Colombia, Carlos Lleras Restrepo; and Venezuela, Raúl Leoni; and the personal representatives of the Presidents of Ecuador, Galo Plaza Montaño; and Peru, Fernando Schwalb López Aldana signed the Declaration of Bogota (*Declaración de Bogotá*).[4] They decided to foster economic growth of their countries, as a means of achieving a balanced and harmonious regional development. To accomplish this, they agreed to an automatic tariff reduction more accelerated, and more encompassing than LAFTA's; a program to develop new industrial production; a program to harmonize economic policies, in which a common foreign investment policy had a priority;[5] and more effective actions favoring the relatively less developed countries (RLDC) than the ones in LAFTA.

The proposed measures were more in line with ECLA's proposals. According to Tomic (1980: 188), the Declaration of Bogota was a veiled note to the big three

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[4]The Declaration also includes a "Bases for an Immediate Action Programme" which provides greater details and more specific steps the governments were willing to pursue. The English version of this text can be found in Inter-American Institute of Legal Materials, 1975: 149-164.

[5]A common treatment of foreign investment and technology was a major preoccupation of the Presidents. They wanted to avoid repeating LAFTA and CACM experiences, where there was significant evidence that "foreign companies had seized many of the benefits from integration" (Ferris, 1979a: 51).

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(Argentina, Brazil and Mexico) that if LAFTA remained in stagnation, the Andean countries would proceed towards subregional integration. It was also a clear indication that the presidents of the Andean countries were not only dissatisfied with LAFTA's results, but more importantly with the aims, structure and mechanisms of this institution. The presidents believed in a radical departure from LAFTA as the solution.[6]

1.3.- The summit of Punta del Este

These were the most important antecedents (with regard to subregional integration) to the summit meeting at Punta del Este, Uruguay, in April 1967. The Presidents of all the countries of the Americas were present, and the United States, for the first time, gave official support to integration in Latin America. At this meeting the Declaration of the American Presidents *(Declaración de los Presidentes de América)* was signed. The Declaration, among other things, instructed the Ministers of Foreign Affairs:

> To promote the conclusion of temporary *subregional agreements*, with provisions for reducing tariffs within the subregions and harmonizing treatments toward third nations more rapidly than in the general agreements, in keeping with the objectives of regional integration. Subregional tariff reductions will not be extended to countries that are not parties to the subregional agreement, nor will they create special obligations for them. ...
>
> The countries of relatively less economic development will have the right to participate and obtain preferential conditions in the subregional agreements in which they have an interest (Wionczek (ed.), 1969: 97-98, italics added).

For the Andean countries this was a significant achievement. The Latin American nations and the United States had accepted the principle that nations would be able to

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[6]"... the move to Andean integration represented a response to the inability of LAFTA to respond to the national interests of the less well developed partners by failing to agree to packages of measures that would assure support of all the member countries" (Axline, 1994b: 204).

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create subregional groupings within LAFTA's framework. Subregional integration would allow countries to move faster towards the goal of a common market while at the same time member countries would not have to apply the most favorable nation clause.[7]

The Declaration of the American Presidents was a non-binding document. Soon, it was forgotten by most of the governments but not by the Andean countries.

1.4.- "Bases for a Subregional Agreement"

In June 1967, two months after the Presidents' summit, in Viña del Mar, Chile, the Joint Commission (*Comisión Mixta*), envisaged in the Declaration of Bogota (August 1966), to draft the subregion agreement, was installed. It was composed of government representatives of Colombia, Chile, Peru, Ecuador, and Venezuela.[8] The Commission adopted the "Bases for a Subregional Agreement" at its third meeting, in August of 1967, in Caracas, Venezuela and in the following month the LAFTA Council of Ministers ratified them. The five-member countries agreed to eliminate tariff and non-tariff restrictions for all the products at a faster rate than LAFTA. The Bases stipulated the adoption of a minimum common tariff, a set of rules of origin, safeguard clauses, and regulations to prevent unfair competition. The countries also agreed to coordinate their economic policies. Ecuador and any other RLDC joining the subregional integration process would enjoy special treatment to benefit effectively from the opportunities created

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[7]The principle of the Most Favored Nation states that any concession given to any member of an agreement should be automatically extended to all parties.

[8]The Bolivian government joined the Commission as observer at its third meeting (August 1967), and as official member in the fourth meeting (November 1967).

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by integration, especially with regard to trade, industry, and investment.

In the second session of its sixth meeting the Joint Commission was able to finish its work.[9] On May 26, 1969, the Plenipotentiaries of Bolivia, Colombia, Chile, Ecuador and Peru signed the Cartagena Agreement in Bogota, Colombia. Venezuela abstained.

2.- THE CARTAGENA AGREEMENT: ORGANS

The original Cartagena Agreement[10] established the Commission and the *Junta* (Board) as the principal organs of the Andean Pact.[11] The original auxiliary units were the Consultative Committee, and the Social and Economic Committee.

2.1.- The Commission

The Commission is the highest organ of the agreement. It has exclusive legislative power, as a consequence it is entrusted with making political decisions. It is in charge

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[9]The Joint Commission in this sixth meeting was not able to reach the final accords and had to adjourn. A second session was then called to finish the work. By this act the technique of adjourning and calling for a another session of the same meeting was established within the Andean Pact. This device would be used every time government representatives would not be willing to acknowledge the lack of progress or the existence of problems in agreeing on certain issues.

[10]The English translation published in International Legal Materials (Vol. VIII, No 5, September 1969) is reproduced in García-Amador, 1978: 239-282; and in Inter-American Institute of Legal Materials, 1975, Vol I: 175-218.

[11]In 1979 the Andean Court of Justice (May) and the Andean Parliament (October) were created. The Quito Protocol, 1987, incorporated them as principal organs of the agreement. The following Andean units are not, however, part of the Cartagena Agreement: the Andean Development Corporation (*Corporación Andina de Fomento*, CAF), created in February 1968; The Andean Reserve Fund *(Fondo Andino de Reserva, FAR)*, created in June 1976, and later transformed into the Latin American Reserve Fund *(Fondo Latinoamericano de Reserva, FLAR)* in March 1991; the Andean Council of Ministers of Foreign Relations (November 1979); the Andean University "Simón Bolívar, established in September 1986; the three social agreements (see chapter IV, section 1.1); and the Andean Presidential Council created in May 1990.

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of the general direction of the process and to deal with all the aspects included in the agreement. It is constituted by one plenipotentiary from each country.[12] The Commission meets ordinarily three times a year, and extraordinarily at the request of one country or the *Junta*. The quorum is fixed at two-thirds of its members (four out of five), each member having one vote. Non-participation in a meeting is considered as abstention in the voting.

The Commission's accords are called "Decisions." Decisions, as a general rule, are adopted by affirmative votes of two-thirds of its members. There are three groups of issues, detailed in the three annexes of the Cartagena Agreement, for which this general rule does not apply. For the first group of subjects, included in Annex I,[13] there is the right of veto. For the second group of matters, considered in Annex II,[14] any member country can veto an item only once. In the third group of issues, related to the special treatment of Bolivia and Ecuador, a decision is approved if at least one of these two countries votes affirmatively and the other abstains.

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[12]The plenipotentiary of each country, have been, in practice the minister or cabinet rank functionary who was in charge of integration matters.

[13]The original items in this Annex were: Delegation of responsibilities to the *Junta*; approval of changes of the agreement; amending the *Junta*'s proposals; approval of the rules for policy harmonization, of physical and agricultural integration programs; modification of the number of dutiable items exempted from the tariff reduction program; acceleration of the tariff reduction program; and establishing the terms of accession to the agreement. The latest version of the Cartagena Agreement, also includes: to modify the deadlines stipulated in the agreement; to approve and modify the common external tariff (moved from Annex II) and; to approve *Junta's* proposals with regard to solving conflicts arising from restrictions in agricultural trade.

[14]Items included in this Annex were: Approval of the list of products reserved for sectoral industrial programming, approval of the sectoral industrial programs, approval of the rationalization programs, approval of the common minimum external tariff and the common external tariff (moved to Annex I), approval of the special rules on origin. With the changes in the text of the agreement, the approval of sectoral industrial programs was taken out of this Annex because it became possible for a country not to participate in some of them. The rationalization programs were eliminated from the agreement, thus it disappeared from this Annex. No new items were included in this Annex.

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This complicated voting system relies heavily on consensus, and gives the Commission the characteristic of an inter-governmental institution, in which governments' priorities dominate and the decisions adopted by the Commission reflect the interests of the governments. This is reinforced by the fact that most of the decisions need domestic legislation in order to be implemented.[15] In theory, however, the Commission had to reconcile and amalgamate national interests, giving shape and form to community interests (JUNAC, 1982a: 2).

2.2.- The *Junta*

The *Junta* is the secretariat and the technical organ of the Cartagena Agreement. Its headquarters are in Lima, Peru. Its main duties are to ensure the observance of the agreement's norms, the observance of the Commission's Decisions and of its own Resolutions; to prepare studies at its own initiative as well as those requested by the Commission; to coordinate with government offices in charge of integration, and with other organizations dealing with regional integration; to cooperate with Bolivia and Ecuador so these countries can benefit from the process; and to evaluate yearly the progress made, and based on the results, to propose modifications. In order to fulfill these tasks, the *Junta* has the power to make "Proposals" to the Commission dealing with measures and policies.[16] The Commission has to consider all the *Junta*'s proposals.

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[15]With the functioning of the Andean Court, January, 1984, all decisions should have been automatically part of the national legislation unless it was otherwise indicated in the decision. In practice, this automaticity has not worked.

[16]This power was an exclusive prerogative of the *Junta*. With the Quito Protocol, the governments of the member countries also share this power but they have not use it.

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The *Junta* is composed of three members appointed unanimously by the Commission. They serve for a three year term and can be reelected. In case of vacancy, the Commission should appoint a replacement for a three year term.[17] All actions of the *Junta* must be adopted unanimously.

The *Junta*'s main mission is to represent the interests of the subregion as a whole. With this in mind, the expectation for this principal body was that it would be in charge of putting into practice a balanced distribution of benefits. The *Junta* has technical and administrative personnel under its sole control which is independent of the governments.[18]

2.3.- Other bodies

The Consultative Committee was in charge of linking the governments with the Junta, but it rarely functioned. Its tasks were taken over by the specialized councils created by the Commission, and later eliminated by the Quito Protocol.

The Economic and Social Committee[19] was composed of representatives of entrepreneurs and workers. Its function was to advise the Commission and the *Junta* on matters pertaining to the committee's interest, as requested by any of the two main

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[17]This was later changed by Article 11 of the Quito Protocol, signed in May 1987. The replacement should serve only for the remainder of the period.

[18]In practice *Junta's* members tend to reflect the interests of their countries since their candidacy has to be supported by their governments. The same applies, in general, with regard to the *Junta*'s professional personnel.

[19]The Committee was later replaced, in January 1983, by the Entrepreneurial Consultative Council (Decision 175) and the Labor Consultative Council (Decision 176). They were incorporated by the Quito Protocol as auxiliary bodies. Their functions remain similar to the functions of the Economic and Social Committee.

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organs. This Committee was also seldom asked to convene.

The auxiliary bodies have not functioned as expected, because the Commission and the *Junta* colluded to monopolize control of the Andean process, the Commission from the national and political point of view, the *Junta* from the community and technical view point. The few times these auxiliary organs were called on, they were given tasks for which their reports were not given much attention. They were also summoned just to be informed about some issues which were in their direct interest.

3.- THE CARTAGENA AGREEMENT: AIMS AND MECHANISMS

The official aims of the Cartagena Agreement are to promote the balanced and harmonious development of its member countries, and to accelerate their growth by means of economic integration. The benefits derived from integration should be distributed with equity in order to reduce the existing gap among the member nations. These aims have the objective of bringing about a sustained improvement in the standard of living of the subregion's inhabitants.

The mechanisms to implement the principles were: (a) policy harmonization, giving priority to a common treatment of foreign investment; (b) industrial programming to accelerate industrialization; (c) a gradual tariff reduction process; (d) a common external tariff preceded by a common minimum external tariff; (e) agricultural development and cooperation programs; (f) physical integration, and (g) special treatment

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for Bolivia and Ecuador, the relatively less developed countries of the group.

3.1.- Policy harmonization

Policy harmonization, which includes coordination of planning, is the first mechanism the Cartagena Agreement's text contemplates (Chapter III). As such, the drafters signaled that this mechanism was to be the framework for other mechanisms. Member countries were required to begin a process of coordination of their development plans, and to coordinate their economic and social policies in order to attain a common planning system. This process would evolve gradually, parallel to, and in coordination with, the formation of the subregional market.[20]

3.2.- Industrial programming

Industrial programming would be implemented through sectoral programs for industrial development, and rationalization programs. Each sectoral program would be a negotiated accord specifying the products included, and investment needed. The accords should also consider plant locations, harmonization of trade and other policies, a common external tariff, special treatment for Bolivia and Ecuador, and other complementary measures with regard to the enjoyment of the expanded market. Rationalization programs would be applied to industries which have not been selected as part of sectoral programs. The aim was to increase their efficiency and productivity.

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[20]This meant, according to the Junta (JUNAC, 1983a: 8), the adoption from the outset of a set of common norms on basic aspects of economic policy to avoid distortions in the functioning of the unified market competition.

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3.3.- Program of tariff reduction

The tariff reduction program was a complex mechanism. It was characterized for encompassing all the dutiable products; being automatic and irrevocable; being gradually achieved; having different forms of liberalization according to the level of development of the country and according to the product; being flexible by allowing the use of the safeguard clauses; and for the existence of temporary and limited exemptions to the tariff reduction program according to the level of development of each country.

3.4.- External tariff

The common external tariff (CET) was to be adopted in two stages. The first was the approval, by December 1970, of the common minimum external tariff (CMET). The larger countries were to begin the process of gradual, proportional and automatic approximation of it in December 1971 and finish this process in December 1975. Smaller countries were, in practical terms,. not required to apply the CMET.

The second stage was the approval of the CET itself. It was to be negotiated between December 1973 and December 1975 when it would be approved. The larger countries would have five years (1976-1980) to apply it gradually. The smaller countries would have ten years (1976-1985) to do it.

3.5.- Special treatment for Bolivia and Ecuador

Specific advantages were given to Bolivia and Ecuador in the tariff reduction

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program and the CET. They were in the form of longer periods to implement these mechanisms, and in the form of the immediate opening of the Andean market for most of their products.

In other mechanisms only general and ambiguous advantages were conferred upon these nations. In the case of policy harmonization it was stated that a differential treatment should be enough as to compensate for the structural deficiencies of Bolivia and Ecuador. As for the industrial programming, these countries should have priority in the localization of plants, should have preferential treatment and exclusive advantages to benefit effectively from the expanded market. The other member countries also pledged to act jointly in order to obtain technical and financial assistance for the smaller nations.

3.6.- Other mechanisms

The common agricultural regime was basically a vague set of cooperation programs designed to improve agricultural production and development. More importantly, it also considered a list of agricultural products (to be defined by December 1970) which would be exempt from the tariff reduction program.

The Cartagena Agreement also included the adoption of rules with regard to unfair competition, safeguard clauses, and origin of goods. These rules were designed to minimize trade distortions and to rely on the market as the most important tool to determine trade.

With regard to physical integration, the agreement attempted to improve infrastructure, especially in the areas of energy, transports, and communications; and to

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improve border traffic. The aim was to facilitate trade.

4.- THE ANDEAN INTEGRATION PROCESS AS A POLITICAL ENDEAVOR

The creation of the Andean Group put into practice the decision to pursue subregional integration to increase the rate of growth, and to redistribute its benefits in an orderly manner. In this way, it was expected that increasing social malcontent could be alleviated. This process was the most creative and the boldest of all the integration processes attempted in Latin America then or later. Its political creators set to themselves objectives, ends, and means that responded to both the realities of the end of 1960s and the future (Dávila, 1984: 1).

The governments were also hopeful that subregional agreement would accelerate the creation of a Latin American common market. As such, the Andean Group was conceived of as a temporary agreement within LAFTA. This view was echoed by the Peruvian Minister of Foreign Relations, General Edgardo Mercado Jarrín (1969: 26-27). He declared that

> the Andean Group had been created to overcome the institutional deficiencies, and the vacuum existing in LAFTA; to promote dynamically the development of a relatively homogenous group of countries; and to execute temporarily, within the framework of the Treaty of Montevideo, a program that would help the Andean countries to develop at the same rate as the rest of the region.

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4.1.-Negotiating the Cartagena Agreement

The member countries supported the creation of the Andean Pact basically as a tool to achieve or to further their own and not necessarily coincidental national interests.[21] As such, each one of the partners perceived that the subregional integration process should be an instrument to contribute to their economic and social development. Although it is complementary to the national measures applied by each country, the common instrument was designed to greatly modify national structures (JUNAC, 1979b: 7). It is also true that this common instrument has to reflect the national interests of the governments of the member countries.

a) Commercialists vs Developmentalists

From the beginning the countries' position clearly defined two groups: the "commercialist" and the "developmentalist" (Avery, 1983: 158). The first group was composed of Colombia and Chile, the most developed and industrialized countries of the subregion and thus perceived as the most important and powerful units (see table III.1). They intended to have an integration process in which market forces would be predominant. Their aim was basically to create a common market as defined by the prevalent economic theory of the time and by GATT. This common market would be created gradually but as quickly as possible with the support of a powerful institutional structure as prescribed by federalist and neo-functionalist theories.

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[21] "It is evident that each country pursue its own objectives to which they give maximum priority, and conceiving integration as an instrument that contributes to reach these goals. ... national economic interests are, as a matter of fact, above the Andean process ..." (Vega-Centeno and Iguiñez, 1978: 171, 172).

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TABLE III.1
ANDEAN GROUP AND ANDEAN COUNTRIES STATISTICAL PROFILE

		Relatively more developed					Middle		Relatively less developed				GRAN 1/ 2/ 3/
	YEARS	Chile	Colombia	%	Venezuela	%	Peru	%	Ecuador	%	Bolivia	%	
A	1992	33	57		47		93		68		113		
B	1970	9.4	21.4	39	10.6	19	13.2	24	6.1	11	4.3	8	55.5
	1994	14.0	34.5	35	21.0	21	23.4	24	11.6	12	7.9	8	98.3
C	1970	70.4	57.4		71.8		58.1		39.5		38.2		
	1993 4/	85.6	70.3		83.7		70.9		58.0		53.9		
D	1970	2.9	6.5	38	3.0	18	4.2	25	1.8	11	1.4	8	16.9
	1994 5/	6.7	13.2	37	7.5	21	8.7	24	3.7	10	2.6	7	35.7
E	1970	4.1	7.5		7.8		4.7		4.2		13.1		6.9
	1993 6/	6.2	7.9		10.0		10.0		8.3		6.5		7.9
F	1970	7.6	7.2	25	11.6	41	7.2	25	1.7	6	1.0	3	28.6
	1993 7/	41.5	50.0	28	80.1	45	27.1	15	14.5	8	5.9	3	177.6
G	1970	779	337		1,091		544		277		231		515
	1993	3,013	1,472		3,774		1,224		1,324		915		1,810
H	1970 8/	89	501	15	1,970	58	424	12	438	13	70	2	3,403
	1993 9/	1,427	4,389	33	4,585	34	1,618	12	1,853	14	1,050	8	13,395
I	70-75	26.0	34.5		36.1		40.5		41.2		45.4		38.0
	90-95	21.8	25.8		28.3		29.0		30.9		34.4		28.0

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J	70-75	72.0	73.0		48.6		110.0		95.0		151.3		85.0
	90-95	14.0	37.0		33.2		75.8		57.4		84.8		52.0
K	70-75	64.2	61.6		66.2		55.5		58.9		46.7		60.0
	90-95	74.4	69.3		70.3		64.6		66.6		61.1		67.0
L	1970	89.0	78.0		75.0		81.0		72.0		57.0		74.0
	1993 10/	95.0	90.0		90.0		87.0		88.0		81.0		88.0
M	1970	65.0	47.2		54.4		60.4		53.7		60.4		53.0
	1990	66.0	57.4		60.9		80.0		72.0		60.1		65.0
N	1970	15.0	8.0		10.0		20.0		8.0		20.0		n.a.
	1992	6.0	9.0		10.0		20.0		5.0		11.0		n.a.
O	1970 11/	33.0	25.0		15.0		51.0		14.0		63.0		28.0
	1994	41.4	39.0		49.0		83.0		88.0		66.0		55.0
P	1970	19.5	16.0		3.0		16.0		11.0		15.0		9.0
	1994 12/	23.0	41.0		22.0		21.0		51.0		27.0		36.0

Blank = Not applicable
n.a. = Not available
A = Human Development Index
B = Population (Millions)
C = Percentage of urban population
D = Economically active population, EAP (Millions)
E = Urban unemployment rate as percentage of EAP
F = Gross Domestic Product (Billions of US current dollars)
G = Gross Domestic Product per capita (US current dollars)
H = Foreign direct investment (Cumulative, US$ millions)
I = Natality rate (Per thousand)
J = Infant mortality rate
K = Life expectancy at birth (Years)
L = Adult literacy rate (Percentage)
M = Ratio of students to total school-age population
N = Food imports (Percentage of merchandise imports)
O = Total external debt as percentage of GDP
P = Public debt service as percentage of exports of goods
1/ Chile is not included while Venezuela is in GRAN figures
2/ GRAN data may not add-up due to rounding
3/ Data in percentages column refer to shares within GRAN.
4/ Chile: 1990 5/ Chile: 1995 6/ Chile: 1994
7/ Chile: constant prices, 1980
8/ Chile: 1970 only 9/ Chile: 1993 only
10/ All countries 1992, GRAN 1993
11/ Chile: external public debt only
12/ Colombia and GRAN 1993
SOURCES - UNDP, 1995: 20, 162; ECLA, 1976b; 1984a; 1985a; 1994d; 1995a: 5, 8, 13, 20, 53, 173, 174, 191, 193, 502-503, 764; JUNAC, 1994; 1994c: 5, 6, 8, 9, 11, 12, 33, 35; 1994d; 1995c: 27; 1995i: 3, 4, 5, 6, 7, 10 IDB, c1983: 387, 392; 1995: 288, 300, 305; and author's calculations.

The developmentalists, Peru, Venezuela (which were not as developed and industrialized as Chile and Colombia) and to a lesser extent Bolivia and Ecuador (the least developed members), wanted an integration process that would emphasize sectoral industrial programming, economic planning and regional coordination. The position of these four countries was nearer the ECLA's structural-*dependentista* proposals.

It can be said the difference between the two groups was having less policy harmonization versus having more policy harmonization; and having more or less government intervention in the economy and, thus, in the Andean integration process.

b) National interests and the negotiation of the Cartagena Agreement

The Chilean governments considered the Andean Group as a place for expanding exports (Tironi, 1978: 260-263), for improving its relations with Bolivia and Peru with whom Chile has border problems and, during the administration of Salvador Allende, as a mechanism to reduce its international isolation. For Colombia the "Andean integration is visualized as a tool for increasing foreign trade, for stimulating industrial growth, and for reaching a greater economic efficiency" (Caballero, 1978: 102).

Chile and Colombia were the most interested in finishing the draft as soon as possible. Their delegations presented most of the proposals, hammered out the agreements, and worked the hardest to convince the other countries. Therefore, the final text reflected more the developmentalist interests of the other four countries than the

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commercialist interests of these two.[22]

The Andean Group, for Peru was also a tool. "We never understood integration other than to be of profound instrumental value. ... A liberating instrument *par excellence*, the Andean Pact should ... strengthen our economic autonomy and the increasing capability of our peoples to decide their destiny by themselves" (Velasco, 1972: 320).[23] The Peruvian government up to 1968, was not enthusiastic about subregional integration. Its participation in the negotiation process was characterized by apathy and obstructionism.[24] The Peruvian aim was to relinquish as little sovereignty as possible. Only after the reformist military government took power in October 1968, did Peru, after some hesitation, decide to participate in earnest.

For Venezuela (Blanco de Iturbe, 1978: 252, 254), the role of integration was viewed as a contribution that would help its industrialization and to increase its international trade. Venezuela at the very end refrained from signing the Cartagena Agreement. This country felt that, the agreement, as it was, would have meant that its

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[22]"... the fact that they [Chile and Colombia] progressively accepted a shift from the commercial to the developmental axis in the integration strategy only shows how important the extended market was for the governments of both countries" (Mace, 1994: 37).

[23]"The "two fundamental objectives of the Government [are]: political and economic independence at the international level, social justice at the national level. ... The active participation of Peru in ... LAFTA and the Andean Group is oriented to attain these goals" (Mercado Jarrín, 1969: 24).

The Andean Group "... contributes to substantially further national development, ..., to acquire greater influence in the Latin American and international arenas, ..." (García Bedoya, 1981: 74, 90).

For the Peruvian National Institute of Planning, "Integration ... should be a complement ... for attaining our goals in a more efficient manner" *(Plan Nacional de Desarrollo 1971-74. Vol. I. Plan Global.* Lima, Peru: Instituto Nacional de Planificación, 1971, 51, quoted in Vega-Centeno and Iguiñez, 1978: 172).

[24]Most of the times its delegates would behave more as observers than as negotiators. Moreover, the membership of the delegation of Peru was constantly changing, forcing the other delegations to explain all over to the newly arrived Peruvian representatives, in turn they would not commit themselves to any opinion adducing lack of knowledge.

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small progress to industrialize would be wiped out by the more advanced countries, Chile and Colombia.[25]

According to the Ministry of Planning and Coordination of Bolivia the Andean Pact was a tool for its industrial development.[26] Bolivia reluctantly joined the negotiation process, in August of 1967, a year after the signing of the Declaration of Bogota. By then, Bolivia had realized that the other five countries had clearly decided to go ahead. For Bolivia to forgo integration would have meant to be even more isolated from the region and the subregion.[27] To participate in the subregional integration would also allow Bolivia easier access to other countries. Last but not least it would provide another sympathetic forum to continue to press for its quest for access to the ocean.

In the case of Ecuador the Andean market would serve for the expansion of Ecuadorean exports and the development of certain industries (Moncada, 1978: 152).

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[25]Venezuela had begun its industrialization process later than these two countries. Besides being an oil rich and oil exporting country, the inflow of foreign exchange obliged Venezuela to maintain an exchange rate parity based on its oil revenues in order not to pile up excessive foreign reserves. This meant that this country had to have an overvalued currency in relation to everything else but oil. This in turn meant that imports were made easier and exports more difficult. To protect its industries, high tariffs had to be imposed, and when this was not enough, quotas and import prohibitions had to be enacted. This protectionism lead to local production which was more expensive in Colombia, Chile, and even in some cases, in Peru. From the political point of view, local industrialists successfully opposed Venezuela's entry to the Pact unless special provisions were included (Rodríguez, 1974).

[26]"... the Andean subregional agreement constitutes one of the vital mechanisms to implement the national strategy of development ... because it offer access to an expanded market which will allow the development of the industrial sector" *(Estrategia Socio-Económica del Desarrollo Nacional 1971-1991*, La Paz, Bolivia, 1970, Tomo II, 647; quoted in Morales and Machicado, 1978: 44).

More political goals (Dooner and Fernandez, 1982: 25) for Bolivia were: (a) non-participation in the Andean Pact would be a form of marginalization which its consequences were difficult to foresee. (b) Since Chile was going to be a member, with whom had a long-standing territorial problem, there was no other alternative for Bolivia but to be a member also. And (c) the idea that the Andean Group could improve the situation in Bolivia, while it could hardly made things worse.

[27]Bolivia had lost all its coastal territory, and Peru its southernmost department, to Chile as a result of the Pacific War (1879-1883) between Bolivia and Peru against Chile. Since then Bolivia has been demanding access to the sea either through part of its former land or through Peru. In January 1992, Peru granted Bolivia a corridor to the Pacific Ocean.

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Ecuador participated with enthusiasm in the negotiation process. The objective of the Ecuadorean delegation was to obtain as many advantages as possible. Because of this delegation, the RLDC were able to obtain more extensive special treatment than Chile and Colombia were disposed to accept.

Whatever were the national interests and the degrees of enthusiasm, the governments considered the Andean Group as a tool to improve the standard of living of their population. As a Colombian study stated[28]:

> ... the Colombian contribution to the Andean process is positive and contributes to accelerate it when the national objectives and those of the Andean integration coincide; and is negative, producing its stagnation, when the interests do not coincidence ...
>
> Colombia designs and executes its economic policy based solely on its domestic aims ... it has never adopted policies having as the sole reason its participation in the Andean Group.

This is also clearly and succinctly stated by Guerra-Borges (1991: 124): "In the last analysis integration processes are political processes because their creation, development, stagnation, or reversion are caused by government decisions."

c) The Andean Pact: A political endeavor?

The aforementioned facts show that the negotiating process was political, in which the governments were directly involved. Eduardo Frei (1974: 33) corroborates it by stating that "the experience of how the Andean Pact was created shows that it was born thanks to a political decision carried out with political will." Frei's assertion is reinforced

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[28]Junguito, Roberto and Caballero, Carlos.- *Situación y perspectivas de la economía colombiana en relación con el progreso del integración andina.* Bogotá, Colombia: FEDESARROLLO, November 1974, quoted in Caballero, 1978: 103.

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by the following quotations: "The drafting of the Cartagena Agreement is the result of a long negotiation, held between August, 1966 and May, 1969, which had essentially a political character" (JUNAC, 1972: 3). "The birth of the Cartagena Agreement was really the product of a political decision ..." (Grados, 1992: 41). The Andean economic integration process, from the start as well as in practice, was a political endeavor, initiated and implemented by politicians using economic mechanisms to achieve shared national goals, rather than an economic enterprise employing economic tools.

4.2.- The Cartagena Agreement: an economic or a political instrument?

The official aim of the agreement, to foster economic development, was an economic objective. This objective was to be achieved "mostly" by economic means. The integration process considered in the agreement aims to attain a sort of economic union but without considering the creation of a common market[29] (because economic policy harmonization is considered a mechanism, but there was no explicit provision for free movements of capital and labor).[30] Market integration and policy integration, as explained in chapter I, section 1.1, were part of the aims of the Agreement. By having

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[29]There is no clear agreement with regard to what was the form of integration the Andean process wanted to pursue. Some authors say that it was the achievement of a customs union only; others assert that the aim was to create a common market (Ffrench-Davis, 1978: 67; JUNAC, 1991: 5); still others maintain that the final objective was the formation of an economic union (Salazar, 1973: 13; JUNAC, 1979a: 35; JUNAC-CEE, 1986: 7). A more cautious view is to say that the purpose was the creation of a larger economic area (Dávila, 1984: 6); or an extended market (Márquez, 1990: 7)

[30]Chapter XII of the Cartagena Agreement deals with financial matters. Its aim is the coordination of national financial and payment policies. Among the aspects to be coordinated is the adoption of measures facilitating capital circulation within the subregion. Facilitating the circulation of capital is not as having free movement of capital, that is, a situation in which capital could go from one country to another as if it was moving within one country. As for movement of labor, the Cartagena Agreement is completely silent, perhaps because it was perceived as a social issue.

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Industrial Programming as a mechanism to accelerate industrialization (that is, import substitution), production integration was also an important aim of the Andean integration process. Thus, from the typological point of view, the agreement's aim was to create an economic union (that is, the economic policy integration aspect of market integration) accompanied integration of production.[31]

The Cartagena Agreement was also a political instrument, because it considered topics that have no direct relation to economics. One example of this was the basic objective of the agreement, to bring about "a sustained improvement in the standard of living of the subregion's inhabitants." This aim clearly encompassed more than economic aspects, and many of them were in the realm of politics. The agreement also included issues[32] that for non-economists seem to be within the realm of economics, but for economists they are in the realm of other social sciences, like politics.[33] This is so because although economics may intervene to formulate alternatives based on efficiency, choosing among alternatives is a process in the hands of governments. They may not choose the most efficient proposal for their countries or for the subregion as a whole in economic terms, but in political terms dictated by the moment.

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[31]As has been mentioned in chapter I, section 1.1, production integration focus on industrial planning, coordination and specialization. Market integration refers to the process of creating a larger markets, through preferential trade areas, free trade zones, and customs unions. Policy integration aims to harmonize and eventually unify economic and social policies.

[32]To mention only a few cases, issues like the preparation and the negotiation of sectoral industrial programs; common regime for the treatment of foreign capital, and transnational corporations; or a common tariff schedule classification, as well as determining the list of products to be exempted from the tariff reduction program.

[33]For example Cooper and Massell (1965) and Johnson (1965) argue that the reason for establishing an integration process such as a customs union may be to further non-economic objectives, and preference for industrialization is one of these non-economic aims.

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The process of making economic decisions is not an economic issue but exclusively a political one, "... policy is politics."[34] From the text of the Cartagena Agreement it is clear that economic decisions that had to be taken had to respond to political objectives (Aninat, 1992: 17). It is also clear that with the exception of the automatic tariff reduction program, the functioning of the mechanisms are subject to negotiations among the representatives of the governments of the member countries. Furthermore, through the text of the agreement, it is apparent that the implementation of the treaty is in the hands of the governments of the member countries.

4.3.- The Agreement as a reflection of the interests of the governments

On a more practical level, the ultimate aim of the Cartagena Agreement was to be an instrument for the improvement of the living standard of the member countries. In other words, development is the major goal for each one of the member countries. Being only one means to deal with development, subregional integration was logically linked to the model and strategy of development" of the members.[35] This meant that the aims of the Cartagena Agreement had to reflect the objectives which at that moment the member countries wanted to accomplish through the process of subregional economic integration. The rationale with regard to the role of Andean integration, as had been already contemplated by ECLA several years ago, was to be a support development by

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[34]"Nobody has attained political maturity who does not understand that *policy is politics*. Economists are particularly apt to overlook these truths" (Joseph A. Schumpeter, quoted by Lortie, 1975: v, italics added).

[35]The Andean governments, during the 1960s and part of the 1970s, asynchronically pursued a common development model of inward-oriented industrialization. The strategy used was import substitution (ECLA, 1970: 137; Puyana, 1984: 296).

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enlarging the market size and, creating the possibility for import substitution to be furthered more efficiently, and dynamically.

The development model and the integration scheme were responses to the concert of opinions of the five original member governments. These responses were based upon the internal situation and perspectives of each one of the countries, as well as on the international situation at the end of the sixties (JUNAC, 1987: 1; 1976: 19). The Cartagena Agreement expressly reflects the prevalent ideas about economic development in Latin America during the sixties (Carmona, 1984: 5). One of these ideas was that states should not only have a major role in adopting decisions to put the agreement into practice but also, that the state should have a major role in their implementation.

At the time the final draft was considered to contain a regional strategy flexible enough to accommodate the diverse national economic policies of the member countries, while being sufficiently coherent to accomplish the common goals pursued by the parties. The Andean process was created by a political initiative to deal with political issues (development) by employing economic instruments.

4.4.- Organs: An assessment

The institutional structure, especially with regard to the *Junta*, was one of the innovative characteristics of the Andean Group. The original main bodies of the Cartagena Agreement were created with enough powers in the expectation that they would influence the actions of the governments of the member countries. "The Treaty established a well-developed institutional framework" (Mace, 1983: 183). With the

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exception of the EEC, no other integration process had an organization with such autonomy and power to implement the political agreement.

Even considering this powerful community organization in which the *Junta* is considered autonomous and with a high degree of authority, the *Junta* recognized that what is to be done is contained in the Cartagena Agreement; how to do it is within the scope of the Commission; and the speed of action would depend on what the governments were willing to provide for it (JUNAC, 1979a: 38-39). In similar terms, the Cartagena Agreement is a framework treaty outlining the main lines of action for economic integration. Its efficiency, however, definitively depends to a great extent on the effective and coordinated action of the agreement's institutions. It also depends on the ability of the member countries to apply the common policies, and on the will of the governments to fulfill their obligations (Aninat, 1992: 15). In other words, the most important aspects of the agreement: its aims, its policies and its evolution are not in the hands of the *Junta*'s but in hands of the governments of the member countries.

5.- ANDEAN PRINCIPLES AND MECHANISMS

The Cartagena Agreement reflected the national objectives the member countries wanted to accomplish through the Andean integration process. The member countries, through the negotiation of the agreement, not only reached consensus on the common aims to be fulfilled but also with regard to the mechanisms to be used. Besides,

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consensus arrived at through negotiations did not mean a convergence of interests, but a common denominator of the national interests of the member countries. This common denominator also reflected the relative power of the countries involved, in which the more important and more interested ones were able to tailor the treaty to their own interests better than the less powerful and/or less interested countries.

National interests and relative power, however, could change over time, due to internal and external factors. These changes make countries evolve. Evolution could lead countries to take different paths at different paces to achieve their changing objectives. Since the Cartagena Agreement is a collective accord, changes in it which reflect changes in the member countries are difficult to arrange because all governments have to agree to them. Thus, over time, there is a major tendency for the Cartagena Agreement, and in general all integration processes, to fail to reflect the national interests of some or most of the member countries. If this is so, countries will became more and more reluctant to fulfill their obligations. If the situation became extreme some countries may withdraw, or even worse, the process may be cancelled. The other, more likely alternative is that after negotiations among the member countries, the Cartagena Agreement would be modified to reflect a new minimum common denominator of the aims of the various governments. Continuous progress of the Andean process is not only far from being assured, but stagnation and regression tend to be more likely to happen.

5.1.- Main principles of the Cartagena Agreement

By May 1969 five of the six negotiating members were willing to sign the accord.

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In other words, for them the Cartagena Agreement reflected their national interests which led to the common denominator of the Andean process. This common denominator was spelled out by the *Junta* (JUNAC, 1972b) and has the following characteristics:

(a) Governments play the most important role in the development process of their countries and in the Andean integration process. The primacy of the governments in the Cartagena Agreement is shown by the fact that the Commission, the highest organ of the process, is composed of government representatives, and through its decisions, is in charge of taking measures to achieve the aims of the agreement. The primacy of the governments is also demonstrated by the fact that implementation of the mechanisms of the agreement through the Commission's decisions rests on the governments.

(b) Since the member countries had equated development with industrialization, furthering industrialization was a common national interest (Graciarena, 1983; Fanjzylber, 1983). The member countries agreed that Andean integration would be one important tool for more efficient import substitution through specialization in production and pooling their domestic markets.

(c) Improving the standard of living of their peoples was the official ultimate but vague aim of the Cartagena Agreement. The efforts of the governments to further development, and to arrogate to themselves the most important role in the Andean integration process, in order to promote more efficient industrialization, would be useless if, ultimately, these actions would not benefit their people. One important measure to avoid this outcome was that foreign capital should play a subsidiary role in their development, and in the Andean integration process. Foreign capital, furthermore, would

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be restricted to being a complement to domestic capital and the former should be directed to invest only in areas the governments considered beneficial. Domestic capital would be in control of the investment activity. Governments agreed to set common rules to treat foreign capital that would increase their negotiating powers, and would avoid competing with each other to attract foreign investment.

In summary, three main aims reflecting the common denominator of national interests became the principles of the Cartagena Agreement (Moncayo, 1985: 31-34). They were:

1) The primacy of governments in the Andean process

2) More efficient import substitution industrialization process

3) Control of foreign investment

5.2.- Main mechanisms of the Cartagena Agreement

The main mechanisms agreed upon to put these principles into practice were the tariff reduction program, common tariffs, industrial programming, and the common treatment of foreign capital (Moncayo García, 1985: 73-75). The first three mechanisms would contribute to the industrialization process. They would provide the enlarged and protected market (the tariff reduction program and a common tariff) needed for attaining more efficient production of durable consumer goods, and intermediate and capital goods in which the member countries would specialize through industrial programming.

The common treatment of foreign investment would assure that the main benefits derived from the integration process would accrue to the countries rather than outside

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investors. It would also allow the member countries to attract resources to finance the Sectoral Programs of Industrial Development without competing among themselves. This common treatment of foreign investment was an integral part of the mechanism of policy harmonization. Its political importance at the time, however, made it the single most important policy to be harmonized. As such, it is considered independently, instead of including it within the mechanism of policy harmonization.

A minimum harmonization and coordination of planning and policy was thought to be necessary to ensure that the other mechanisms would achieve their goals. A long-term common economic plan (through harmonization of planning) would allow member countries to ratify the common long-term goals to be accomplished by the Andean Group. Harmonization and/or coordination of policy would ensure, on the one hand, that domestic rules would not undermine the integration efforts, and on the other hand, that they would not provide undue advantages to particular countries. These main mechanisms were:

1) Tariff reduction program

2) Common external tariff

3) Industrial programming

4) Common treatment of foreign investment

5) Planning coordination

6) Policy harmonization

The principles and mechanisms used to achieve common goals describes the basic elements of the type of inward oriented development pursued by the governments of the

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member countries through the Andean integration process. As such they reflect the common minimum denominator of the national interests of the member countries at the time of the signing of the Cartagena Agreement. The principles will serve as the reference to compare the evolving strategy of development of the member countries as shown by their development plans, and the mechanisms will be compared to their economic policies.

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CHAPTER IV

FROM CARTAGENA TO CARACAS (1969-1973): OPTIMISM AND PROGRESS

1.- THE ANDEAN GROUP: 1969-1973

Between 1969 and 1973 the Andean integration process went through a phase of progress. Progress according to the hypothesis of this research project, as stated in chapter I, is characterized by the following indicators: (1) intra-Andean trade increases every year; (2) violations to the Cartagena Agreement are very few; (3) decisions made by the Commission to implement the mechanisms are approved within the timetable established by the agreement; and (4) the implementation of the main mechanisms by the governments proceeds without major delays. Sections 2 and 3 of this chapter show that the Andean Group enjoyed a phase of progress.

The explanation of this progress, as stated in the hypothesis, lies in the similarities in the strategy and policies pursued by the governments of the member countries. These similarities led to an analogous set of national goals to be achieved through the Andean

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process whose aims and mechanisms reflected those of the governments. This argument is proven in section 4. In other words, the Andean Group had a phase of progress because all the governments of the member countries found some of their goals reflected in the aims and mechanisms of the Cartagena Agreement.

1.1.- Overview of its major achievements

The Cartagena Agreement came into force in October 1969, after Peru ratified it.[1] Between 1969 and 1973 all deadlines but one were met, and the nature of the Andean integration process and of its institutions were defined (JUNAC, 1979a: 35-36). Trade increased steadily; and the first Sectoral Program of Industrial Development. was approved in 1972. The Andean Group went, thus, through a phase of progress.[2]

The Andean integration process also expanded to social aspects,[3] giving it a more comprehensive character.[4] Three social agreements were adopted. The first, the Andrés Bello[5] Agreement, dealt with educational, scientific and cultural integration. It was

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[1]In accordance with Article 110 the "Agreement shall become effective upon communication of approval by three states to the Executive Secretariat of LAFTA." The agreement was approved by Chile in July 1969, by Colombia in August, by Peru and Ecuador in October, and by Bolivia in November 1969.

[2]Among the writers who concur with this assessment are Bawa, 1980: 188; Dávila, 1984: 17; Ferrari, 1991: 68; Mace, 1983: 184; 1994: 45-50; Márquez, 1989: 5; and Rodríguez Mancera, 1992: 7.

[3]On social integration in the Andean process see: Aparicio, 1972; 1974; Chan, 1990; Durán and Lobos, 1976; Herrera, 1983; JUNAC, 1978e; Miletich, 1977; Ochoa and Gauldfeldt, 1991; Racacoechea, 1981; Villegas, 1976; and Vittini (ed.), 1980.

[4]A neo-functionalist writer would have seen these social agreements as a clear case of spill-over.

[5]Andrés Bello was a writer, poet, intellectual, and educator. He was born in Caracas, Venezuela, in 1781. In 1829 he moved to Santiago, Chile, were he devoted his life to the improvement of education and to public service. He died in 1865, in Santiago.

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signed in January 1971. The Hipólito Unanue[6] Agreement covering cooperation on health issues was signed in December of the same year. Finally, the Simón Rodríguez[7] Agreement on labor integration was signed in October 1973. Unfortunately very little has been done in these three areas. The Commission ignored the agreements, and "the *Junta* ... did not cooperate with the 'Andrés Bello,' 'Hipólito Unanue,' and 'Simón Rodríguez' agreements" (Guerrero, 1979: 149).[8]

The most important reason for neglecting the social agreements was the driving concern of the community organs in approving decisions directly related to the implementation of the Cartagena Agreement. For this matter, since the social agreements were not an official part of the Cartagena Agreement, these areas were not perceived by the Commission or by the *Junta* as central to the Andean process. Successful actions in the areas of health, education and labor would have increased public support for the Andean process, but the "democratization" of the process was never a major concern for the decision-makers either.

1.2.- The admission of Venezuela

More than three years after the creation of the Andean Pact and after almost one year of official negotiations between the members of the Andean Group and the

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[6]Hipólito Unanue, 1755-1833, was a noted Peruvian physician and intellectual who was deeply involved in the independence process of his country. He founded the first school of medicine in Peru.

[7]Simón Rodríguez, 1771-1854, was a Venezuelan educator, and tutor of Simón Bolívar, the liberator of the Andean countries and Panama.

[8]Out of the 380 decisions adopted by the Commission until June 1995, only one percent were devoted to social issues (JUNAC, 1995h: 8).

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government of Venezuela, the parties signed the "Additional Instrument of the Cartagena Agreement for the Accession of Venezuela," and other related documents in Lima in February 1973.[9] The additional instrument modified the Cartagena Agreement in two important aspects. First, the approval of the common external tariff (CET), of rationalization programs, and of the *Junta*'s proposals to solve conflicts arising from restrictions in agricultural trade were included in Annex I of the agreement (issues subject to veto). Second, the list of products exempted from the tariff reduction program was increased (see section 2.1 below).

By the end of December of 1973, Venezuela officially became the sixth member of the Andean Group. This act was the last of this first phase of the life of the Cartagena Agreement, a phase described as one of progress and optimism.

1.3.- Ideological pluralism

When in November of 1970 the socialist, Salvador Allende, became President of Chile, a dilemma was posed. Was the Andean Group a place for a country shifting to a socialist economy, or was the Pact limited to countries with capitalist economic systems? The military reformist governments of Bolivia, Peru, and to some extent Ecuador, were supportive of the concept of "ideological pluralism" within GRAN. That is, they accepted that countries with different economic systems could participate in the Andean integration

[9]They were the Consensus of Lima, and Decision 70 of the Commission. The Consensus of Lima was just a formal declaration of the signing of the documents. Decision 70 spelled out the rules to put into practice the Additional instrument should be and how Venezuela would comply with existing decisions. Among them the timetable for trade liberalization and for the application of the CMET, and the procedure for Venezuela to participate in the Metalworking Program.

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process. The civilian government of Colombia was not very enthusiastic.

For the reformist military governments and for the Socialist Chilean government, support of "ideological pluralism" had its rationale in the need to provide legitimacy to their experiments (Bernales, 1974a: 231). Colombia's lack of enthusiasm was based on the fear that these political experiments might be imitated by other countries, and on the rhetorical attack of these regimes on representative democracy (ibid.). Nevertheless,the Andean Foreign Ministers in their third meeting, in June 1972, declared "... we want to praise the way that respect of the fundamental principle of ideological pluralism is manifested in the advances of the Andean integration; this offers a significant testimony to the possibility of common objectives beyond the socio-economic structures each country adopts"(JUNAC, 1972d: 4).

Aside from these general aspects, the more direct and concrete problem posed to the Andean Group was the possibility of integrating partners with capitalist and socialist systems. It was assumed, in the Andean Pact, that all countries had to have capitalist economies, although they could have democratic or dictatorial regimes as a form of government (Guerrero 1979: 77). For GRAN, "ideological pluralism" was an untested area. With the overthrow of Allende in September of 1973, the issue was put to rest, but between 1970 and 1973, it created great concern.

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2.- PROGRESS IN THE ANDEAN PROCESS

2.1.- The tariff reduction program

The most important instrument related to increasing trade was the Andean liberalization program. The deadlines for fulfillment of the commitments were met (JUNAC, 1976: 61). All dutiable products were classified into several lists which made the tariff reduction program a cumbersome process to implement and to manage.

The process of the tariff reduction program involved specific procedures for each of the lists. It included three different forms of liberalization: (1) Rules applied among the three largest countries, Chile, Colombia and Peru. (2) More favorable treatment by the three largest countries toward the less developed countries, Bolivia and Ecuador. (3) Special rules for Bolivia and Ecuador to liberalize their trade. "Restrictions of all kinds"[10] were also to be eliminated according to the level of development of the countries. Table IV.1 presents a summary of the tariff reduction program process.

The tariff reduction program had the following profile: of all the 4,188 dutiable products, 34 percent of them[11] were reserved for industrial programming (1,416

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[10]Restrictions of all kinds were defined by Article 42 of the Cartagena Agreement as any administrative, financial or exchange measure imposed unilaterally by a member country which impedes or hinders importation.

[11]Tradeable products, for customs purposes were classified by most of the countries following the Brussels Tariff Nomenclature. This system divided the universe of dutiable products in XXI sections and 99 chapters. Each chapter was further divided into "positions," "subpositions," and "items." An item, is thus, the unit of this scheme. All countries using this scheme had to have identical descriptions up to the level of "subpositions."

The Andean Group, by Decision 51 of March 1972, adopted a common nomenclature based on the Brussels Tariff Nomenclature. It was called *NABANDINA*, that is, Andean Brussels Nomenclature.

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TABLE IV.1
ANDEAN TARIFF REDUCTION PROGRAM

LIST OF PRODUCTS	AMONG CHILE, COLOMBIA AND PERU	CHILE, COLOMBIA & PERU IN FAVOR OF BOLIVIA & ECUADOR	BOLIVIA AND ECUADOR
Reserved for Industrial Programming. Decision 25	As defined in each program	Same	Same
LAFTA's first stage of the Common List, Article 49	April 1970	Same	As defined in LAFTA (It was never defined)
Non-produced goods, Decision 26	Eliminated by February 1971	Same	Same
Reserved to be Produced by Bolivia & Ecuador, Decision 28	National tariff	Zero tariff by February 1971	Same (Only in favor of each other)
Immediate free trade in favor of Bolivia & Ecuador, Decision 29	As below	Zero tariff by January 1971	Same (Only in favor of each other)
Automatic Tariff Reduction, Decision 27 and Decision 15	By December 1970 all duties should equal the lowest one of the three countries. From Dec 1971 to Dec 1980, 10 percent reduction annually	By December 1970 all duties should equal the lowest one of the three countries. From December 1971 to Dec 1973, 40, 30 & 30 percent reduction a year	From their national tariffs, 10 percent reduction annually, from December 1976 to December 1985
"Restrictions of All Kinds," Article 46	Eliminated by December 1970	Same	When they begin their tariff reduction program process

SOURCE: Cartagena Agreement Article 34e; Chapter 5; Chapter XIII, Section C.

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dutiable items);[12] 3 percent were classified as goods not produced in the subregion (144 items); 3 percent were on the LAFTA's Common List (132 items);[13] and 60 percent were in the list of automatic tariff reduction (2,496 items). According to these data, only 66 percent of all dutiable products were nominally included in one or the other tariff reduction schedule.

There were two other major drawbacks for the effective functioning of this mechanism. One was the unilateral list of exemptions.[14] The other was the agricultural program which allowed the governments to protect some goods from trade disruptions.

In their unilateral list of exemptions[15] each country included not only those products in which they had comparative disadvantage, but also products which the countries did not want to trade. For example, all countries, regardless of their level of competitiveness included most textiles in their lists (JUNAC, 1976: 62). By the time the member countries had to present their unilateral lists in December 1970, the five member countries together had exempted 1,844 items. These constituted 44 percent of the total

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[12]Almost all the products belonging to the so called "dynamic industries" (automobiles, basic metal—steel—, glass, paper and cellulose, electronics, electrical products) were included (Tomic, 1980:198). They were generically mentioned in the Declaration of Bogota of August of 1966.

[13]This list was composed of products for which tariffs reduction were irrevocable (Art. 8 of the Treaty of Montevideo).

[14]Articles 55 and 102 of the Cartagena Agreement.

[15]Chile and Colombia were allowed to have up to 250 dutiable items exempt from the tariff reduction program; Peru up to 450 items; Bolivia 350 items plus 50 subpositions; and Ecuador 650 items. Peru had to withdraw from its list one-hundred items by December 1974, and again by December 1979. For Chile, Colombia and Peru, these products could remain exempt until December 1985. Up to 20 items, however, could continue to be exempt for four more years. The time limit for Bolivia and Ecuador was December 1990 and they could be prorogated without a deadline.

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items in the automatic tariff reduction list.[16]

This excessively large number of trade exemptions demonstrates that countries were more interested in protecting their own industrial production than in expanding trade. Conversely, member countries did not want to expand intra-Andean trade at the expense of their domestic production. In other words, the member countries put national interests above community interests.

Decision 16 of the Commission approved the list of agricultural products to which member countries could at any time apply import restrictions.[17] This was a comprehensive list, and included most of the agricultural products exported by any of the partners. With the entrance of Venezuela, the list was increased by around 30 items.[18]

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[16]This percentage was, in reality, only 33 percent because Bolivia and Ecuador, by Article 100f of the original Cartagena Agreement, were allowed to treat most of their imports from other member countries as if they were coming from non-member countries until December of 1976, some 6 years after the others. This was, in practice, a *de facto* generalized exemption from the tariff reduction program for Bolivia and Ecuador.

With the entrance of Venezuela the scheme became more complex. Venezuela had the same right to have 250 items exempted from the tariff reduction program—as Colombia and Chile. In addition it could have 200 additional items exempt with one of the following countries: Colombia, Chile or Peru. The number of exemptions with any one of these countries could not exceed 110 items. The affected country could then have an equal number of items exempt from the tariff reduction program with Venezuela. Bolivia and Ecuador could increase their list of exemptions by 30 items each. These items could only be exempted with Venezuela.

[17]Article 72 of the Cartagena Agreement, by invoking Article 28 of the LAFTA's Treaty of Montevideo, allowed non-discriminatory measures to limit imports of agricultural goods to the amount required to meet domestic deficit and/or to equalize prices of the imported and domestic products.

[18]Major items included in the consolidated list were: cows, pigs, chickens, beef, lamb, pork, mutton, bacon, milk, dairy cream, eggs, onions, tomatoes, peas, chicken peas, lentils, beans, manioc, bananas, pineapples, avocados, oranges, mandarins, grapefruit, grapes, raisins, apples, pears, coffee, dried hot peppers, wheat, barley, oat, corn, rice, sorghum, quinoa, peanuts, nuts, soybean seeds, cottons seeds, castor oil seeds, sunflower seeds, colza seeds, sugar cane, sugar beet, cacao, tobacco, cow skins, cow hides, wood, wool, cotton, and agave.

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2.2.- Common minimum external tariff

The Common Minimum External Tariff (CMET) was approved by Decision 30 in December 1970, meeting the deadline established by the Agreement. The CMET was meant to be the first step towards the adoption of a common external tariff on imports. The agreement and the text of Decision 30 stipulated that between December 1971 and December 1975 Chile, Colombia and Peru were obligated to gradually and automatically increase the domestic tariffs of their products whose national levels were below those approved. The countries could maintain any tariffs that were above the minimum.[19]

The CMET was not to be applied 1) to the products included in the reserve list for industrial programming, 2) to those in industrial programs, 3) to those products not produced in the subregion, 4) or to the products included on the list of exemptions.

The CMET had an average of 40 percent, tariffs ranged from 0 to 120 percent, but 97 percent of the items had tariffs of 80 percent or less (JUNAC, 1983a: 7). The average levels of the CMET by type of products are shown in the last row of table IV.2.

2.3.- Industrial programming

The aim of industrial programming was to further the import substitution industrialization process in the Andean area by assigning the production of a given product to one country which would be the sole supplier for the subregion. Industrial programming was to be implemented through the Sectoral Programs of Industrial Development (SPIDs), and the industrial rationalization program. The former was the

[19]Bolivia and Ecuador were only required to apply the CMET to those items in the list of non produced products once their production in the subregion had begun.

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TABLE IV.2
AVERAGE NATIONAL TARIFFS (MAY 1969) BY TYPE OF PRODUCT AND COMMON MINIMUM EXTERNAL TARIFF (CMET)

COUNTRY	TYPE OF PRODUCT			AVERAGE
	CONSUMER GOODS	INTERMEDIATE GOODS	CAPITAL GOODS	
BOLIVIA	71	41	31	48
COLOMBIA	93	38	39	53
CHILE	190	118	95	135
ECUADOR	145	73	49	89
PERU	137	69	48	85
AVERAGE	127	68	52	82
CMET	53.9	36.2	39.1	41.2

CMET = Common Minimum External Tariff
SOURCE: JUNAC, 1972a: 19, 21.

important one, and such became synonymous with industrial programming. The latter was never put into practice.

For some governments and observers industrial programming was the most original, innovative and notable mechanism of the Andean Pact, and its cornerstone (Valdés, 1981, 451; Hutcheson, Bolte, Culagovski, Gonzalez, and Morawetz, 1983: 4). Industrial programming was the mechanism *par excellence* to make possible a more efficient and rational import substitution industrialization process. Besides, this mechanism was to be one of the tools which would allow Bolivia and Ecuador, the relatively less developed countries of GRAN, to have access to the benefits of the agreement (Ffrench-Davis, 1978: 37, 45-46).

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The Sectoral Programs of Industrial Development (SPIDs) were *ad-hoc* specific agreements to be negotiated for each sector. They "are specific in the sense that they are established anew for a particular industrial sector. ..." (Vargas-Hidalgo, 1979: 215). Each member country was to receive exclusive or shared rights to produce items for a fixed period and to have free trade in them. A common external tariff had to be agreed upon, and members were required not to encourage production assigned to others.

Negotiations and accords for each program were difficult and cumbersome. First, according to Article 33 of the original text of the Cartagena Agreement, all countries had to participate in each one of the SPIDs. Second, all SPIDs were to meet many technical and economic requirements. Third, each country could veto a SPID once.[20] It is easy to understand that each of these matters became topics for long debates and negotiations. They were political issues, or, as Nye (1968a: 335-336) put it, they were "overpoliticized" topics.

From a political viewpoint, the twin objectives of the SPID, efficiency and equity, were seen as practically impossible to achieve simultaneously. "In the political sense, ..., it is clear that the programming decisions alleviate the concerns of the weaker countries and thus remove a major obstacle to integration among developing countries. But at the same time ... such decisions disturb the stronger members, which feel limited by [this mechanism], with the result that such programming is particularly difficult to negotiate" (Salgado, 1984: 86). In other words, this instrument had to reconcile balanced industrial

[20]In order to avoid a negative vote, the practice developed was that when it was clear in the Commission that a country would veto a proposal, the proposal would be sent back to the *Junta* without formal vote but with requests for modifications. This meant that countries could "unofficially" veto a proposal.

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development among the parties with the creation of more efficient industries.

From a pragmatic angle, the most sensitive political issue and "problem ... is which country gets what, in terms of production allocation" (Hojman, 1981: 158). This was the first and the foremost concern of the governments. Once this issue was satisfactorily solved, then other issues would become negotiable. During this first phase only was approved the Metalworking Program *(Programa Metalmecánico)*,[21] in August 1972, by Decision 57.[22] "This step forward, although limited in scope, was one of the most important advances towards consolidating the Andean Group" (Salgado, 1984a: 141).[23] This sector was the first to be programmed because of its importance as a source or as a generator of expertise, as a basis for the production of capital goods, as a source for the diffusion of technology, and as a creator of employment.

2.4.- Planning coordination and Andean development Strategy

According to chapter III of the Cartagena Agreement, the first chapter dealing with the mechanisms of the process, the Andean countries were to have a common development strategy. This strategy was to be based on the coordination of the development plans of specific sectors and the harmonization of social and economic policies, resulting in a joint planning system for the development of the subregion.

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[21]For details in this industrial program see Guerrero, 1973; Avila, 1978; Mytelka, 1979: chapter 5.

[22]Of the 72 group of products which the program included, 20 were assigned to Bolivia, 23 to Colombia, 22 to Chile, 11 to Ecuador and 25 to Peru (Avila, 1978: 212).

[23]The reference to this program being limited in scope refers to the fact that the *Junta* decided, after two years of preparing it, to present what was only the "First Metalworking Program." The meaning of this was, that many products that are part of this sector were not included either because the existence of production or they were long planned national projects in one or several countries (JUNAC, 1976: 70).

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The subregional development strategy would serve as a blueprint from which the integration process could evolve. It would also provide the a framework for Andean activities, especially those related to the mechanisms of the Cartagena Agreement.

At the beginning of 1972 the *Junta* presented its "Bases for a Subregional Development Strategy" (*Bases generales para una estrategia subregional de desarrollo*). This document proposed an overall strategy that involved joint actions on the part of all the member countries acting together, and actions that had to be undertaken at the national level. The role of integration was emphasized to be complementary to the national development policies (JUNAC, 1976: 123). The "Bases" had a poor reception by the governments of the member countries (JUNAC, 1979a: 43). Accepting the "Bases" and adopting an Andean development strategy would have meant that the governments were accepting the Andean process as an end in itself, and not as mere instrument, placing constraints on their own national plans, and relinquishing sovereignty.

Other reasons for the lack of interest of the governments were: 1) The admission of Venezuela to the Andean Pact increased the size of the Andean market (see table V.1, chapter V), and changed the overall characteristics of the Andean process, especially in the financial aspects. This made the *Junta* revise the "Bases." 2) The existing political pluralism in 1972. There were not only military and civilian regimes, but also among them, there were governments with socialist, reformist, populist, and market oriented economic policies. And 3) within the countries, there was, in most cases, a lack of continuity in implementing their policies. By 1977, it was clear for the member countries

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and the *Junta* that a subregional development plan was not important for the member governments and had to be abandoned. As such, this study will not consider planning coordination as a mechanism to achieve the aims of the governments.

2.5.- Policy harmonization

The most important tasks in the area of policy harmonization were: the adoption of a common regime on the treatment of foreign capital, trademarks, patents, licenses and royalties; the approval of a uniform treatment of multinational corporations, the avoidance of double taxation, the adoption of guidelines for the harmonization of industrial development legislation; and the creation of permanent procedures to achieve coordination and harmonization of policies. There was also an urgency to harmonize industrial development legislation and foreign trade policies which directly touched on the functioning of the tariff reduction program and of the common tariff.

In this regard, Decision 22 on the permanent procedures for achieving coordination and harmonization of policies, was approved by the Commission in December 1970, within the deadline imposed by the Cartagena Agreement. This Decision, however, only created several councils[24] and set the rules for their functioning. The objective of the councils was to facilitate harmonization of policies and planning coordination. The councils, composed of government officials, had only an advisory role.

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[24]These councils were: planning, monetary and exchange, finance, fiscal policy, and foreign trade. Later on, other councils were created: Tourism (Decision 36, March 1971), Health (Decision 68, November 1972), Physical Integration (Decision 71, June 1973), Agriculture (Decision 76, May 1974), Industrial Policy (Decision 178, May 1983), and Science and Technology (Decision 179, May 1983).

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The Commission approved, within the deadline required by the Cartagena Agreement, Decision 46 on the uniform treatment of multinational corporations and the rules to be applied to subregional capital. The rules were aimed to foster the creation of Andean multinational corporations with the participation of subregional capital as a majority partner. No multinational corporation was created during the whole period of the existence of this decision. In March 1972 the Commission approved Decision 51: the Andean tariff classification scheme, NABANDINA.

Industrial development legislation were vaguely harmonized in Decision 49 (approved in December 1971). This decision contained rules for the gradual elimination of tariff exonerations, tariff reductions, and tariff refunds. It also contained a schedule for the Commission to approve rules with regard to harmonization of fiscal, exchange, monetary and financial policies; and a timetable to harmonize incentives for exports; as well as joint actions for industrial development. Decision 49 also included rules for non-discriminatory tax treatment on subregional products. None of the governments implemented this decision, because "harmonization of policies demand[ed] changes in national policies and the renunciation of unilateral practices that go beyond what the member countries were willing to accept..." (JUNAC, 1979a: 45). Between a community obligation and a national interest, the latter prevailed.

There was a lack of agreement in adopting rules to govern unfair competition, rules of origin of the merchandise, and a failure to implement the rules for transport of

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goods by road approved in 1972.[25]

By the end of 1973, little progress was visible in the area of policy harmonization. In other words, governments were uninterested in this mechanism. "Even though there have been notable technical and conceptual progress [regarding policy harmonization], few decisions [in this area] have been approved which in some cases have not been implemented..." (JUNAC, 1979d: 52). The main reason was, that "it would have been impractical to expect any government to renounce control over its own economy in strategic areas ... in order to further the long-term objective of the GRAN ... [N]o member country was prepared at any stage to cede its sovereignty by allowing the responsibility for economic decisions to be vested in the Commission" (Puyana, 1982: 161). As in the case of planning coordination, governments considered policy harmonization would limit their decision-making freedom and their capabilities to pursue their objectives. Given the situation, this mechanism will not be considered in the remaining of this chapter nor in chapters V and VI.

2.6.- Common treatment for foreign capital

The adoption of the common regime on the treatment of foreign capital,

[25]With regard to unfair competition, governments wanted to apply export promotion mechanisms, e.g., subsidies, tax rebates, technical assistance, soft credits, for all the products they were interested in promoting without discriminating the markets of destiny. Harmonization in this area would have meant, at least, the no application of these measures to exports to the Andean Group. In the case of the origin of the merchandise, the member countries were afraid that general rules would be too stringent to meet and thus, their products would not be able to qualify. Linked to this reason, there were very complex technical problems about how to have a set of acceptable, fair, general, and simple rules applicable to all merchandise. Lastly, the main problem for the implementation of the decision on transport of goods by road, was the opposition of the Ecuadorean truckers. They feared that free passage throughout its country would leave them without business, since the existing national regulations reserved to nationals the transports of goods within the country.

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trademarks, patents, licenses and royalties, Decision 24, in December 1970, as required by the Cartagena Agreement, was a major breakthrough (Guerrero, 1971; Mytelka, 1979: chapters 3, 4). This decision responded to the perceived need to prevent foreign capital from taking undue advantage of the benefits of the Andean process as had been the case with the Central American Common Market (Hansen, 1967: 54-55; Schmitter, 1972: 41-45), while at the same time welcoming capital contributions to the development of the subregion.[26] Another reason for this common policy regarding foreign capital was to avoid competition for foreign investment among member countries (JUNAC, 1972c: 2).

The most important aspects of Decision 24 were: (a) gradual nationalization of foreign investment;[27] (b) access to the expanded market limited to companies undergoing its gradual process of nationalization;[28] (c) different treatment for different sectors;[29] (d) prohibition of investment in areas already adequately covered and of acquiring investment owned by nationals; (e) no access to medium and long-term domestic credits; (f) transfer of profits limited to 14 percent of the foreign investment;[30]

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[26]The effects of foreign direct investment in the Andean Group and in Latin America were studied, among others, by: Tironi, 1975; 1976a; 1976b; Behrman, 1972; Chudnovsky, 1974; Mytelka, 1979; Vaitsos, 1970; 1973; 1978.

[27]A company was considered national if 80 percent of the capital was domestic and it was under local control and management. A company with between 51 and 80 percent of local capital was defined a mixed if it also was under local management and control. Finally, a company was foreign if less than 51 percent of the capital was local.

[28]The period of transformation of a company from being foreign into mixed—in order to gain access to the subregional market—was 15 years if it was located in Colombia, Chile, Peru or Venezuela, and 20 years if it was located in Bolivia or Ecuador.

[29]Companies in mining, oil and forest could be exempted by government from this Decision.

[30]This limit was justified as a reaction against multinationals overcharging raw materials, under invoicing exports, for excessive remittances of profits, and charging exorbitant fees for patents and royalties. For a study dealing with these aspects, see Vaitsos, 1973a.

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(g) reinvestment of profits limited to 5 percent of the company's capital; (h) foreign technologies, patents and trade marks were to be approved by the national authorities; (i) contracts of technology and patents could not have restrictive clauses for the importer; and (j) creation of a national office in each country to oversee all aspects related to foreign investment, transfer of technology and industrial property.

Among the issues, limiting the transfer of profits to 14 percent of the investment caused the greatest controversy, and "drew the wrath of Washington" (Cockcroft, 1996: 13). This was an irony because neither the *Junta*'s proposal nor the Commission had considered it. It was the Colombian representative who proposed and finally imposed it.[31] This is another illustration of national interest prevailing over that of the community. This also demonstrates that within an integration process, stronger members are in a better position to "convince" their partners than weaker members.

Decision 24 was considered "the only multilateral Latin American attempt to control investment in the region" (Atkins, 1989: 195). It was hailed as "the most innovative of the schemes' [the Andean Group] activities" and as "[o]ne of the most original and pioneering aspects of the Andean Group (Ferris, 1979b: 102; Furtado, 1976: 239). This Decision "... represented a significant shift in policy from the previous unrestrained welcome of foreign investment ... to a position of controlled foreign investment as one mechanism to gain greater control over both the domestic economy and its relationship with the external world" (Bryant, 1984: 87).

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[31]Colombia was the country with the longest experience of managing foreign investment. Its legal code had a 14 percent limit. This limitation imposed in 1967 was to reduce its circumstantial balance of payments problems (Guerrero, 1979: 100).

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The implementation of the common treatment of foreign capital and of foreign technology through national regulations, was, however, not only different in each country but was also interpreted differently. Furthermore, governments ignored some parts of the decision, or issued rulings incompatible with the decision.[32]

2.7.- Intrasubregional trade

Subregional trade had a notable increase. The reasons are easy to discern. First, there was a quick reduction of tariffs in favor of Bolivia and Ecuador by the larger countries—Colombia, Chile, and Peru. This, as the figures show, allowed the smaller countries a rapid increase in their exports to the other member countries (see tables IV.13 and IV.14). Second, the tariff reduction program, although gradual and not covering all products, was an automatic mechanism and member countries, complied with the reduction of their tariffs. Third, the first products to take advantage of the opening were those in which the country had excess production capacity and comparative advantage. Lastly, the tariff reduction program was the first mechanism to go into effect within the subregion.

Exports among Andean countries increased every year during this first phase, as was hypothesized in this dissertation (see table IV.3). Exports among member countries were only $86 million in 1969;[33] four years later they totaled $228 million, an increase

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[32]Colombia, for instance, required the gradual nationalization of new foreign investment only; Peru required that investment should be registered in local currency rather than in convertible one as ordered by Article 5, and new and existing companies should be nationalized regardless of their interest in exporting to the subregion or not; Venezuela did not restrict the access to local medium and long-term credits (Mytelka, 1979: 66-67)

[33] Date does not include Venezuela, since it was not a member yet.

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TABLE IV.3
ANDEAN GROUP TRADE: 1969-1973

	1969	1970	1971	1972	1973
EXPORTS (FOB) (Million of dollars)					
GRAN	86.0	122.8	154.6	166.5	227.9
WORLD	2,874.0	3,398.0	2,925.0	3,192.0	4,251.0
IMPORTS (FOB) (Million of dollars)					
GRAN	86.1	122.1	154.7	166.7	227.8
WORLD	2,599.0	2,799.0	3,169.0	3,088.0	3,785.0
TRADE BALANCE (Million of dollars)					
GRAN	(0.1)	0.7	(0.1)	(0.2)	0.1
WORLD	275.0	599.0	(244.0)	104.0	466.0
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE					
EXPORTS	2.99	3.61	5.29	5.22	5.36
IMPORTS	3.31	4.36	4.88	5.40	6.02
RATE OF GROWTH OF EXPORTS					
GRAN		42.79	25.90	7.70	36.88
WORLD		18.23	-13.92	9.13	33.18
RATE OF GROWTH OF IMPORTS					
GRAN		41.81	26.70	7.76	36.65
WORLD		7.70	13.22	-2.56	22.57

SOURCE: JUNAC, 1977: II-4.25; 1977a: 37-47, and author's calculations.

of 265 percent. Total exports of the Andean countries also increased, but at a lower rate than intrasubregional trade.

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3.- VIOLATIONS OF THE CARTAGENA AGREEMENT AND DERIVED OBLIGATIONS

3.1.- Violations

In general, in this phase (1969-1973), violations of the Cartagena Agreement and its derived obligations were minimal, as was expected for this phase according to the hypothesis of this research project. Violations have been be classified in this research as (a) non-compliance with the articles of the Cartagena Agreement, especially the approval of decisions by the Commission; (b) non-incorporation in the national legislation of the approved decisions; and (c) failure to comply, or ceasing to comply with decisions incorporated in the national legislation.

Non-compliance with the articles of the Cartagena Agreement was rare in this phase. For the years 1969 to 1971, the Commission was able to approve all the decisions within the deadlines stipulated in the agreement.

With regard to incorporation into the national legislation of the approved decisions, there was only one, but a very important, fault. None of the governments of member countries incorporated Decision 49 (Harmonization of industrial development legislation) into their national legislation. In fact, it was never incorporated.

As early as June 1971, the *Junta* compiled the legal instruments with which the member countries had incorporated some of the decisions into their national legislation (JUNAC, 1971). The Commission, in response to the *Junta*'s information, ordered "... the member countries to send to the *Junta*, within 15 days, ..., the legalized texts of

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national decrees of decisions not yet incorporated [into the national legislation], ... " (Comisión, 1971: 5). As table IV.4 shows, by September 1971, Colombia had not incorporated into their national legislation five decisions, and Chile and Peru four decisions, out of the 40[34] approved by the Commission (JUNAC, 1971a).[35] The

TABLE IV.4
DECISIONS NOT INCORPORATED INTO THE DOMESTIC LEGISLATION BY THE MEMBER COUNTRIES, 1969-1973

SOURCE	DATE	BO	CO	CH	EC	PE	TOTAL	(*)
(1)	23 Sep 1971	0	5	4	0	4	13	5
(2)	31 Dec 1972	3	2	3	3	3	14	4
(3)	11 Jul 1973	9	11	10	8	3	41	n.a.

(*) Number of different decisions not incorporated into the domestic legislation one or more countries
n.a. = not available
SOURCES: (1) JUNAC, 1971; (2) Guerrero, 1979: 133-134; (3) JUNAC, 1973.

relatively less developed countries—Bolivia and Ecuador—were not delinquent. By December 1972 all the member countries were in default. By July 1973, all the countries, except for Peru, had substantially increased the number of decisions not incorporated into their national legislation.[36]

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[34]There was a decision numbered 17a, so by September 1971 there were 40 decisions approved but the last one was Decision 39.

[35]Not all the decisions had to be implemented by the member countries. Several of the decisions dealt with the management of the agreement, like the decisions pertaining to the rules and regulations of the Commission, and of the *Junta*, the creation of advisory Councils, the designation of the members of the *Junta*, etc.

[36]Since the focus here is only to show the number of decisions which member countries were not in compliance with, as basis of comparison in the other phases, no attempt is made to rank the decisions. This is not to say that some decisions were not more important than others, but, it is not always clear how to rank them. For example, by December 1972, of the four decisions which the countries were not observing,

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This information shows that as time went by the participating countries found it more and more difficult to comply with the decisions their own government representatives had agreed upon. Table IV.5 provides the available information aboutdelays in implementing decisions incorporated into the national legislation of the member countries. This information pertains only to the tariff reduction program, the CMET, and decisions on issues directly related to them. The delays were insignificant, being 12 months the longest period. This corroborates the hypothesis of this study.

Another problem related to the violation of incorporated decisions concerned trade. In this case, decisions were only "partially" implemented, because countries would unilaterally stop granting tariff reductions for imports from all or some member countries, or not apply the CMET to imports from third countries. In the case of some goods, for which national tariffs were below the CMET and at the same time were considered important by a country, some governments were reluctant to increase the domestic tariff, and *de facto,* violated part of a Decision.[37] These violations were a source of conflict and of further non-compliance with obligations by other countries.

A more widespread violation of the CMET was the "special customs regimes." They were tariff reductions, tariff drawbacks, and tariff suspensions employed by all the

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the most important was Decision 49 on the harmonization of industrial development legislation. The other decisions not incorporated to the domestic legal order were: Decision 40 on avoiding double taxation (observed by Bolivia, Ecuador and Peru), Decision 46 on multinational enterprises (observed by Colombia only), and Decision 56 about highway transportation (observed by Colombia and Chile). Among the three, it is difficult to discern how to rank them.

[37]An example, Ecuador began to produce *"Sorbitol"*—an artificial industrial sweetener used in sugarless chewing gum and toothpaste. This was one of the products defined as not being produced in the Andean area and was assigned to be produced in Ecuador. Peru, the major importer of the subregion, did not raise its tariff to be applied to non-member countries to the CMET level—50 percent—because this would make this important industrial input too expensive for the user industries. This situation led to a permanent complaints by the Ecuadorean government, but the government of Peru did not raise its tariff.

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TABLE IV.5
DELAYS IN IMPLEMENTING TRADE MECHANISMS
BY DECEMBER 1973
(In months)

MECHANISMS	A/D 1/	BO	CO	CH	EC	PE
LAFTA'S COMMON LIST	Art. 49	N			N	
"RESTRICTIONS OF ALL KINDS."	Art. 46	N		3	N	2
Adoption of the lowest duty of Colombia, Chile, or Peru	Dec. 15	N		6	N	4
Liberalization of NON-PRODUCED goods	Dec. 26	4	3	1	1	1
AUTOMATIC TRADE REDUCTION 1st. reduction: 31-12-71	Dec. 27	N	9	4	N	
2nd. reduction: 31-12-72		N	9	12	N	
RESERVED TO BE PRODUCED BY BO	Dec. 28	N	5	4	2	2
RESERVED TO BE PRODUCED BY EC	Dec. 28	5	5	4	N	2
IMMEDIATE FREE TRADE FOR BO&EC	Dec. 29	N		5	N	4
COMMON MINIMUM EXTERNAL TARIFF Products in Common List	A65b /D12	N	X		N	X
1st. approximation 31-12-71	Dec. 30	N	12		N	X
2nd. approximation 31-12-72	Dec. 30	N		X	N	X
MARGINS OF PREF. FOR BO & EC	Dec. 34	N	9	X	N	
Adoption of NABANDINA 2/ 3/	Dec. 51	10	7	11	X	

Blank space means the country put into practice its obligation, in a timely fashion
N = The country is not required to put into practice the mechanism
X = Not into practice by December 1973
1/ A = Article of the Cartagena Agreement; D = Decision number
2/ Data derived from Vinces and Kuljevan, 1974: 411, 413
3/ NABANDINA was the common tariff classification for the Andean Countries
SOURCE: JUNAC, 1976a: 1-17

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countries to promote industrialization and other activities. These "special regimes" were applied in a discriminately manner according to who the importer was.[38] The application of these mechanisms constituted a generalized violation of the CMET and a erosion of the tariff preference[39] accorded to subregional productions. Decision 49—not observed the governments—attempted to regulate and gradually eliminate this practice.

3.2.- The *Junta* and the violations

In July 1973, the *Junta* issued its first report on the fulfillment of the obligations by the member countries. The report (JUNAC, 1973a) concentrates on discussing the legal aspects[40] of the Cartagena Agreement and the decisions of the Commission. The *Junta* stated that the Cartagena Agreement is legally enforceable and has to be fully observed by the countries because it is an international pact freely accepted and duly ratified by the governments.

In relation to the decisions of the Commission, the *Junta* argued in a similar manner. The *Junta* alerted the Commission to the consequences of failing to comply with

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[38]As an hypothetical example, Peru would apply up to twelve different tariffs to the importation of a given product. If the importer was the government then the tariff was waived. If the importation was done by a priority industry then the tariff applied would be, 10 percent of the official rate. If the importation was done by a lower priority industry, the tariff would be a higher proportion of the official levy. If the importer was, let say a charity organization, the tariff could be very low and it could also be reimbursed, according to the specific law which granted this privilege.

[39]Defined as the difference between the tariff applied to non-member countries and the one—if any—applied to member countries.

[40]For greater details of the legal aspects of integration as well as the controversy about international law and "community law", see the articles in the short-lived periodical (October 1967-November 1978) "*Derecho de la Integración;*" and articles in "*Integración Latinoamericana.*" More specifically see: García-Amador, 1978; Orrego, 1972; Orrego and Irigoin, 1981; JUNAC, 1972; 1973a; 1980; 1983b; and Zapata, 1989.

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the decisions: damages to the countries and their nationals, and a loss of credibility in the Andean integration process which could quickly lead to stagnation.

Regarding the problem of the entry into force of the decisions at the national level the *Junta* recognized in a previous document the "non-existence of an explicit provision in the Cartagena Agreement ..." for the incorporation of decisions into the national legislations (JUNAC, 1972: 9). In order to deal with this increasingly thorny situation, the *Junta* reiterated the proposal, for "... the creation of a tribunal[41] to solve the conflicts, control the legality of the acts of the Commission and of the *Junta*, and to provide uniform interpretations..." (JUNAC, 1973a 3).

Existing loopholes, and the lack of enforcement power of the *Junta*[42] has allowed the governments to disregard the requests of the *Junta* to comply with their obligations. Compliance or not, has, since the beginning, been decided solely by the countries.

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[41]The *Junta* had proposed the creation of a Tribunal since the very beginning of the existence of the agreement. This issue was discussed by the Commission in December 1971. In the following December the *Junta* presented a formal proposal (JUNAC, 1972). The *Junta* (JUNAC, 1973b: 11) expected the adoption of a decision recommending the member countries to create the tribunal by 1974. It was assumed the Commission would begin to discuss and negotiate the proposal by the end of 1973.

[42]Although the *Junta* has among its functions "To ensure implementation of the Agreement and compliance with the Commission's Decisions" (Cartagena Agreement, Article 15, paragraph a); it has no powers to enforce but to plea to the member countries. It is important to note, however, that this problem—enforcing the rules—is also one that other inter-governmental organizations have to deal with.

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4.- UNDERSTANDING THE PHASE OF OPTIMISM AND PROGRESS

4.1.- General Factors

Mace (1983: 184-185) summarized the first phase well.

> The years 1970 to 1973 were certainly the most productive in terms of integration output. ... trade liberalization proceeded according to schedule, industrial programming was launched with the approval of the Metalworking Program, the strategic Decision 24 concerning control over foreign investment and technology transfer was adopted, and other important decisions for the integration process were introduced ... This period of euphoria was capped by the incorporation of Venezuela ...

The *Junta* recognized all these and other achievements[43] and concluded that this was "... a phase of great activity which allowed the consolidation of the Andean Group, fulfilling the priorities established by the agreement" (JUNAC, 1979a: 36). (JUNAC, ibid.). What are the factors that can help us to understand why GRAN was successful during its first five years of existence?

The first factor was the influence of the LAFTA experience. The Andean Group was created as a consequence of the failure of LAFTA (Mace, 1994; 35); the governments of GRAN and the *Junta* wanted to demonstrate that a subregional process was the path to go, in order to pursue economic integration in Latin America. Thus, the

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[43]Among the other achievements mentioned by the *Junta* are the definition of the activities of the principal organs of the agreement, the adoption of the CMET, the opening of the Andean market for Bolivia and Ecuador, the approval of common regime for multinational corporations, the agreement on a treaty to avoid double taxation, the harmonization of industrial development legislation, the adoption of the rules for road transport, the development of a conceptual framework for negotiating with other members of LAFTA, and the beginning of common actions in the international arena (JUNAC, 1979a: 36).

The *Junta* also pointed out some of the existing problems, " ...it was difficult to fulfill the first deadlines of the tariff reduction program and to set up an adequate organization to put into effect the industrial programming mechanism. It is also important to point out that the negotiations for the adherence of Venezuela distracted the Commission from considering other issues" (ibid.).

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governments were willing to comply with their obligations. Among these obligations, was the demanding timetable the Cartagena Agreement had set to approve decisions to put the mechanisms into practice. This accomplishment would give to the governments and to any observer objective and measurable means to test the degree of success by GRAN. "On the whole, the rapid pace set by the bureaucrats in Lima [that is the *Junta* and its staff] was matched by the member governments, who saw rapid progress as a source of prestige at home" (Puyana, 1982: 5) and abroad.

All the deadlines set by the Cartagena Agreement for 1970, and 1971 were met by the Commission, thanks in great part to the *Junta's* hard work (Guerrero, 1979: 80-81).[44] By December 1972, however, the Commission had approved a decision regarding Article 30 of the Cartagena Agreement,[45] nor the ones set in Decision 24 (Common treatment of foreign capital), or 46 (Common regime for multinational corporations), or 49 (Harmonization of industrial development legislation).[46]

In 1973, the last year of this phase, the Commission approved just 8 decisions. The most important was Decision 70 concerning the conditions for the adherence of Venezuela to the Cartagena Agreement, sanctioned in February of that year.

Table IV.6 shows a summary of the decisions adopted by the Commission

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[44]As it has been mentioned before, the Cartagena Agreement was signed in May 29, 1969; it only went into force, according to its Article 110, in October 16 of that year, after the third country, Peru, deposited the instrument of ratification. In November of 1969 the Commission met for the first time, and the *Junta* was installed in the following month. In practical terms, it is only at the beginning of 1970 that the Andean process began to evolve.

[45]This article required governments to implement by December 1972, the schedule for the harmonization of foreign trade instruments which should had been approved by the Commission.

[46]The Commission spent most of 1972 discussing three issues. First, the approval of the Metalworking and the Petrochemical programs. Second, the incorporation of Venezuela. Third, the controversy surrounding Decisions 24, 46, and 49.

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between 1969 and 1973. In general it is possible to note (line 5) that the Commission over time reduced its output, from 6 decisions per session in 1969 to less than 2 decisions in 1973. On the other hand, as expected in this study, the majority of the decisions adopted were on new issues (line 2)—there were 58 while there were 23 modifying decisions—and most of the latter were unimportant (line 3.2). The number of decisions on new issues (line 2), however, tended to decrease over time, from 23 in 1970 to only 5 in 1973. Whereas, the modifying decisions (line 3) went up from 1 in 1970 to 13 in 1972.

A second factor which explains this early success is that most of these obligations were not difficult to implement by the member countries, because they did not greatly affect the productive structure and/or specific national interests. The high rate of success in approving decisions in the first two years of the agreement can also be attributed to the fact that the first decisions were relatively easy to take. Linked to this, the lack of previous experience, led both the Commission and the *Junta* to make bold decisions. Both were much less concerned with the viability, the efficacy or the efficiency of the decisions, and the possibility that these decisions could be implemented by the countries, than to fulfill the Andean compromises within the deadlines. This accomplishment would lend support to the assumption that the theory and practice of the Andean scheme were correct, and implying that the objectives would also be attainable.

A third reason for the progress was the need for the Andean process to show results quickly in order to generate further political support by the governments and

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TABLE IV.6
DECISIONS APPROVED DURING 1969-1973

	1969	1970	1971	1972	1973	69-73
1 DECISIONS	6	24	21	22	8	81
2 NEW ISSUES	6	23	15	9	5	58
2.1 Important 1/	3	15	10	6	1	32
2.2 Unimportant	3	8	5	3	4	26
3 MODIFYING DECS		1	6	13	3	23
3.1 Important 1/			1			1
- Strengthening						
- Weakening			1			1
3.2 Unimportant		1	5	13	3	22
4 SESSIONS	1	6	6	7	5	25
4.1 WITH DECS	1	6	5	5	5	22
- Ordinary	1	3	3	3	3	13
- Extraordinary		3	2	2	2	9
4.2 WITHOUT DECS			1	2		3
- Ordinary						
- Extraordinary			1	2		3
5. 1/4	6.00	4.00	3.50	3.14	1.60	3.24
6. 1/4.1	6.00	4.00	4.20	4.40	1.60	3.68

SOURCES: JUNAC, n.d.: 1-7; Vinces and Kuljevan, 1974: 199-748.

1/ Important is defined as decisions that have a direct impact on the principal mechanisms of the Andean process.[47]

[47]Examples of important decisions dealing with the Cartagena Agreement in general are: Decision 4 on the percentage contributions of the member countries to the *Junta's* budget, and Decisions 6 and 9 on the bylaws of the Commission and the *Junta* respectively. Examples of important decisions concerning the main mechanisms are: Decision 16 (agricultural products exempted from the tariff reduction program), Decision 24 (common treatment of foreign investment), Decision 25 (products reserved for industrial

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eventually by the domestic groups benefiting from it.[48] The choice of issues, decided by the Commission after first being proposed by the *Junta* followed a predetermined plan aimed to obtain quick, positive results that would generate increasing support for furthering the process as anticipated by neo-functionalist theorists. In so doing, some mechanisms were overlooked and others overemphasized.

Another factor that accounts for progress, is that in those years the Andean economies were growing as shown by the growth of their GDPs (table IV.7). This fact enabled the countries to increase their imports, part of them would be supplied from their subregional partners. The "...relatively satisfactory growth of the economy [furthermore] provided the necessary political support for the agreement..." (Puyo, 1989: 28), since any perceived costs derived from the Andean process were easy to overlook because there were resources to pay for from the growing economies.

4.2.- The role of the Commission and of the *Junta*

Between 1969 and 1973 the Commission and the *Junta* were very active in implementing the objectives of GRAN. Given the great expectations of the members about the potentials of the Andean process, there was general support for the subregional pact from most of the government units dealing with economic and foreign affairs, and

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programming), and Decision 27 (products subject to the automatic tariff reduction program). It is acknowledged, however, that there is a degree of arbitrariness in this classification.

[48]Decisions were adopted "... to present in some cases immediate results and to consolidate some fronts before opening new ones. This implied, ..., giving priority to industrial programming rather than to the agricultural sector, ... and even to industrial rationalization programs ... It also implied giving priority to the common minimum external tariff and to the mechanisms that regulate foreign trade rather than to policy harmonization, the aim was to make the tariff reduction program work..." (JUNAC, 1979a: 41).

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TABLE IV.7
GROSS DOMESTIC PRODUCT, 1969-1973: RATES OF GROWTH

	60-70	1969	1970	1971	1972	1973
BOLIVIA	5.6	4.8	5.2	4.9	5.8	6.7
CHILE	4.2	3.1	3.1	7.7	1.4	-4.0
COLOMBIA	5.2	6.4	6.8	6.2	8.5	7.8
ECUADOR	4.7	5.3	9.2	6.3	14.4	25.3
PERU	5.0	1.2	7.5	4.2	2.8	5.4
VENEZUELA	6.0	3.5	4.6	3.1	3.3	6.3

SOURCES: 1960-1970: ECLA, 1986: 145;
1969: IDB, c1972: 4;
1970: ECLA, 1973: 39;
1971-1973: Programa de Armonización de Cuentas Nacionales Decisión 114). Unidad de Informática-JUNAC, except for Chile. Chile: ECLA, 1976: 236.

from some of the domestic industrial sectors of each country. This meant that the members of the Commission had strong political backing within their own countries, and had the power to further integration within their respective countries, as well as to reach agreements their governments would be complying with.

In practice the heads of the national organs in charge of integration issues constituted the Andean Commission. [49] Their offices had complicated tasks. They had

[49]This situation, on the one hand, unifies the representation of the interests of the country and gives a lot of national power to the representative, but on the other hand it forces them to be a specialist in each of the issues being negotiated. In the case of the European process, the Council of the European Union "is organized along functional lines" (Archer and Butler, 1992: 29). In other words, "the work of the Council is divided into policy areas" (Nugent, 1989: 91). It is composed of the ministers in charge of the issue being negotiated. The Council in which the ministers of foreign relations sit is the one which deals with the most sensitive and important issues.

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to harmonize the opinions of relevant public and private institutions and to arrive at a national position on each one of the issues to be negotiated by the Commission. The opinions were not always in harmony, or even worse sometimes the government institutions did not have any opinion or policy. After the coordination process, the national unit had to determine the national position regarding the issues. In theory, these positions had to be flexible enough to allow the Commission to negotiate decisions. The decisions adopted had to reflect the interests of all the member countries, and to be realistic enough so as to be implemented by the governments. Once approved, the national offices in charge of coordinating the integration process had to push the necessary legislation to incorporate the approved decision into the legal system of the country, and then they had to pressure the relevant public institutions to implement the decision.[50]

According to a report of the *Junta* (JUNAC, 1976: 153), "... in some member countries [Colombia, Ecuador and Venezuela] the government representative to the Commission is, at the same time, head ... of the organism legally in charge of dealing

[50]There were other aspects that made the job of the national office in charge of Andean integration and the tasks for the persons in charge of this office even more complicated. First, in all countries, these offices were also in charge of coordinating and doing the same work with regard to LAFTA, (and later to its successor the Latin American Integration Association), and the Latin American Economic System (*Sistema Económico Latinoamericano,* SELA). Second, in Colombia, Chile, Ecuador and Venezuela—the office in charge of all these integration and cooperation processes was in turn only part of a larger organization or ministry. Third, in the other two countries—Bolivia and Peru—the office in charge of integration and cooperation was reorganized several times, emerging to become a ministry, to be later merged into a larger ministry. In the specific case of Peru, it was first created, in September 1969, as the National Office of Integration. It was an autonomous office, solely in charge of all the integration processes Peru belonged to at that time, e.g., GRAN and LAFTA. The office was "upgraded" and became a ministry, in 1976, as a result of changing political winds after the take over of the government by General Francisco Morales Bermúdez, in 1975. Later on, in the midst of streamlining the state apparatus, the ministry was "integrated," in 1978, as part of the Ministry of Industry, Commerce, Tourism and Integration, which in 1992 became the Ministry of Industry, Tourism, Integration and International Trade Negotiations. These changes, although part of the political process in any country, delayed the workings of the Commission and in turn they retarded the Andean integration process.

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with and implementing all—or most of the—matters related to integration. In [the] other cases, the representative to the Commission completely lacks the executive faculties ... In the first case, it is much more frequently the complete and timely fulfillment of the obligations ... In the other case, delays and lack of fulfillment are easier to occur."

The *Junta*, during this phase, (1969-1973) was able to exercise its autonomy and its power of proposal without interference from the governments of the member countries.[51] This was especially true during the tenure of the first *Junta,* 1969-1972. "...[I]t appeared in the early stages of the GRAN that the *Junta* built up such a position of strength that it functioned as a "sixth government" (Puyana, 1982: 5). This allowed the process to have a technical organ able to present proposals that had the community welfare as its aim.

As any other bureaucratic organization, the *Junta* also has an interest of its own. As such, as an institution, it is an administrator of policies, yet it has vested interests to maintain integration as a viable ongoing enterprise (Axline, 1984: 24).

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[51]The three members of the first *Junta* were elected during the first meeting of the Commission in November 1969 and reelected for a another period ending in December 1975. The *Junta* began its work in December 1969. Its members were a Colombian lawyer, a Chilean engineer, and an Ecuadorean economist. The first *Junta* was a pragmatic combination of relevant professions and persons who had worked in the drafting of the Cartagena Agreement.

Politically, this *Junta* was composed of members of the two countries that had been pushed integration the most (Colombia and Chile); and by one of the relatively less developed countries (Ecuador). The president of the Andean Development Corporation, created in 1968 to finance integration project, was a Bolivian. This situation left Peru without having a "representation" in the highest positions of the Andean Process. The Peruvian Foreign Ministry insisted on the creation of the position of Director-Secretary (*Director-Secretario)* as one immediate below the members of the *Junta*, and also proposed that a Peruvian fill it. The diplomatic offensive was successful, and the members of the *Junta* grudgingly accepted a Peruvian lawyer and economist for this newly created post. The Peruvian success was due to great extent to the fact that Article 11 of the Cartagena Agreement stipulates that members of the *Junta* will be designated by a unanimous vote of the Commission. National representatives from each of the countries in the technical-community bodies was assured.

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4.3.- Relations among the governments of the member countries, the Commission, and the *Junta*

The governments of the member countries, and the principal organs of the Andean Group—the Commission and the *Junta*—had to meet the challenges of a very broad and ambitious integration process which included mechanisms never tried before. The process had to advance at a swift pace in the first years because of the deadlines imposed by the Cartagena Agreement itself. At the same time the *Junta*'s proposals and the Commission's decisions had to balance economic efficiency with equity, and with national interests. During this phase, especially until the end of 1972, both the Commission and the first *Junta* were able to work together without major clashes. The Commission was "imbued with an admirable spirit of cooperation," and the three members of the first *Junta* had "an inexhaustible creative capacity and willingness to see the Andean process work" (Guerrero, 1979: 69).

One factor to which the *Junta* attributed major progress during this phase was the decision-making system. The *Junta* developed a proposal having in mind only subregional interests. The proposal was discussed and negotiated the Commission. In this instance the political interests of the member countries were harmonized. The decisions adopted then represented a harmonious balance between subregional interests and the legitimate national interest of each of the member states (JUNAC, 1972: 15).

Another important factor which helped to insure smooth relations between the Commission and the *Junta* was the personal relations among them. The different members of the Commission were almost all linked to integration efforts in the past. The

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members of the *Junta* had known each other while working on LAFTA's issues and during the drafting of the Cartagena Agreement.

Despite this amicable beginning, tensions began to emerge by 1973 between the governments and the *Junta,* as the former became aware of the power of the latter. "[T]he national governments ... decided upon open opposition to a number of [the *Junta's*] proposals; since that time the power of the *Junta* has been somewhat checked" (Puyana, 1982: 5). For instance, in July 1971, the Commission rejected the Petrochemical Program (Guerreio, 1979: 83). The governments also complained about "these technocrats, [who] inspired by the example of ECLA, took seriously their role as disseminators of 'formal rationality' ..., with the inevitable consequence that considerations of national sovereignty were relegated to second place" (ibid.: 8). An illustration of this was the negotiation of the Metalworking Program. The *Junta* was criticized for not taking into account the realities of the member countries. The governments were unhappy with the products they had been assigned to produce. They clashed among themselves in trying to get production assignments for all the products they were producing, as well as those they had planned to produce.[52]

4.4.- Strategies of development and the Andean integration aims

This section attempts to find out whether the strategies of development pursued by the member countries between 1969 and 1973 had objectives were reflected in the

[52]For example, at the eleventh hour, during the second meeting of the ninth session of the Commission, the Chilean representative complained that Chile had not been assigned anything related to mining machines even though Chile is a mining country (Guerrero, 1979: 124).

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basic aims to be attained by the Andean Group (see chapter III, section 6.1). These principles were: primacy of government, import substitution industrialization, and subsidiary role of foreign investment.

The comparison between national objectives and Andean aims will be carried out by contrasting the relevant aspects of each country's development plans with the principles of the Cartagena Agreement mentioned above. Although development plans in the Andean countries have seldom been implemented,[53] they set targets which guided government action. As such they are good indicators of governments' interests. For the comparison, countries are loosely paired based on their similarities in terms of their levels of development (industrialization), and their economic policies. In this respect, Chile is analyzed in conjunction with Colombia, Peru together with Venezuela, and Bolivia along with Ecuador.

a) Chile and Colombia

Among the Andean countries, Chile had the most radical change in the implementation of its development strategy due to changes in government. In November 1970, power shifted from the Christian Democrat Eduardo Frei to the Socialist Salvador Allende, head of the *Unidad Popular* coalition. The country went from mixed capitalist economy to another of increasing state control. In September 1973, after the overthrow and assassination of Allende, the military regime changed to a neo-liberal one.

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[53]Among the many reasons the most relevant are: changes in government, especially in the case of unscheduled ones; sudden situations of economic crises, reduction in the prices of most important exports, inflation, fiscal deficit; and domestic opposition to the implementation of the measures.

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Leaving the analysis of the military government for the next chapter, both the Frei and Allende administrations claimed a leading role and advocated the supremacy of government in society including control over foreign capital.[54] Frei perceived the Andean Pact primarily as a market. Allende was interested in increasing the size of the domestic market, and meeting this increased domestic demand through imports, some of them coming from the other Andean nations.

Colombia during the presidency of the Liberal Carlos Lleras Restrepo (1966-1970) had development plans which emphasized the role of the public sector in the economy. The development plan of his successor, President Misael Pastrana Borrero (1970-1974) of the Conservative Party, stressed the approach of a leading public sector, but in neither case was the primacy of the government put into question.

In the case of foreign capital, development plans supported its control, particularly after 1967 when limits on the transfer of profits were enacted (Caballero, 1978: 98). With regard to industrialization, Colombia has consistently considered, since the late 1960s, that its industrialization is best achieved through export promotion. Nevertheless Colombia did agree with selective import substitution as a principle, especially in the case of capital goods (Caballero, 1978: 97-98).

b) Peru and Venezuela

In October 1968, the Peruvian President, Fernando Belaunde was overthrown by a *coup d'état*. The new government continued with the strategy of import substitution

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[54]"... it is indispensable to emphasize the central role assumed by the [Chilean] government as protagonist of integration [during] Alessandr., Frei and Allende ..." (Atria et al., 1974: 141).

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industrialization through greater government intervention of the productive and service sectors.

"Industrialization is the centerpiece of our country's economic development" (Velasco, 1969 [1995]: 267). Industry was regulated by the General Law on Industry enacted in July 1970. It provided fiscal and tariff incentives to industries according to their priority. It also established rules for the gradual nationalization of foreign companies and for government ownership of all the industrial activities defined as "basic" (mostly capital goods). These rules were similar to those later approved in Decision 24.

The Peruvian military felt that the government should play a fundamental role in the economy. "[W]ith regard to the integration process state action is fundamental, it is the state which has to set the objectives and goals to achieve common welfare" (Plan Nacional de Desarrollo 1971-75, quoted in Bernales, 1974a: 226).

In the case of the Peruvian military government there was a concordance between some of the national objectives and the three major aims of the Andean Pact. Both had the government as the primary actor, both wanted import substitution industrialization, and both were in favor of greater control of foreign investment.

Venezuela[55] aimed since the 1960s to reduce its reliance on oil. In the 1970s this objective was more remote than ever, due to the increased value of oil. Oil, on the other hand, allowed Venezuela to command resources and to pursue development.

The IV National Plan, promulgated in 1969, aimed to further import substitution by promoting exports of traditional and non-traditional goods (Blanco de Iturbe, 1978:

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[55]Member only since 1974, but it is included here for sake of completeness.

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246), and emphasizing efficient production of intermediate and capital goods. The primacy of the role of government was explicit in Venezuelan development plans. Its role was heightened by the fact that income from oil allowed the government to have a decisive say in the economy. The public sector was to be in control of the production of oil and derivatives, petrochemicals, siderurgy and aluminum. Finally, there was "no discrimination between foreign and domestic capital until 1974" (Iguiñez, 1983: 25), after Venezuela became the sixth member, when Decision 24 was put into force.

c) Bolivia and Ecuador

In 1961 Bolivia had its first development plan. One of the main objectives was to further import substitution and to increase exports. In 1970, when the Cartagena Agreement had already come into force, the second plan was promulgated. It assigned the public sector a key role in development, and called for import substitution at the Andean level for industries in which the country had a comparative advantages (Morales and Machicado, 1978: 42-43). The implementation of the plans was halted by changes in government, in 1964 and 1972 respectively.[56] Bolivian development plans explicitly coincided with two of the principles of the Cartagena Agreement: the primacy of the government, and import substitution industrialization.

Given that this country was the least developed of the Andean Group, its need for foreign capital was the greatest. The Andean market and the common treatment of

[56]In 1964 General Rene Barrientos overthrew Víctor Paz Estenssoro, and in 1972 Colonel Hugo Banzer removed from power the reformist government of General Juan José Torres. The plans, however, served as guidelines for the governments which came after.

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external capital, however, provided the country with increased negotiating power which would enable it to attract capital on more advantageous terms. The principle of subordination of foreign resources was not openly supported by the governments, but was not rejected either.

Ecuador, from 1969 on, was governed by José María Velasco Ibarra. Just before the end of his term, in February 1972, General Guillermo Rodríguez Lara seized power. He stayed until 1976. The military government, in its "Philosophy and Plan of Action" published in March 1972 and in the 1973-1977 development plan, aimed among other things to continue the import substitution industrialization process which had begun in the 1950s. What was new about the 1973-1977 plan was that the state reserved for itself the right to intervene directly in economic activities (Moncada, 1978: 151, 133). With regard to foreign investment, the Velasco Ibarra regime gave it the same treatment that was applied to domestic investment until the Andean Group approved Decision 24. The military government did not have any specific objective with regard to the control of foreign investment, but applied Decision 24.

In brief, all the countries agreed with the principle that the government should be the most important actor. This was explicitly stated by the reformist military governments of Bolivia, Peru and Ecuador, and also by the non-reformist governments of Bolivia and Ecuador, by the Christian Democratic and Socialist regimes of Chile, by both the liberal and conservative regimes of Colombia, and by oil rich Venezuela. With regard to import substitution industrialization, again, the governments—military or not, reformist or not—of Bolivia, Peru Ecuador, and Venezuela were highly supportive, the governments

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of Chile and Colombia were less so. Both considered that increasing trade among member countries was more important. Finally, with regard to the subsidiary role of foreign investment, the governments of Chile, Colombia and Peru backed this aim, while the governments of Bolivia, Ecuador and Venezuela had no special policy for the control of foreign investment.[57] The primacy of government is the aim most supported by the governments, while the subsidiary role of foreign investment was the least supported. The different positions of the governments are summarized in the following table.

TABLE IV.8[58]
RELATIONSHIP BETWEEN ANDEAN AIMS
AND NATIONAL OBJECTIVES: 1969-1973

ANDEAN AIMS	BO	CH	CO	EC	PE	VE	TOTAL
Primacy of government	S	S	S	S	S	S	6S
Import substitution industrialization	S	I	S	S	S	S	5S 1I
Subordination of foreign investment	I	S	S	I	S	I	3S 3I
							14S 4I

S = Supportive I = Indifferent

Table IV.8 shows that during the phase of progress, 1969-1973, as expected in this dissertation, there was a great degree of agreement between what the governments

[57]These results also allows one to conclude that no type of regime—military, civilian, dictatorship, or democratic—and an economic orientation—neo-liberal or interventionist—are *per se* more supportive than other of integration. Regarding the hypothesis that democracies tend to support integration more than other regimes see Dooner and Fernández, 1982; and Jaffe and Risquez, 1988.

[58]Tironi (1978) is the source of the idea of using a matrix to summarize the findings showing support, indifference or not support to the aims, and to the mechanism of the Cartagena Agreement.

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had as national objectives and the aims the Andean Group was assigned to achieve. Colombia and Peru supported all three Andean aims. Bolivia, and Ecuador, the relatively less developed countries, supported the same two objectives while they were indifferent to the subsidiary role of foreign investment. Chile also supported two aims, and was indifferent to import substitution industrialization. Venezuela supported two aims and was indifferent to the other. "The positive outlook, keenness, and togetherness of the technocrats coupled with a fairly strong similarity between the political intentions of the governments of Bolivia [until 1972], Chile [until 1973] and Peru explains the successful start the Agreement had in its first four years" (Bawa, 1980: 188).

4.5.- National economic policies and the Andean mechanisms

As has been shown above, there was a high degree of correlation between the goals of the Andean governments and the principles of the Cartagena Agreement. Over time, however, countries' needs and interests change, while the aims of an integration process remain the same until consensus to change them is reached among the members. It is important then to analyze the correlation between main mechanisms of the agreement (summarized in chapter III section 6.2) and the economic policies of the member countries in order to find out the governments support or lack of support to these mechanisms.[59]

These main mechanisms are: planning coordination, policy harmonization, the

[59]In a recent article Mace (1994), employs a very similar methodology to analyze the support or lack of it to Andean process. He, however, applies it to only 3 mechanisms (CET, industrial programming, and Decision 24), and for three periods: 1969-1972 (success), 1974-1977 (first crisis), and 1981-1985 (second crisis).

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tariff reduction program, common external tariff, industrial programming, and common treatment of foreign investment. The first two, planning coordination, and policy harmonization will not be considered in this or in chapters V and VI. The main reason is the lack of progress in these mechanisms, as stated above in sections 2.4 and 2.5 of this chapter.

a) Chile and Colombia

a.1) The tariff reduction program.- Chile, during the Christian Democratic administration headed by Eduardo Frei, considered the Andean pact an opportunity to expand and diversify its exports. As such, ever since the negotiations of the Cartagena Agreement, this country was supportive of the tariff reduction program as the most important mechanism of the agreement.

In the Allende Administration the tariff reduction program lost its importance since exports were not one of its aims. As table IV.9 shows, Chilean exports only increased between 1969 and 1971. In 1972 exports decreased by 26 percent because the country was in a severe economic crisis,[60] from which it had not recovered in 1973. In this latter year, exports increased 17 percent over 1972, but their value was still $3 million lower than the peak achieved in 1971. Its participation in intrasubregional trade was quite low, ranking, only above Bolivia and Ecuador, between 1969 and 1971, and in the last two years of this phase (1972 and 1973), even below Ecuador.

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[60]In that year production went down, GDP was negative, import grew, and foreign reserves diminished (IDB, c1974: 162-163).

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TABLE IV.9
CHILE: ANDEAN TRADE 1969-1973

	1969	1970	1971	1972	1973
EXPORTS (FOB) (Million of dollars)					
GRAN	10.8	18.2	24.8	18.7	21.8
WORLD	1,075.0	1,234.0	962.0	855.0	1,231.0
IMPORTS (FOB) (Million of dollars)					
GRAN	21.5	28.8	32.1	50.8	62.1
WORLD	907.0	931.0	980.0	941.0	1,098.0
TRADE BALANCE (Million of dollars)					
GRAN	(10.7)	(10.6)	(7.3)	(32.1)	(40.3)
WORLD	168.0	303.0	(18.0)	(86.0)	133.0
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE					
EXPORTS	1.00	1.47	2.58	2.19	1.77
IMPORTS	2.37	3.09	3.28	5.40	5.66
RATE OF GROWTH OF EXPORTS					
GRAN		68.52	36.26	-24.60	16.58
WORLD		14.79	-22.04	-11.12	43.98
RATE OF GROWTH OF IMPORTS					
GRAN		33.95	11.46	58.26	22.24
WORLD		2.65	5.26	-3.98	16.68

SOURCES: 1969: INTAL, 1975: 53; 1970-1973: ECLA, 1976a: 171, 175 and author's calculations

In both the negotiations of the Cartagena Agreement and in its development plans, Colombia was consistently in favor of the "commercialist" approach as the way to go in GRAN. The Andean Pact was viewed first and foremost as a place to export, and

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TABLE IV.10
COLOMBIA: ANDEAN TRADE 1969-1973

	1969	1970	1971	1972	1973
EXPORTS (FOB) (Million of dollars)					
GRAN	37.5	62.5	69.2	70.1	66.7
WORLD	608.0	736.0	690.0	866.0	1,177.0
IMPORTS (FOB) (Million of dollars)					
GRAN	16.0	20.5	28.5	28.6	41.8
WORLD	685.0	813.0	929.0	859.0	1,062.0
TRADE BALANCE (Million of dollars)					
GRAN	21.5	42.0	40.7	41.5	24.9
WORLD	(77.0)	(77.0)	(239.0)	7.0	115.0
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE					
EXPORTS	6.17	8.49	10.03	8.09	5.67
IMPORTS	2.34	2.52	3.07	3.33	3.94
RATE OF GROWTH OF EXPORTS					
GRAN		66.67	10.72	1.30	-4.85
WORLD		21.05	-6.25	25.51	35.91
RATE OF GROWTH OF IMPORTS					
GRAN		28.13	39.02	0.35	46.15
WORLD		18.69	14.27	-7.53	23.63

SOURCE: JUNAC, 1977: II-4.25; 1977a: 37-47 and author's calculations

secondly as a means to achieve a more efficient and selective import substitution industrialization (Caballero, 1978: 102). Besides being the most industrialized country of the subregion, Colombia had been promoting and subsidizing its non-traditional

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exports since 1967.[61] Between 1969 and 1973, Colombian exports to the subregion almost doubled. The value of its intrasubregional exports, however, were never greater than 11 percent of its total exports (see table IV.10).

a.2) Common tariff.- In relation to the common minimum external tariff, the Christian Democrat government agreed to the *Junta* proposal on this issue. The CMET approved was much lower than the Chilean average tariffs (see table IV.2), which meant that this country had very few items on which it had to increase its national tariff. The Allende government implemented only the first approximation to it, the one due in December 1971 (see table IV.5). Given that non-tariff barriers had become more important for regulating imports, the CMET had in turn become relatively less important for accomplishing this aim. Thus, the violation of the CMET shows the lack of importance of this mechanism for the government.

Colombia supported a common minimum external tariff that would favor an improvement of industrial efficiency. The CMET was quite close to the Colombian tariff structure and average levels (see table IV.2).[62]

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[61]In that year, decree 444, known as Statute of Foreign Trade and Exchange *(Estatuto de Comercio Exterior y de Cambios Internacionales)* was promulgated. This decree exempted tariffs on imports of intermediate products to be used in the production of goods that would be later exported. It also consolidated the existing fiscal incentives to exports in one subsidy equal to 15 percent of the value of the exports. The decree also established a flexible exchange rate system, which favored exports.

[62]If we check the tariff structure for the other countries (table IV.2), all of them gave the least protection to capital goods, and the greatest to consumer goods. On the other hand, with the exception of Bolivia, all the other countries had their average tariffs well above the CMET.

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a.3) Industrial programming.- Industrial programming was not considered an important mechanism for the Frei administration. The government expected that very few products would be programmed. Given the complicated negotiation procedures to approve each of the SPIDs,[63] it was anticipated that regardless of how extensive the list of products reserved for SPIDs was, only a few would be programmed. Under these circumstances, the Frei administration supported industrial programming. Industrial programming became even less important during the Socialist government because the areas subject to SPIDs at that time—metalworking and petrochemicals—did not coincide with national priorities.

Industrial programming was the mechanism in which the Colombian government was the least supportive, but supportive anyhow. Since its industrialization process was ahead of the other countries, the government felt the SPIDs should be very selective. Without openly voicing its doubts about this mechanism, Colombia participated intensively in the negotiation of the first SPID, the Metalworking Program, to get assigned the products it was interested in producing. Its participation in the negotiations also allowed Colombia to influence major decisions with regard to the levels of tariff protection,[64] the period for which the countries having the assignations would enjoy a monopoly of the production in the assigned products, and other important issues.

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[63]It should also be remembered that all countries had to participate in each SPID, and that SPIDs could be vetoed once by each the member.

[64]For example in the case of the negotiations of the metalworking program, "Colombia had continuously reiterated reducing the levels of the Common External Tariff; ..." (Guerrero, 1979: 127).

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a.4) Decision 24.- Presidents Frei of Chile and Lleras Restrepo of Colombia were for controlling foreign investment. Both felt that foreign capital was getting the lion's share in LAFTA and CACM. There was an increased pressure for an Andean common treatment of foreign investment since the Andean Pact was a more ambitious integration process, and therefore providing potentially more benefits to be shared.

The common treatment of foreign capital, was enthusiastically supported and strictly enforced by the Allende regime. "Decision 24 constitutes the clearest expression of the new regional economic nationalism and is strongly supported by the government, because the subregional control of foreign capital and the government's economic policies coincide" (Wilhelmy, 1982b: 140).

Support for a common treatment of foreign capital had been voiced by Colombia ever since the Declaration of Bogota, in August 1966. A year later, by Decree 444, Colombia imposed controls on foreign investment. Among the restrictions was the limitation on the repatriation of profits to 14 percent of the total investment, later to become a *cause célèbre* and the focus of outcry against Decision 24 by American investors.

In summary, Colombia supported all the mechanisms, although not with the same enthusiasm for all. Chile, from the economic point of view, supported only Decision 24. Nevertheless, the Socialist regime supported all the mechanisms, and the Andean Pact in general, because the Cartagena Agreement was seen as a source of imports in case of economic boycott by the United States, and as a source of diplomatic support in its controversies with the same country (Wilhelmy, 1982c: 210).

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b) Peru and Venezuela

b.1) The tariff reduction program.- The Peruvian military regime was supportive of industrial programming and of the common treatment of foreign capital. It accepted the tariff reduction program and the restrictions imposed by the common minimum external tariff as a trade-off. Being less industrialized than Chile and Colombia, Peru had little incentive or interest in the tariff reduction mechanism. There were no important Peruvian products that could take advantage of this mechanism, and Peru had to open its market both to its more industrialized and competitive partners on an equal footing, and to Bolivia and Ecuador at a quicker pace. In other words, the tariff reduction program was a mechanism that could only increase Peruvian imports of mostly more expensive or non-essential goods, while contributing almost nothing toward the increase of its exports. Table IV.11 shows that the Peruvian trade deficit with its Andean partners rose from $4.4 million to $46.0 million.

Intrasubregional exports by Venezuela were important within the total intra-Andean exports. They, however, were never more than 2 percent of this country's total exports during the period from 1969 through 1973 (see table IV.12). This percentage was the lowest of the Andean Pact. For this reason, the tariff reduction program was not seen by Venezuelan authorities as a means to increase intrasubregional trade. Rather, they considered that the tariff reduction program could be a means to improve efficiency and reduce costs by creating competition with its domestic production.

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TABLE IV.11
PERU: ANDEAN TRADE 1969-1973

	1969	1970	1971	1972	1973
EXPORTS (FOB) (Million of dollars)					
GRAN	21.6	21.6	21.3	28.4	35.8
WORLD	866.0	1,048.0	893.0	944.0	1,050.0
IMPORTS (FOB) (Million of dollars)					
GRAN	26.0	46.0	62.1	54.5	81.8
WORLD	600.0	622.0	750.0	796.0	1,024.0
TRADE BALANCE (Million of dollars)					
GRAN	(4.4)	(24.4)	(40.8)	(26.1)	(46.0)
WORLD	266.0	426.0	143.0	148.0	26.0
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE					
EXPORTS	2.49	2.06	2.39	3.01	3.41
IMPORTS	4.33	7.40	8.28	6.85	7.99
RATE OF GROWTH OF EXPORTS					
GRAN		0.00	-1.39	33.33	26.06
WORLD		21.02	-14.79	5.71	11.23
RATE OF GROWTH OF IMPORTS					
GRAN		76.92	35.00	-12.24	50.09
WORLD		3.67	20.58	6.13	28.64

SOURCE: JUNAC, 1977: II-4.25; 1977a: 37-47 and author's calculations

b.2) Common tariff.- The common minimum external tariff was a problem for Peru to implement. It would increase the tariff on intermediate and capital goods which in turn would increase production costs thereby reducing the competitiveness of Peruvian

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TABLE IV.12
VENEZUELA: ANDEAN TRADE 1969-1973

	1969	1970	1971	1972	1973
EXPORTS (FOB) (Million of dollars)					
GRAN	30,111	25,935	35,194	39,288	42,266
WORLD	3,113,000	3,181,190	3,037,000	2,947,000	4,568,102
IMPORTS (FOB) (Million of dollars)					
GRAN	13,604	15,056	10,569	14,565	24,617
WORLD	2,018,000	2,201,639	2,066,000	2,441,000	2,815,512
TRADE BALANCE (Million of dollars)					
GRAN	16,507	10,879	24,625	24,723	17,649
WORLD	1,095,000	979,551	971,000	506,000	1,752,590
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE					
EXPORTS	0.97	0.82	1.16	1.33	0.93
IMPORTS	0.67	0.68	0.51	0.60	0.87
RATE OF GROWTH OF EXPORTS					
GRAN		0.86	1.36	1.12	1.08
WORLD		1.02	0.95	0.97	1.55
RATE OF GROWTH OF IMPORTS					
GRAN		1.11	0.70	1.38	1.69
WORLD		1.09	0.94	1.18	1.15

SOURCE: JUNAC, 1977: II-4.25; 1977a: 37-47 and author's calculations

exports. Even more important, the CMET, and the future CET, would deprive the government of the autonomy to change tariffs as it saw fit. Reflecting this latter concern, by the end of 1973 Peru had not yet begun to comply with the CMET (see table IV.5).

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The Venezuelan government supported the CMET because it could be a means to improve efficiency and reduce costs.

b.3) Industrial programming.- This mechanism was supported by Peru since it would help to diversify industrial production and increase efficiency. It fitted very well into the development plans of the Peruvian policy makers.

Industrial programming aims were coincidental with the industrialization objectives of Venezuela. Both aimed at developing the efficient production of capital and intermediate goods. The SPIDs being programmed by the *Junta* coincided with the sectors whose development was a priority for Venezuela.

b.4) Decision 24.- Embarked on an ambitious reform program including industrialization, government ownership of strategic industries, and increasing government intervention in the economy, the Peruvian military government recognized the need for foreign investment and skills. At the same time it was aware that foreign participation had to be controlled in order for it to be beneficial to the country. In the words of president Velasco "... it will be ... important to agree on a treatment of foreign investment that, while taking into account their rights, would subordinate them to the interests of the integrated countries, and thus constitute a supporting factor for our independent development" (quoted in Bernales, 1974a: 224).

With regard to Decision 24, support by Venezuela was shown by the creation of the commission to prepare rules to regulate investment which proposed regulations

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similar to those of Decision 24. Since this country did not have problems with financial resources, thanks to its oil income, regulation of investment was not as important as for other member countries. Decision 24, however, would allow Venezuelan investment in the other Andean nations.

Peru's economic policies were reflected only by the Industrial Programming and the Decision 24. In practice, however, the Peruvian government was supportive of the main mechanisms for reasons not dissimilar to Allende's Chile, that is, to avoid isolation and to get support from its Andean partners in its problems with the United States. "[I]ntegration ... avoids isolation, ... [and] since it is multilateral, integration is less costly for its supporters than bilateral actions and declarations" (Wilhelmy, 1982a: 195). The military, furthermore, saw the Andean Pact as a tool for the economic independence of Latin America. "From the very beginning we saw in it [the Andean Pact] a mean to strengthen our nations, a form of struggle to reinforce the economic independence of Latin America" (Velasco, 1972, quoted in Bernales, 1974a: 225).

Venezuela, while it was negotiating its entry into the pact during this phase it developed a scheme to get support from the entrepreneurial groups, and began to prepare itself for its future participation. In general, Venezuela was also supportive of the four main mechanisms of the Cartagena Agreement.

c) Bolivia and Ecuador

c.1) The tariff reduction program.- Bolivia and Ecuador, according to the original text of the Cartagena Agreement, did not have to begin the tariff reduction program until

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1976. On the other hand, they had been enjoying the benefits of the Andean market since 1970. This resulted in an increase in their exports.

In the case of Bolivia, the absolute amounts were very small, between $4.8 million in 1969 and $26.7 million in 1973 (see table IV.13), but it was a five fold increase. At its best, in 1973, intrasubregional exports were 11 percent of Bolivia's total exports.[65] Bolivian exports to the subregion had their biggest jump in 1971, when tariffs began to be reduced by Chile, Colombia and Peru. Its exports increased by 245 percent, from $5.0 million to 17.1 million between 1970 and 1971. It is therefore possible to conclude that between 1969 and 1973 Bolivia supported the tariff reduction program, because it provided the country with some limited benefits at no economic or political cost; and helped to increase trade and diversify markets and products.

Ecuador was quite successful in taking advantage of the opportunities created by the tariff reduction program. Its exports to the subregion increased seven times, from $11.3 million in 1969 to $76.9 million in 1973 (see table IV.14), this was the highest increase of the subregion. Its rate of growth increased as well each year. It was the only Andean country which was able to accomplish this feat. Exports increased by 28 percent between 1969 and 1970, by 31 percent between 1970 and 1971, by 58 percent and 154 percent in the following two years.

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[65]Among the most important reasons for its dismal participation in the intra-Andean trade are: its feeble and late industrialization which did not allowed it to sell manufactured products, the similarities in the structure of agricultural and mining production with the other Andean countries, its lack of transportation facilities with the rest of the members, and its lack of access to the ocean, and its geographical location. Being at one of the geographical end of the Group's area made Peru the immediate market, a market which was important before the Andean project began.

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TABLE IV.13
BOLIVIA: ANDEAN TRADE 1969-1973

	1969	1970	1971	1972	1973
EXPORTS (FOB) (Million of dollars)					
GRAN	4.8	6.0	20.3	19.2	26.7
WORLD	172.0	190.0	181.0	201.0	261.0
IMPORTS (FOB) (Million of dollars)					
GRAN	3.5	3.8	3.9	5.3	7.4
WORLD	165.0	159.0	170.0	173.0	204.0
TRADE BALANCE (Million of dollars)					
GRAN	1.3	2.2	16.4	13.9	19.3
WORLD	7.0	31.0	11.0	28.0	57.0
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE					
EXPORTS	2.79	3.16	11.22	9.55	10.23
IMPORTS	2.12	2.39	2.29	3.06	3.63
RATE OF GROWTH OF EXPORTS					
GRAN		25.00	238.33	-5.42	39.06
WORLD		10.47	-4.74	11.05	29.85
RATE OF GROWTH OF IMPORTS					
GRAN		8.57	2.63	35.90	39.62
WORLD		33.95	11.46	58.26	22.24

SOURCE: JUNAC, 1977: II-4.25; 1977a: 37-47 and author's calculations

c.2) Common tariff.- As to the common external minimum tariff, Bolivia and Ecuador had to apply it in the case of goods not previously produced, once their production started, but, between 1969 and 1973 there was none. Consequently, Bolivia and Ecuador

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TABLE IV.14
ECUADOR: ANDEAN TRADE 1969-1973

	1969	1970	1971	1972	1973
EXPORTS (FOB) (Million of dollars)					
GRAN	11.3	14.5	19.0	30.1	76.9
WORLD	153.0	190.0	199.0	326.0	532.0
IMPORTS (FOB) (Million of dollars)					
GRAN	19.1	23.0	28.1	27.5	34.7
WORLD	242.0	274.0	340.0	319.0	397.0
TRADE BALANCE (Million of dollars)					
GRAN	(7.8)	(8.5)	(9.1)	2.6	42.2
WORLD	(89.0)	(84.0)	(141.0)	7.0	135.0
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE					
EXPORTS	7.39	7.63	9.55	9.23	14 45
IMPORTS	7.89	8.39	8.26	8.62	8.74
RATE OF GROWTH OF EXPORTS					
GRAN		28.32	31.03	58.42	155.48
WORLD		24.18	4.74	63.82	63.19
RATE OF GROWTH OF IMPORTS					
GRAN		20.42	22.17	-2.14	26.18
WORLD		13.22	24.09	-6.18	24.45

SOURCE: JUNAC, 1977: II-4.25; 1977a: 37-47 and author's calculations.

had no reason to oppose the aplication of this mechanism, since it enabled them to insist on its compliance by its relatively more developed partners.

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c.3) Industrial programming.- Bolivia and Ecuador supported the Sectoral Programs of Industrial Development (SPIDs), since import substitution industrialization was one of the objectives. Being the least industrialized members, and only in the early stages of industrialization—basically producing non-durable consumer goods—the SPIDs constituted a challenge for Bolivia and Ecuador. The products included in the list of industrial programming were mostly intermediate and capital goods, and some durable consumer goods. The challenge was that products assigned to these countries were in sectors which were little developed, where the country and its entrepreneurs had little experience, and for which there was little or no trained labor. On the other hand, industrial programming would push Bolivia and Ecuador to diversify their production, with the advantage that the future market would be the Andean Pact. Support of the mechanism was warranted. The usefulness of the mechanism, however, depended more on the ability of these countries to know what they wanted and to negotiate skillfully, than on the mechanism itself.

c.4) Decision 24.- The common treatment of foreign investment was a mechanism Bolivia had doubts about. The implementation of the SPIDs and other products assigned to be produced by Bolivia meant an investment of $350 million between 1970 and 1985. This amount was more than 25 percent of 1973 Bolivia's GDP which was $1,388 million in that year (Morales and Machicado, 1978: 75; IDB, c1976: 378). The SPIDs had the advantage of offering to investors the whole Andean market. On the other hand, being the least developed country of the subregion, foreign investors would be less willing to

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go to Bolivia, since it could not compete advantageously with other members in terms of domestic market, infrastructure, skilled labor and the like. Besides, Bolivia had fewer resources to nationalize foreign firms, as agreed in Decision 24. Even though the application of Decision 24 may have been disadvantageous to Bolivia, during the reformist period of General Torres it was strictly observed (ECLA, 1973: 89). The more capitalist regime of General Banzer promulgated a new Law of Investment in December 1971. It relaxed some of the regulations, but the law was still mostly within the rules of Decision 24. In practice, both regimes supported the application of the common treatment of foreign capital, although one more strictly than the other.

The common treatment of foreign capital posed for Ecuador the same dilemma as for Bolivia. On the one hand there was the need to attract foreign capital to develop the country, and more specifically to implement industrial and infrastructure projects that would allow the country to take greater advantage of the Andean Group. On the other hand, Decision 24 imposed controls over foreign investment. The reformist military government that took power in early 1972 was in favor of the measure since it promoted government intervention in the economy. Since the mid-1960s, moreover, Ecuador had begun to receive a high influx of foreign investment not only for the oil sector but also for industry and for banking. This eased the anxiety of the government about the possible negative effects in applying Decision 24.

In brief, it can be said, that between 1969 and 1973, Bolivia and Ecuador supported the four main mechanisms of the Cartagena Agreement.

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d) Conclusion

In summary, all the countries supported the main mechanisms of the Cartagena Agreement. Bolivia, Colombia, Ecuador and Venezuela did so because the mechanisms helped their countries to attain some economic policy objectives, or at least the mechanisms did not adversely affect the countries. In the case of Chile during the Allende years, and of Peru, even though some mechanisms were not correlated with the governments' economic policies, they supported all the mechanisms, and the Andean Pact in general. Reasons of high politics (military and security) rather than of low politics (economic and welfare) dictated this support. Table IV.15 shows, the "unanimity" of support for the Andean Pact's mechanisms between 1969-1973.

TABLE IV.15
SUPPORT FOR ANDEAN MECHANISMS

MECHANISM	BO	CH	CO	EC	PE	VE	(T)
The tariff reduction program	S	S	S	S	S	S	6S
Common External Minimum Tariff	S	S	S	S	S	S	6S
Industrial Programming	S	S	S	S	S	S	6S
Foreign Investment	S	S	S	S	S	S	6S
							24S

S = Supportive (T) = TOTAL

The analysis of the main mechanisms and their perceived effects on some economic policies shows that progress of the Andean Group between 1969 and 1973 can be correlated with the usefulness of the main mechanisms to the economic and/or political aims of the member countries. The findings corroborate the hypothesis of this research project.

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CHAPTER V

FROM CARACAS TO AREQUIPA (1974-1978): DOUBTS AND STAGNATION

1.- MAJOR CHANGES IN THE ANDEAN PROCESS

The years 1974 to 1978 were years of stagnation and doubts in the Andean Group. According to the definitions used in this study, stagnation is characterized by: (a) delays in the implementation of the mechanisms, (b) reduction in trade in some of the years, (c) increasing violations of the agreement, and delays in fulfilling the agreement's obligations; and (d) a reduction in the Commission's output. The underlying explanation to this phase, according to the hypothesis, is that a minority of governments find their interests not reflected by the Andean process because their strategies and/or policies are changing.

1.1.- Overview

The entry of Venezuela and Chile's exit required lengthy, time consuming, and

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exhausting re-negotiations of some aspects of the Cartagena Agreement and of the most important decisions. After Chile's withdrawal other problems persisted: continuous violations of the agreement, demands by Bolivia and Ecuador for a greater access to the benefits of the process, and diminishing political support from the member governments. The changes in the international economic system of the 1970s forced the member governments asynchronically, but surely, to shift to less interventionism in the economy. The Commission correspondingly missed deadlines.[1]

For these reasons, the usefulness of the Cartagena Agreement was put into question by the member countries. This resulted in the Protocols of Lima (1976) and of Arequipa (1978) and the modifications of several decisions.[2] They made the agreement more flexible, established a new balance and synchrony among the mechanisms, and reflected the changes of member states with regard to the Andean Pact, while reaffirming the fundamental principles of the agreement.

1.2.- Changes due to Venezuela's entry

Venezuela's joining of the Andean Group strengthened the Pact politically, since GRAN showed its capacity to attract a new, important—and wealthiest—member. Economically, the size of the market increased (see table V.1).

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[1]"The delay in these [first ten] years was due basically to internal problems of the member countries, which were heavily affected by the international crisis, and by the search for the identity of the Group [Venezuela's entry and Chile's exit] ..." (JUNAC, 1979a: 144).

[2]"The delays in implementing the mechanisms, the imbalances between automatic and negotiated mechanisms, the greater initial emphasis on some mechanisms over others, and the rigidity of some of the stipulations of the agreement, were the factors, among others, which led the Member Countries to modify deadlines, and to make adjustments, thus changing the Cartagena Agreement through the Protocols of Lima and Arequipa in 1976 and 1978 respectively" (Ferrero, 1981: 39).

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TABLE V.1
VENEZUELA'S ENTRY INTO THE ANDEAN PACT: SOME INDICATORS

	Without Venezuela	With Venezuela	Change
Per capita income	400 dollars	500 dollars	+ 25.00 percent
Population	60 millions	70 millions	+ 16.66 percent
Total savings	3 billions	4.5 billions	+ 50.00 percent
Consumption	25 billions	35 billions	+ 40.00 percent
Foreign trade	6.3 billions	10.4 billions	+ 65.08 percent

SOURCE: Llosa, 1973: Anexo estadístico, Cuadro No 1.

Venezuela's entry into also contributed to the stagnation of the process due to the changes brought about by the Additional Instrument to the Cartagena Agreement for the Admission of Venezuela, and by Decision 70. The approval of the common external tariff and the programs for industrial rationalization were subjected to veto. The *Junta*'s proposals on industrial programs had to be modified to incorporate Venezuela. The only approved Sectoral Program of Industrial Development (SPID), the Metalworking Program, had to be renegotiated to include Venezuela. The exemptions to the tariff reduction program were increased.

The expanded membership also made more difficult the decision-making process. Since the Commission's decisions were in practice adopted by consensus, with the entry of Venezuela, the Andean consensus for the sole reason of having more members, if not

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for something else, became harder to reach.[3]

1.3.- The withdrawal of Chile

The two main reasons which caused Chile to withdraw from the Andean Group were its demands to make more flexible the rules on foreign investment and that the average effective protection[4] of the CET should be 30 percent (Tomic, 1980: 321-322), as opposed to the Junta's proposal of 65 percent. The member countries engaged in long and difficult and eventually unsuccessful negotiations—from July 1974 to October 1976. In the latter date, Decision 102 abrogated all the obligations and rights of Chile with regard to the Agreement.

From a political view point, the basic reason which explained Chile's exit was its new strategy of development, "... show[ing] the open antinomy between the implicit economic model of the Cartagena Agreement and the [Chilean] scheme..." (Rodríguez Mancera, 1992: 8). The military government of Chile supported a neo-liberal strategy, getting the government out of the economy, and granting the leading role to the private sector.[5] The other members still supported an import substitution strategy in which states

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[3]"... other things being equal, there is an inverse relationship between the number of member states in a regional organization and its ability to adopt significant regional policies. ... Given the fact that all regional decisions are essentially unanimous intergovernmental agreements, each additional partner increases the national interests to be satisfied ... The package deal and trade-offs ... increase geometrically ..." (Axline, 1994b: 199).

[4]Effective protection is protection to the value added of a given product. Nominal protection is the tariff applied to a given product.

[5]This radical departure from the strategy of development pursued by Chile since 1974 was due first to the interest of the dictatorship to mark very clear distance with the statism of the Socialist government, and second as an attempt to improve its relations with the United States highly deteriorated by the harsh repression pursued by the military dictatorship. For an analysis of the ideology of the Chilean experiment see Foxley 1983; Maulián and Vergara, 1980, 109-125; Petras and Leiva, 1994.

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and plans played important roles. This divergence caused Chile's departure.

The withdrawal of Chile diminished the Andean Group's economic potential: the size of its population by 13.3 percent; its GDP, by 10.5 percent; and its intrasubregional trade, by 30.9 percent (JUNAC, 1977: I.12). There were also other consequences like the reduction of opportunities for profitable investment, and the "serious splits [that] developed in the Commission, and a mood of weariness and waning enthusiasm [that] set in" (Puyana, 1982: 10).

Negotiations with Venezuela and Chile clearly show that divergent interests among the governments of the member countries, as stated in the hypothesis of this research project, explains this phase of stagnation of the Andean Group. Professors Vega-Centeno and Iguiñez (1978: 179) concur

> The lack of political accords ... prevents progress on basic aspects. On the other hand, the dynamics of the process demand progress either by making concessions, ... or by renouncing ... objectives, perhaps fundamental to the national socioeconomic process. It is obvious that there is also the possibility *of breaking links with* the Andean Group ... in order to pursue the national project (italics added).

1.4.- The Protocols of Lima and Arequipa

Changes in membership weakened important decisions and led to the adoption, in October 1976, of the Protocol of Lima. "These changes amounted to a very perceptible dilution of the regional strategy itself" (Mace, 1988: 186).

The Protocol of Lima modified the Cartagena Agreement in important aspects. First, the deadlines to adopt SPIDs, to approve the CET, and to comply in full the tariff reduction program were extended by three years, to December 1978 for the first two,

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and the last to December 1983. Second, the CET became a tariff band, that is, for each item there would be a minimum and a maximum level of protection. Third, SPIDs could be approved with the participation of only four countries—rather than by all members—and their adoption and implementation were made more flexible. Fourth, the list of products reserved for industrial programming was to be reduced. This protocol "meant the reaffirmation of the basic postulates of the Cartagena Agreement and a readjustment of the deadlines" (JUNAC, 1979a: 37).

Because the new deadlines were not met, the Protocol of Arequipa was signed in April of 1978. It again extended the deadlines to adopt the CET to December of 1979, and to December of 1980 the approval of the industrial programs. The protocols were necessary to reestablish the juridical order of the Cartagena Agreement. At the same time, governments modified the agreement to make it more in harmony with their changing interests and policies.

2.- THE ANDEAN INTEGRATION PROCESS BETWEEN 1974 AND 1978

The stagnation of the Andean process between 1974 and 1978 can be demonstrated by the lack of progress in deepening the process in the areas already subject to integration and/or in expanding the process into other areas. Stagnation can also be shown through increasing violations of the Cartagena Agreement and its decisions in comparison to the previous phase; and by the smaller number of decisions approved.

Section 2 will deal with stagnation expressed by the lack of progress in the most

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important mechanisms of the agreement. Section 3 will deal with the increasing violations of the agreement and its decisions. Section 4 will explain this phase of stagnation as a reflection of the increasing divergences among the member countries.

2.1.- The common tariff

The common minimum external tariff, CMET, was reduced—by Decision 104—from an average of 40 percent to 28.7 percent, to keep Chile within the Pact, and to reflect the interest of Colombia in reducing tariffs.[6]

With regard to the CET, according to the original article 62 of the Cartagena Agreement, "[p]rior to 31 December 1973, the Board *[Junta]* shall prepare a Draft Common External Tariff, to be submitted for consideration of the Commission for approval within the following two years."[7] Clarifying the procedure, in May 1973 the Commission (1973a: 4) requested the *Junta* to present before December 1973 the draft of the CET, and to submit its proposal before June 30, 1975. The *Junta* presented Proposal 70 (JUNAC, 1975) only on December 27, 1975[8] because consultations with the government representatives were postponed several times (JUNAC, 1977f: 13). The December 31, 1975, deadline was not met.

The *Junta*'s proposal suggested that the objective of the CET should be "to help

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[6]Decision 104 was in response "to the greater flexibility which some member countries required to deal with their external sector, especially as a consequence of the international [economic] crisis [of the time], and as a result of a general policy of less protection for industry..." (JUNAC, 1979a: 82).

[7]English version from International Legal Materials, Vol III, No 5, September 1969; reproduced in García-Amador, 1978: 261.

[8]For a detailed analysis of Proposal 70 and governments' reaction to it see Garay, 1979.

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to allocate economic resources more rationally and efficiently" in order to create employment and to develop technology (JUNAC, 1976d: 4-5).[9] Proposal 70, as the *Junta* acknowledged, "implied substantial modifications in the tariff policy traditionally applied by the member countries with regard to the principles to determine the tariff structure and the tariff levels..." (JUNAC, 1976: 91). Member countries disagreed with the Junta and with each other on the basic terms of the CET, and on its structure and levels (see table V.2). The countries, decided, in Article 2 of the Protocol of Lima, to transform the tariff level into a tariff band. This meant that each product would have a minimum and a maximum tariff instead of a single tariff.

By early 1978, the *Junta* presented Proposal 96, which included the tariff band. By April of that year, the Protocol of Arequipa was signed postponing the adoption of the CET until December 1979.

2.2.- The tariff reduction program

The tariff reduction program continued between 1974 and 1978. The number of items included in the tariff reduction process—automatic tariff reduction mechanism, the Metalworking and the Petrochemical Programs—increased from 2,772 (66 percent of all items) in 1970 to 3,212 (71 percent)[10] by December of 1975 (JUNAC, 1976a: I-6).

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[9]Proposal 70 also included norms for the harmonization of Andean countries' foreign trade, such as elimination of import prohibitions, import quotas, unilateral tariff reductions, elimination of export subsidies and common rules of government procurement of imported goods.

[10]As a result in the changes in the NABANDINA—the common customs nomenclature for the Andean Group based on the internationally agreed Brussels Tariff Nomenclature—the total number of items increased over time, thus in 1970 it had 4,188 items, by December of 1975 it had 4,532 items and 4,869 items by April 1981 (JUNAC, 1976a: I-6; 1982: 48).

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TABLE V.2
ANDEAN TARIFFS AND
COUNTRIES' POSITION TOWARDS ON THE COMMON EXTERNAL TARIFF
(PROPOSAL 70) IN DECEMBER 1975

NOMINAL AVERAGE TARIFFS BY TYPE OF PRODUCTS								
	SECTOR	BO	CH	CO	EC	PE	VE	PROP 70
1.	AGRICULTURE	22	na	24	45	58	63	23
2.	MINING	20	na	17	15	63	36	15
3.	INDUSTRY	22	na	32	30	70	47	41
3.1	Consumer goods	52	na	54	78	127	143	41
3.2	Intermediate goods	16	na	26	19	60	34	34
3.3	Capital goods	17	na	31	20	55	16	57
4.	AVERAGE 1/	20	44	29	28	65	44	39
MAXIMUM LEVEL OF EFFECTIVE TARIFF PROTECTION								
For products reserved for Sectoral Programs of Industrial Development		90	30	60	100	More than 150	150	100
The rest		80	30	60	80	150	100	90

1/ General averages do not coincide with similar data in other tables due to different criteria to include items in each of the sectors.
na = Not available.
SOURCES: Average tariffs for Chile: Aninat, 1978: 180.
For the other countries: Garay, 1979: 293.
Maximum level of effective tariff: Puyana, 1982: 236; JUNAC, 1977f: 16, 30.

The tariff reduction process created a "margin of preference" in favor of the member countries.[11] It varied from country to country and from time to time due to

[11]The margin of preference is the difference between the tariff applied to non-members countries and the tariff applied to member countries.

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those economic policies not subjected to policy harmonization. Andean exports enjoyed a greater margin of preference if the importing Andean countries applied tariffs higher than the CMET and/or non-tariffs barriers on the products from non-member countries. Exports enjoyed lower, nil, or negative margin of preference if countries applied tariff reductions or no tariffs on imports from non-member countries. Thus, Andean "trade was influenced by the internal policies of the countries" (JUNAC, 1976: 64).

Since at one time or another all the Andean Pact countries applied import restrictions on non-member countries, in general, intrasubregional trade enjoyed a greater margin of preference than the one allowed by the CMET. Peru and Venezuela offered a margin of preference two and three times higher than the one set by the CMET, and in the case of Colombia it was around 10 points above the CMET (JUNAC, 1979a: 83). Bolivia and Ecuador, having to apply the CMET and the tariff reduction mechanisms to only a few products, offered very little margin of preference.

Similar conclusions can be drawn from table V.3. The third column of each year shows the average margin of preference given by the member countries. In 1970, Peru offered a 40.1 percent margin of preference, while Colombia offered only 22.5% percent. In 1975, again, Peru gave the largest margin of preference, 44.9 percent, followed by Venezuela, 40.9 percent, and Colombia 31.5 percent. In 1980 the differences of the margins preferences applied by these 3 countries narrowed. Still, Peru offered the largest margin followed by Venezuela and then by Colombia. The margins of preference given by Bolivia and Ecuador were the smallest but, they also increased from 3.0 percent to 12.8 percent over time.

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TABLE V.3
MARGIN OF PREFERENCE FOR INTRASUBREGIONAL TRADE
1970, 1975 AND 1980

	1970			1975			1980		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
Bolivia	50.0	48.5	3.0	23.3	21.4	8.2	18.0	15.7	12.8
Colombia	56.0	43.4	22.5	36.8	25.2	31.5	35.0	16.9	51.7
Ecuador	91.0	88.3	3.0	30.9	28.4	8.2	33.0	28.8	12.8
Peru	89.0	53.3	40.1	69.1	38.1	44.9	55.0	23.9	56.6
Venezuela	1/	1/	1/	48.9	28.9	40.9	44.0	20.1	54.3

(1) Average Tariff Applied to non-member countries
(2) Average Tariff Applied to member countries
(3) Margin of Preference in favor of the member countries = [(1-2)/1] X 100
1/ Not a member
SOURCE: JUNAC, 1982: 42-43

2.3.- Intrasubregional trade

Trade among the member countries, as expected by the hypothesis of this dissertation, increased between 1974 and 1976, and decreased in 1977 and 1978 (see table V.4). The 1977 reduction was mostly due to Chile's withdrawal, but the 1978 reduction reflected the effects of the changes in the international economic system. In 1978, exports decreased by 17 percent while imports fell by 22 percent.

The share of intrasubregional trade in total trade, between 1974 and 1978, was never more than 6 percent of total exports, and 8 percent of total imports. In 1969, when the Andean Pact began, these percentages were 1.9 percent for exports, and 2.5 percent for imports (see table IV.3). "Such trade ... while diversifying, consist[ed] mainly of

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TABLE V.4
ANDEAN GROUP TRADE: 1974-1978

	1974	1975	1976	1977	1978
EXPORTS (FOB) (Millions of dollars)					
GRAN 1/	766.2	779.0	909.0	824.7	681.8
WORLD	21,568.0	16,452.0	17,191.0	15,785.5	16,282.7
IMPORTS (FOB) (Millions of dollars)					
GRAN 1/	766.3	778.9	939.0	856.5	662.1
WORLD	10,441.0	11,538.0	14,032.0	16,945.9	18,770.0
TRADE BALANCE (Millions of dollars)					
GRAN 1/	(0.1)	0.1	(30.0)	(31.8)	19.7
WORLD	11,127.0	4,914.0	3,159.0	(1,160.4)	(2,487.3)
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE					
EXPORTS 1/	3.55	4.73	5.29	5.22	4.19
IMPORTS 1/	7.34	6.75	6.69	5.05	3.53
RATE OF GROWTH OF EXPORTS					
GRAN 1/	236.68	1.67	16.69	-9.27	-17.33
WORLD	281.58	-23.72	4.49	-8.18	3.15
RATE OF GROWTH OF IMPORTS					
GRAN 1/	331.89	1.64	20.55	-8.79	-22.70
WORLD	339.95	10.51	21.62	20.77	10.76

1/ Includes Venezuela from 1974 on; 1977-1978 excludes Chile.

SOURCES: World (69-75): JUNAC, 1977: II-4.25;
Andean (69-75): JUNAC, 1977a: 37-47;
1976: INTAL, c1977: 143;
1977-1978: JUNAC, 1993: 10
and author's calculations.

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agricultural products. There has been no obvious stimulus to growth and industrialization beyond what would have [sic] probably occurred in any case" (Bawa, 1980: 185). The limited effects on Andean countries' trade due to the Andean integration process was mainly because of "... [t]he existence of red tape, ..., low levels of efficiency and similar structures of production" (JUNAC, 1976: 65).

Economic theory of integration has given major attention to trade creation and trade diversion effects due to the tariff reduction program.[12] As has been mentioned in chapter II, section 2.2., for most economists, the former was positive because it increased world's benefits, while the latter was negative for the opposite reason. If the analysis was made, however, from the point of view of the objectives of the member countries as a whole, then both, trade diversion and trade creation, were positive.[13] Although the concepts are simple and clear, to measure them is far more difficult.[14] "In

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[12]As it was defined in chapter II, section 2.2, given the tariff preference in favor of member countries, trade creation is a situation in which local production is replaced by imports from a more efficient member country. Trade diversion is a situation in which cheaper imports from non-member countries are replaced by more expensive imports coming from a member country.

[13]Looking upon only from the point of view of the member countries, some economists (e.g., Dell, 1966; Kitamura, 1966; Linder, 1966, 1967; El-Agraa, 1989: 349) considered trade diversion as having a positive effect. One of the reasons was that Andean countries aimed to further import substitution. By definition, import substitution is a process by which governments choose, at the beginning, to replace less expensive imports for more expensive local production. In the case of trade diversion, the replacement of foreign cheaper imports for costlier imports from other members—thus furthering other members import substitution—is a measure of success. Another reason to consider trade diversion beneficial is that increased trade among members, increases interdependence among member countries and reduces it in relation to non-members. This increase of interdependence tends, in theory, to improve relationships at other levels (political, security, cooperation etc.). A third reason pertains to the fact that member countries do not pay attention to the effects of their acts upon world welfare.

[14] El-Agraa (1989: Part II) has made a survey of the most important attempts to measure trade creation and trade diversion effects. A brief survey of empirical studies of economic integration among developed countries, especially the EEC, can be found in Jovanovic, 1992: chapter 5; Krauss, 1972: 430-434; Mayes, 1982: 28-43; Robson, 1987: chapter 13; and Waelbroeck, 1976: 89-99. Attempts to measure the effects of integration among developing countries on trade flows have been made by Brada and Méndez, 1985; Elkan, 1984; Hazlewood, 1966; 1967; 1975; Kahnert et al., 1969; Newlyn, 1965; 1966; Pazos, 1973; Pearson, 1970; Robson, 1968; 1983; 1987; Robson and Lury, 1969; Straubhaar, 1987; Willmore, 1976.

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an interdependent macroeconomic world, ... the problems of actual measurement [of trade creation and trade diversion] are insurmountable ... therefore its empirical estimation seems rather futile ..." (El-Agraa, 1989: 349).[15] In general, it can be said that, the studies' conclusions have been inconclusive.

GRAN, is not an exception, measurements have been inconclusive. For example, Chan (1972) in an *ex-ante* estimate calculated that one-third of the increase of Peru's trade with other Andean countries would correspond to trade creation, while two-thirds to trade diversion. An *ex-post* study for Colombia showed no significant trade creation or trade diversion.[16] Results reported in one set of estimates of another *ex-post* study covering the intra-Andean trade between 1969 and 1977 showed slightly higher trade creation (52 percent) than trade diversion (48 percent) (Khazek and Clark, 1990).

Five studies summarized by Langhammer and Heimenz (1990: 24-25, 30-31, 85) measuring trade creation and trade diversion in LAFTA and the CACM, and the study made by the *Secretaría General de la ALADI* (1983: 20-26) for trade in LAFTA were also inconclusive.

2.4.- Industrial programming

According to the original Article 47 of the Cartagena Agreement, by December

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[15]As a consequence of tariff variations, trade creation and trade diversion have the effects of imposing and eliminating tariffs. They influence from what country to buy, and what to buy. Other direct effects are on fiscal revenues, price of goods, and on income distribution. There are also indirect effects on factors of production, on relative prices, on terms of trade, and on balance of payments (Chan, 1976: 12-23). Since empirical research cannot take into account these effects, they have to concentrate *a priori* to study one or a few of them.

[16]Garay, Luis Jorge, "Los efectos del programa de liberación sub-regional en el comercio exterior de Colombia," mimeo, FEDESARROLLO, December 1979; quoted in Urrutia, 1981: 185.

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1975 industrial programming should be completed, but this deadline was not met. The timetable was "excessively optimistic because ... [p]rograms were difficult to formulate. They were not accepted by the member countries, they were not included in the national plans, nor were they implemented as scheduled" (JUNAC, 1976: 69). There were two reasons for this result, the first was, "industrial programming was, in reality, a totally new activity, for which the member countries were not prepared either in providing basic information and statistics, or in defining priorities, and even less in taking definite decisions by fixed dates ..." (ibid.). The second reason was, "... the political change in some of the countries with regard to industrial programming as a result of the neo-liberal trends in economic policies" (JUNAC, 1979a: 68).

It took the *Junta* a long time to present its industrial programming proposals to the Commission. It took the Commission several years to discuss, negotiate and finally approve them.[17] Implementation of the programs, left mostly in the hands of the private sector, was far from assured since, because of the principle of the primacy of the state, the private sector had little, if any, participation in their negotiations.[18]

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[17]In general the whole procedure beginning with the preparation of a proposal by the *Junta* to its adoption by the Commission was a long and cumbersome process. For details see Aninat, 1992: 36-43. It took more than 3 years to prepare and approve—in 1972—the Metalworking Program; and it took more than 6 years to adopt the Petrochemical Program (approved in April 1975), and the Automobile Program (approved in September 1977). As for the Siderurgy and the Fertilizers Programs, the *Junta* spent two years in preparing them. By the end of this phase of stagnation (1978) they had not been approved by the Commission.

[18]"Proposals for industrial programming should take into account the motivations of the entrepreneurs who must convert such ideas into reality. It is difficult to believe that entrepreneurs will assume the risk of investment unless there are clear and tangible profits to be made" (Conesa, 1984a: 98).

"Until now the SPIDs have not been carried out. Governments approve these programs but it is not their obligation to implement them. Private economic agents are the ones who should made them a reality. For them, the relevant factors are profits, opportunity, power relations, markets, investment, technological control rather than community interests" (Parra-Peña, 1979: 36).

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Governments of the member countries, were also reluctant to do their share. Countries did not take into account their capabilities and tried to get as many production assignments as possible.[19] This led to long and protracted negotiations. "Industrial Programming is creating more political problems than the other mechanisms... ...industrial programs are the Gordian knot of the Andean integration. It has to be unknotted or destroyed at all costs" (Valencia, 1977: 49). On the other hand, "if the SPIDs do not became a reality in the near future, several countries will radically change their attitude towards the Andean Pact because the SPIDs represent for them the principal source of benefits from integration" (Salgado, 1978: 239). The member countries also failed to apply the CET and the tariff reduction program for the existing production of the approved sectoral programs, and disregarded their obligation not to encourage the production of goods not assigned to them (Hojman, 1981: 159; Hutcheson, Bolte, Culagovski, González and Morawetz, 1983: 35).

A report by the *Junta* (JUNAC, c1978: 26, 33) on the Petrochemical Program, illustrate this point. By the end of 1978, Bolivia had still not incorporated this Decision (approved in August 1975) into its national legislation. The tariff reduction program was applied by Colombia and Venezuela in a piecemeal fashion. Every year these countries were promulgating a decree lowering the tariffs. Ecuador and Peru applied the tariff reduction program on a reciprocity basis. Out of the 111 petrochemical products being

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[19]For example, according to Puyana (1982: 9), during the negotiation period the Petrochemical Program was substantially modified, so there was no specialization, since every country could develop an integrated petrochemical industry, if it wished.

"It is probably true that [the Metalworking and the Petrochemical Programs] could have been approved with a much better technical and economic structure. It is not possible, however, to ignore facts like the existence of production, and of long-time projects waiting to be developed..." (JUNAC, 1976: 70).

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produced by the end of 1978, the CET was applied to only 36 (30 percent) of them. By 1978 only 54 items (33.5 percent), of the 161 dutiable items included in this program, were being produced and only two productions began their operations after the petrochemical decision was passed (JUNAC, 1979a: 76; c1978: 30-31).

By mid-1978, six years after the approval of the Metalworking Program, production existed for 45 of the 72 units assigned in this sectoral program. This in turn corresponded to 85 (42 percent) of the 202 dutiable items included in the program.[20] Out of the 65 companies producing these goods, 49 were already in existence by the time the program was adopted (JUNAC, 1979a: 69).

The results of the two oldest sectoral programs—Metalworking, and Petrochemical—were "almost negligible ... regarding trade and investment ... and represent[ed] trade in goods from already existing plants" (Puyana, 1984: 302). In short, "the mid-seventies witnessed the gradual stagnation of industrial programming ..." (Mairal, 1989: 92) as a consequence of these delays.

2.5.- Common treatment of foreign investment

Decision 24, approved in December 1970, was modified seven times,[21] giving greater discretionary powers to the governments. By the end of 1978 "there was no consensus to adopt common regulations to apply Decision 24 and its modifications" (JUNAC, 1979a: 47). These changes can be explained as a reaction to the increasing

[20]This figure should be taken with caution, since a dutiable item usually covers more production lines than the existing production, which are usually the simpler ones.

[21]For a detailed analysis of the changes see Tenorio, 1978; chapters X-XIII.

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scarcity of foreign investment (Ferris, 1979a: 67). Besides, each one of the governments interpreted the common rules differently. It was not only a new and quite complex norm, but it also affected political and economic interests in each country.[22]

> As for the effects of Decision 24 on the flow of foreign direct investment
>
> it can be concluded that it has not been negative, since the increase of foreign capital during the period of existence of Decision 24 has been substantially greater than in the previous period and similar to world trends in the case of the developing countries. In the industrial sector, on which Decision 24 has been more strict, the inflow of capital has been more dynamic than for the economy as a whole... (JUNAC, 1979a: 55).

Between 1967 and 1971 the average annual rate of foreign investment in the Andean Group was slightly negative,—0.4 percent mostly due to a decrease of investment in Venezuela. From 1971 to 1977—when Decision 24 was in place—foreign investment increased on average 7.6 percent annually, while for the industrial sector this rate was 8.3 percent (ibid.: 48, 51).[23] Data provided by the Inter-American Development Bank for private direct investment,[24] table V.5, corroborates the *Junta's* conclusions.

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[22]Case in point was the fact that transnationals targeted Colombia to attack Decision 24 (Mytelka, 1979: 64-65). The Colombian Supreme Court declared "inexecutable" the decree given by the executive power to put Decision 24 into force. The problem was solved when in 1973 the Colombian congress passed a law.

[23]This data disproof the American assertion that Decision 24 would reduce foreign direct investments. It seems that the opportunity to enjoy the whole Andean market overcome the initial skepticism about its controlist nature.

[24]The Inter-American Development Bank defines *Private Direct Investment* "as investment in enterprises located in one country but effectively controlled by residents of another country. As a rule, it takes the form of investment in branches and subsidiaries in one country by parent companies located in another country. The entries for the compiling country represent net changes between the inward and outward movements of capital during the reporting period." See for instance: IDB, c1980: 427.

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TABLE V.5
NET PRIVATE FOREIGN DIRECT INVESTMENT
(Millions of US Dollars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978
BOL	-76	2	-11	5	26	53	12	15	12
CHI 2/	41	-42	-1	-5	-557	50	1/	1/	1/
COL	39	40	17	23	35	35	14	43	68
ECU	89	162	81	52	77	95	-20	34	49
PER	-70	21	24	70	58	316	170	55	25
VEN 3/	1/	1/	1/	1/	-343	418	-889	-4	68
GRAN	23	183	110	145	-704	967	-713	143	222
L.A.	894	1387	945	2286	1760	3202	1465	3022	3196

1/ Not a member
2/ The outflow of capital between 1971 and 1974 was due to the policies of the Allende period and the turmoil after the *coup d'état.*
3/ The decrease in (1974 and 1976) was due basically to its oil nationalization program.
SOURCES: 1970-1971: IDB, c1975: 471; 1972-1977: IDB, c1980: 437; 1978: IDB, c1986: 420

Sánchez and Bawa summarize the main problems faced by the Andean Group in this phase of stagnation:

> The decade of the seventies signaled the frustration of the principal aspirations ... postulated by the agreement. Industrial programming failed, the tariff reduction program was delayed, policy harmonization was weakened, and the CET was postponed. All of this occurred within a context of rapid economic changes and of the first symptoms of the external debt crisis (Sánchez, 1989: 12).

> The original plan for the Andean Group was probably over-ambitious [sic]. The foreign investment control regulations were too inflexible, being consistent only with a single growth model. The sectoral production-sharing agreements probably could not have been carried out in an economically gratifying manner because of delays, lack of adequate transport networks, and inexperience in manufacturing and quality control would have led to severe cost

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> overruns. Multilateral coordination of industrial production without a strong central authority is an extremely difficult planning task. The states appear to have been too inexperienced to realize that the attempt was likely to encounter serious difficulties (Bawa, 1980: 186).

3.- VIOLATIONS AND DELAYS

Following the procedure used in chapter IV, violations can be classified as (a) non-compliance with the articles of the Cartagena Agreement, (b) non-incorporation into the national legislation of the approved decisions; and (c) failure to comply with decisions once they have been incorporated in the national legislation.

During this phase violations of the Cartagena Agreement and the lack of compliance of the decisions of the Commission became more prevalent than in the previous phase. In this regard, "... the non-compliance of the member countries with the Andean decisions ... [and] the lack of uniform application of the decisions..." were the most important problems in this period (Vargas-Hidalgo, 1979: 219).

3.1.- Non-compliance with the articles of the Cartagena Agreement

By December 1975 the CET had not been adopted nor had the approval of all the Sectoral Programs of Industrial Development been completed.[25] The non-fulfillment of the deadlines, legally and technically, were violations committed by the Commission and

[25]Thus, it was not possible to establish the customs union between 1975 and 1980, and industrial programming, the most important mechanism for Bolivia, Ecuador, Peru and Venezuela, was not being implemented.

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the *Junta*. In practice they were not considered as such because the Protocols of Lima and of Arequipa (which only went into effect in April 1979), gave the Commission and the *Junta* the possibility to assume "*de facto*" the validity of the new deadlines.

Although not subject to deadlines, there was also the lack of progress in agriculture, infrastructure, rationalization of the existing industry, harmonization of economic policies, and planning coordination. Among the reasons for this situation were: (a) the concentration of efforts on the tariff reduction program and industrial programming; (b) the negotiations and the additional work needed for the entry of Venezuela, and the exit of Chile; and (c) the difficulties encountered in preparing the SPIDs (JUNAC, 1976: 69-70, 87, 126, 158).[26]

3.2.- Non-incorporation in the national legislation of the approved decisions

As has been mentioned in chapter IV, decisions concerning policy harmonization were not approved by the Commission, or when approved the *Junta* reported that they were not put into practice by the member countries. During the phase of stagnation this practice continued. One of the most important deficiencies of the process "was the lack of will to harmonize ... national policies ..." (Salgado, 1978: 239). Because of this,

> ... the Andean process had suffered a serious disequilibrium, not only between industrial programming and the tariff reduction program, but between the latter and policy harmonization. This second disequilibrium had already affected the credibility of the process ... and could lead to the stagnation and crisis of the process (JUNAC, 1979a: 85).

[26]"[T]he strategy adopted by the organs of the agreement was to create interdependency based exclusively on trade flows resulting from the coordinated application of the tariff reduction program, the CMET and the implementation of the Sectoral Programs of Industrial Development" (Guerrero, 1979: 418).

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The Andean process went into a phase of stagnation as is was alluded by the *Junta*, it was due in part to the lack of progress in policy harmonization.

During the phase of progress (1969-1973) there were a maximum of 5 decisions which were not incorporated by the member countries in their national legislation. In the phase of stagnation, 1974-1978, the member countries had not incorporated 8 to 14 decisions (table V.6). By the end of 1978, out of the 14 decisions not incorporated, one—Decision 49, Harmonization of Industrial legislation—was not incorporated by all of the members. Three decisions were not incorporated by four members: Decisions 120 (Automobile Program), and Decisions 124 and 125 both dealing with treatment of neutral capital within the common regime for foreign capital. Finally, Decision 85—industrial property—was not incorporated by three countries (JUNAC, 1978b: 1; 1979a: 132).

TABLE V.6
DECISIONS NOT INCORPORATED INTO THE DOMESTIC LEGISLATION BY THE MEMBER COUNTRIES, 1974-1978

DATE	SOURCE	BO	CH	CO	EC	PE	VE	TOTAL	(*)
03-25-76	(1)	6	6	3	8	5	6	34	n.a.
11-24-76	(2)	7	1/	6	8	5	6	32	11
Jan-77	(3)	5	1/	4	5	4	6	24	8
03-14-77	(4)	6	1/	4	6	6	6	28	12
11-15-77	(5)	8	1/	7	8	6	9	36	14
08-26-78	(6)	8	1/	6	5	7	9	35	14
11-16-78	(7)	8	1/	6	5	7	8	34	14

(*) Number of different decisions not incorporated into the domestic legislation one or more countries

1/ Not a member of the Andean Group at that time.

SOURCES: (1) JUNAC, 1976a; (2) JUNAC, 1976b; (3) JUNAC, 1977b; (4) JUNAC, 1977c; (5) JUNAC, 1977d; (6) JUNAC, 1978a; (7) JUNAC, 1978b.

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3.3.- Failure to comply with decisions incorporated in the national legislation

Decisions that were once incorporated but only partially complied with increased in this phase. Table V.7 provides the available information about decisions pertaining only to the tariff reduction program and the CMET that were in this situation.

Venezuela was the country with the most delays. Colombia and Peru showed greater delays between 1974 and 1978 in complying with the tariff reduction program, than in the 1969-1973 phase (see table IV.5). In contrast, these two countries complied better with the CMET during the phase 1974-1978 than in the previous phase.

With regard to the Sectoral Programs of Industrial Development already approved—Metalworking, Petrochemical and Automobile—there were important delays before incorporating them into the domestic legislation.[27] There were even greater delays by the governments in implementing these decisions.

Non-compliance with the minimum tariff levels approved in Decision 30—CMET—increased in this phase. In 1975 and 1976, Colombia did violate the minimum levels for 29 items, Peru for 51 and Venezuela for 1,095 (JUNAC, 1979d: 23). Regarding the application of the CET by 1976, all the member countries delayed applying the CET to the Metalworking Program, Peru being the extreme case, since it did not apply the CET (JUNAC, 1976: 95). As table V.8 shows us, the violations of the

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[27]The Metalworking Program was approved in August 1972. Peru incorporated it into its domestic legislation in September of that year. In April of 1973 Ecuador did it too, while Colombia did it in September and Chile in October of the same year (Vinces and Kuljevan, 1974: 445). The Petrochemical Program was passed in August 1975. Peru incorporated it into its national legislation in April 1976; Venezuela did it in October of that year; Colombia in February of 1977; Ecuador in February 1978; while Bolivia by the end of 1978 had not incorporated it (JUNAC, 1981: 13). The Automobile Program was approved in September 1977. Ecuador was the only country to incorporate this decision—June 1978—before the end of 1978 (JUNAC, ibid.: 15).

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TABLE V.7
DELAYS IN IMPLEMENTING TRADE MECHANISMS BY DECEMBER 1978
(In months)

MECHANISMS	BO	CO	CH	EC	PE	VE
LAFTA'S COMMON LIST	N			N		4 1/
"RESTRICTIONS OF ALL KINDS"	N		3	N	2	4 1/
Adoption of the lowest duty of Colombia, Chile, or Peru	N		6	N	4	4 1/
Liberalization of NON-PRODUCED goods	4	3	1	1	1	4 1/
AUTOMATIC TRADE REDUCTION 4th. reduction: 31-12-74	N			N	3	48 1/
5th. reduction: 31-12-75	N			N	na	36 1/
6th. reduction: 31-12-76	N	12	2/	N		24 1/
7th. reduction: 31-12-77	N	9	2/	N	10	12 1/
RESERVED TO BE PRODUCED BY BO	N	5	4	2	2	4 1/
RESERVED TO BE PRODUCED BY EC	5	5	4	N	2	4 1/
IMMEDIATE FREE TRADE FOR BO-EC	N		5	N	4	4 1/
COMMON MINIMUM EXTERNAL TARIFF 4th. approximation 31-12-74	N			N	1	11
5th. approximation 31-12-75	N			N		3
Decision 104	N	4	2/	N	12	23
MARGINS OF PREF. FOR BO & EC	N	9	12	N		4 1/
Adoption of NABANDINA 3/	4	2	5	10		8 4/

Blank space means the country put into practice its obligation, in a timely fashion.
N = The country is not required to put into practice the mechanism.
1/ By April 30, 1974 Venezuela had to implement this mechanisms (Decision 70, Chapter I).
2/ Not a member of the agreement.
3/ NABANDINA was the common tariff classification for the Andean Countries.
4/ Decision 70 in its Article 25 states that Venezuela should implement the NABANDINA by December 31, 1993. The data reflects this deadline.
SOURCE: JUNAC, 1981: 1-10.

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CMET, the CET and the Andean liberalization program reached 2,760 items by July 1976. Chile and Venezuela were the major offenders. The situation improved after Chile's exit, which coincided with other members drastically reducing their violations. The latter was also due to the reduction of the CMET by Decision 104.

TABLE V.8
DUTIABLE ITEMS OF THE COMMON MINIMUM EXTERNAL TARIFF, COMMON EXTERNAL TARIFF AND ANDEAN TRADE LIBERALIZATION PROGRAM VIOLATED BY MEMBER COUNTRIES, 1974-1978

DATE	SOURCE	BOL	CHI	COL	ECU	PER	VEN	TOTAL
07-26-76	(1) 1/	69	1359	78	57	76	1121	2760
11-24-76	(2) 1/	11	2/	23	2	32	483	522
11-15-77	(3) 1/	14	2/	31	13	15	89	162
08-26-78	(4)	20	2/	28	19	5	91	163
11-16-78	(5)	11	2/	27	16	1	11	66

1/ Includes only the number of dutiable items violating the CMET (modified by Decision 104) and the CET of the Metalworking Program. Venezuela at that date was not required to apply the CET.
2/ Not a member of the Andean Group at that time.
SOURCES: (1) JUNAC, 1976c; (2) JUNAC, 1976b; (3) JUNAC, 1977d; (4) JUNAC, 1978a; (5) JUNAC, 1978b

The violations to the articles of the Cartagena Agreement and to the decisions of the Commission show a contradiction between the governments' will and their actions. For the *Junta* (JUNAC, 1979a: 27) the "contradiction between political will and facts ... can be explained [as a] ... political act which attempts to harmonize long term objectives with the vicissitudes that characterize ... the dynamics of social relations." In other words there was a conflict between long-term aims and short-term interests. These conflicts

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have been expressed in the increasing violations in the phase.

The non-existence of an adjudication organ aggravated the situation.[28] On top of this, there was not even "a mechanism allowing a permanent and systematic follow-up of the fulfillment of the obligations by the member countries (JUNAC, 1976: 9). To deal with this last aspect, at the *Junta's* suggestion, the Commission, in April 1977, "resolved to examine in all its ordinary sessions [three times a year] the fulfillment of the agreement and its decisions by the member countries" (Comisión, 1977: 8).

The lack of an Andean organism to adjudicate supports the hypothesis of this study that governments are the main actors of the process. They decide how to limit their own sovereignty by adopting decisions through the Commission, which is composed of governments' representatives. Governments after freely negotiating and agreeing on issues as shown by the Commission's decisions can refuse to implement them without fear of penalty.

4.- UNDERSTANDING THE PHASE OF STAGNATION

4.1.- General factors

The situation the Andean Pact was going through during this phase of stagnation, was more than "a crisis of growing" (Valdés, 1981: 454); and more than a "... growing discouragement ... in some circles ... with regard to the governments' will to comply

[28]The Andean Tribunal was created in May 1979, and only in September 1983 began to function (see chapter VI, section 2.5.a).

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with their obligations contracted in the agreement" (JUNAC, 1976: 158).

A general factor which seems to explain the evolution of the Andean integration process, and other integration processes is economic prosperity. When the economies of the member are growing, integration is furthered, but when prosperity "decreases, socio-political mechanisms begin to function first affecting those peripheral components of the economic process such as integration (Dávila, 1984: 5(a)). By the end of the 1970s, domestic and international circumstances were leading toward economic recession.

Another aspect, which is directly related to a main element of the hypothesis of this dissertation, was the increasing differences in the strategies and economic policies pursued by the member countries. During this phase, as the Andean countries began to differ more and more in their economic policies and strategies, and the Andean process became more and more stagnant, since the Cartagena Agreement reflected less and less the interests of the countries. The agreement, however, was kept unchanged until the partial and formal modifications introduced by the Protocols of Lima and Arequipa began preparing the grounds for its next phase: regression.

The clearest case of divergence was between Chile and the other member countries. The Chilean government drastically and rapidly changed the strategy of development from inward to outward oriented, while other members were only willing to be more "flexible" in some aspects of their strategies. The policies adopted by Chile, "were divergent from the policies of the Andean integration" (JUNAC, 1979a: 36). Other more important sources of divergence were the

> increasing differences [among the member countries] in the conceptualization of the models of development, in the political systems, in ideological orientations,

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> and in positions towards the world economic, political and ideological reality. That is, there was a gradual movement from basic homogeneity to the acceptance of pluralism in the hemispheric relations, and from it to divergence (Valdés, 1981: 455).

Among the member countries now there was a "wide spectrum in the political and economic positions" (JUNAC, 1976: 175), making it more difficult to reach accord and thus to further Andean integration.

The entry of Venezuela, and Chile's exit transformed GRAN into a hesitant decision-making system, and instilling a low morale.[29] Venezuela, supported by Chile, introduced the practice of private meetings of the Commission which did not include the members of the Junta and the Director-Secretary as it used to be.[30] The consequence was further delays by the Commission due to time consuming negotiations between 1972 (when negotiations about the entry of Venezuela began in earnest) and 1979 (when the new Metalworking Program was approved).[31]

The lack of synchrony between the automatic mechanisms (e.g., the tariff reduction program) and the negotiated ones (e.g., industrial programming) led to a greater role for the former. The tariff reduction program was automatically applied and

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[29]There was "the evident loss of some political coherence due to the political changes in the system. ... first ... was the entry of ... Venezuela. Another change was the exit of another country. An important fact ... [was] the international [economic] crisis" (Valdés, 1977: 74).

[30]These private meetings were called when difficult problems arose and members of the Commission wanted to deal with the issues as candidly as possible without the press, and other members of their delegations.

[31]"... until 1973 we progressed very dynamically... In that year we stopped ... because ... otherwise ... Venezuela would have not entered ... [O]nce it entered ... the *Junta* in 1973 and part of 1974 was devoted to prepare new or to change the Sectoral Programs of Industrial Development. ... in 1974, two significant things happened: the substantial change in the economic policies of the Chilean government, and also the beginning of the economic depression, which struck hard on at least two countries, Chile and Peru ... [T]he *Junta* and the Commission [in] '74, '75, and '76 did nothing but act as fire fighters" (Barandiarán, 1977: 69).

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viewed as a market mechanism, while industrial programming was to be negotiated and perceived as a planning mechanism. The steady progress of the tariff reduction program and the increasing problems in approving industrial programs led to the preponderance of the former, and thus of market mechanisms.[32] As a consequence there were fewer warranties for a balanced and harmonic development, and for a fair share of benefits.

The uneven distribution of benefits was another factor.[33] Trade benefits accrued mostly to Colombia which, with Chile, exported 62.1 percent of the manufactured goods (Puyana, 1982: 101). As regards the Metalworking Program, in 1975 Colombia's share was 56.4 percent of the total trade, while Chile's share was 33.7 percent, and Peru's was 9.9 percent (JUNAC, 1977: II.2.4). In 1978, with Chile out of GRAN and Venezuela not yet in the Metalworking Program, Colombia's participation was 44.0 percent, and Peru's was 21.2 percent (JUNAC, 1979a: 70). In the Petrochemical Program, excluding Chile, the Colombian share between 1975 and 1977 was 49.3 percent, Venezuela's 27.1 percent, and Peru's 23.6 percent (JUNAC, c1979: 152). In the case of foreign direct investment of US$8 billion, the cumulative investment in the subregion up to 1977, 45 percent went to Venezuela, 25 percent to Peru, and 17.5 percent to Colombia (JUNAC, 1979a: 49).

The most dissatisfied members were the relatively less developed countries. "In

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[32]"[W]hile in the Andean Group the aspects concerning the tariff reduction program follow[ed] more or less their predicted course, the ones related to ... the industrial project lag[ged] behind" (Vega-Centeno and Iguiñez, 1978: 176), because "the latter were cumbersome and hard to negotiate" (Salgado, 1978: 239).

[33]The most developed countries, Chile and Colombia, got most of the benefits, while Bolivia and Ecuador, the RLDC, the least. This outcome is nor dissimilar in other integration schemes. The CACM is a case in point. Nicaragua and Honduras, the RLDC of the CACM, complained that they were not getting the benefits of the process. See Cochrane, 1969: Chapter 5, Fagan, 1970; Hansen, 1967: 55-64.

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1978, sales of manufactured goods from Bolivia and Ecuador represented 5.7 percent of subregional trade in those products" (Puyana, 1984: 121). Bolivia's share in trade of products of the Metalworking Program was nil between 1975 and 1977, while Ecuador's share went from 0.04 percent in 1975 to 14.5 in 1976 and to 26.2 percent in 1978, five percentage points above Peru (JUNAC, 1977: II.2.4; 1979a: 70).[34] Neither Bolivia nor Ecuador had any exports in petrochemical products between 1975 and 1977. As to foreign investment, only 1.5 percent of the total US$8 billion accumulated until 1977 went to Bolivia and 11.0 percent to Ecuador (JUNAC, 1979a: 49).[35]

Between the largest and the smallest countries stood Peru. This country expected to reap benefits from the industrial programs, whose approval was increasingly delayed. "Moreover, the progress of the tariff reduction program implie[d] for the country a continuous increase of its trade deficit with the rest of the subregion [see table V.12]. This cost [was] absorbed by Peru in exchange for the potential benefits of industrial programming" (Vega-Centeno and Iguiñez, 1978: 177).

The marginal effects of integration in the economies of the member countries contributed to the lack of response by the governments to further the process. According to the *Junta*, in Bolivia the Andean integration had not produced the benefits this country

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[34]This was one of the few positive, albeit limited, effect for Ecuador. Total exports of the products included in the Metalworking Program was only $8.5 million (up from $1.3 million in 1973; JUNAC, 1979a: 70). Ecuador's share of 26.2 percent of this trade amounted to $2.21 million, which was only 1.2 percent of its exports to GRAN in 1977.

[35]"Bolivia's disenchantment stems from three factors, its concern over modest regional trade increases, its complains concerning sectorial allocations, and its charge that other members are nor meeting their obligations toward Bolivia" (Avery, 1983: 161)

"Bolivia and Ecuador ... were assigned exclusive rights to certain industries, but had neither the technical know-how nor the financial capacity to take advantage of them" (Conesa, 1984: 98).

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had expected, nor had it contributed significantly to the improvement of its standard of living. From 1969 to 1978, Colombia reaped the greatest economic benefits from this process; while the Andean integration contribution to the Ecuadorean economy was small. In Peru and in Venezuela the impact of the Andean process was marginal (JUNAC, 1979a: 139-143).

There were attempts to inject more dynamism into the process through two summit meetings of the Andean presidents. The first was held in Washington in September 1977, and the second in Bogota, in August 1978.[36] In these meetings the presidents officially supported Andean integration and gave instructions to approve lengthy negotiated proposals. In 1978, however, all the member countries were in the midst of holding elections[37] which greatly overshadowed the relevance of integration.[38]

Another general factor contributing to the stagnation of the Andean process was what has been termed for the European Community "the democratic deficit".[39] In the Andean case, this "democratic deficit" consisted of two issues. One was the need to end

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[36]The meetings were held taking advantage of the presence of the 5 Presidents. For Washington it was the ratification of the Panama Treaty; for Bogota it was the swearing in of the Colombian president.

[37]In Bolivia elections were held in July 1978. In the same month, a *coup d'état* ousted President General Hugo Banzer, and the results of the elections were abrogated by the new government. Elections in Colombia were held in the same year replacing Liberal Alfonso López Michelsen by another Liberal, Julio César Turbay Ayala. Ecuador voted a constitutional referendum in January 1978. In that same year, Peru elected a Constitutional Assembly; and in Venezuela, Luis Herrera Campins was elected to replace Carlos Andrés Pérez.

[38]"... from 1977 on, electoral processes began in Ecuador, Colombia, and Venezuela, ... as we all know, under these circumstances; the Andean issues and the integration issues became less important from the political and decision-making points of view" (Barandiarán, 1977: 70).

[39]In the case of the European Union and its predecessors, the concept of "democratic deficit" was loosely related to two aspects. One was the lack of control over the Council of Ministers by the European and the national parliaments. The other was the contrast between the secrecy of the Council and the openness of the European Parliament (Colchester and Buchan, 1990: chapter 4; Williams, 1991: 155, 162-171).

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authoritarian governments in Bolivia, Chile, Ecuador, and Peru, and to begin a democratization process allowing the incorporation of diverse social sectors into the integration process (Dooner, 1982: 35). The other issue was the monopolization of the process by a bureaucratic elite and the lack of people's consciousness that the process could affect them (Salgado, 1978: 240).

There was also "the action deficit." According to Ferris (1979b: 86), "... there is often a gap between what national leaders are saying, what they are feeling, and what they are doing with respect to the Andean Pact. This gap may be due to insufficient resources or to an unwillingness to move beyond the cost-free statements of public support."

In summary, there were international and domestic changes; delays; increasing violations of the Cartagena Agreement and its decisions; as well as the growing dissatisfaction of the RLDC; and monopolization of the process by a bureaucratic elite. All these factors led the *Junta* to warn that "it is clear that it is not going to be easy to achieve the goals in the short timetable set by the Cartagena Agreement" (JUNAC, 1976: 3). Over time, this warning became a reality and changed the attitude towards the process from one of "confidence and optimism, to one of doubts and hesitations about the future..." (JUNAC, 1979a: 37). During this phase of stagnation, however, the member countries were still interested in the Andean process as a tool to achieve some national goals. This was illustrated by the members extending the deadlines twice, and holding two summit meetings.[40]

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[40]These facts can also be interpreted as the lack of interest of any country to follow the steps of Chile, and thus put and end to the Andean Group.

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One consequence of the stagnation of the Andean process is shown in table V.9, which summarizes the Commission's activities. Between 1969 and 1973, 81 decisions were approved while in the phase of stagnation—1974 to 1978—only 55 were passed. Of the 81 decisions, 58 decisions concerned new issues adopted in the phase of progress representing 72 percent of all decisions; while in the following phase, only 65 percent of the decisions dealt with new issues. Of all the decisions on new issues approved between 1969 and 1973, 55 percent could be considered important, while it was only 22 percent between 1974 and 1978.[41] As for decisions modifying previous decisions, there were 23 in the phase of progress and 19 in the phase of stagnation. In the first phase, however, all but one were unimportant modifications; while in the second phase 12 were unimportant, 7 were important, and out of these 7 decisions, 4 weakened the process.[42]

4.2.- The international environment at the end of 1960s and early 1970s

In the late 1960s, the international economic order created at the end of World War II by the United States was on the verge of profound changes. The international

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[41]Examples of important decisions approved between 1974 and 1978 were: Decision 91: Petrochemical Program; Decision 97 authorizing Chile's to sell its public enterprises to foreigners; Decision 99 adopting a timetable to approve the remaining SPIDs; Decision 100 Decision proposing the governments to adopt the Protocol of Lima; 120: Automotive Program; and Decision 128 proposing the governments to adopt the Protocol of Arequipa.

[42]Modifying decisions approved between 1974 and 1978 which strengthened the Andean process were: Decision 104 reducing the levels of the CMET; and Decisions 109 and 124 considering as neutral capital the investment done by international organizations and foreign governments' entities devoted to economic development. The four modifying decisions approved between 1974 and 1978 which weakened the process were: Decision 103 making more flexible the common treatment of foreign investment; Decision 105 postponing, in the light of the Protocol of Lima, the deadlines the Commission imposed itself by Decision 99 to approve the SPIDs; Decision 129 modifying the Metalworking Program; and Decision 130 modifying the Petrochemical Program.

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TABLE V.9
DECISIONS APPROVED DURING 1974-1978

	69-73	1974	1975	1976	1977	1978	74-78
1 DECISIONS	81	15	5	15	15	5	55
2 NEW ISSUES	58	10	5	8	10	3	36
2.1 Important 1/	32	1	1	4	1	1	8
2.2 Unimportant	26	9	4	4	9	2	28
3 MODIFYING DECS	23	5		7	5	2	19
3.1 Important 1/	1			4	1	2	7
- Strengthening				2	1		3
- Weakening	1			2		2	4
3.2 Unimportant	22	5		3	4		12
4 SESSIONS	25	4	5	3	5	2	19
4.1 WITH DECS	22	4	3	3	4	2	16
- Ordinary	13	3	3	2	2	1	11
- Extraordinary	9	1		1	2	1	5
4.2 WITHOUT DECS	3		2		1		3
- Ordinary							
- Extraordinary	3		2		1		3
5. 1/4	3.24	3.75	1.00	5.00	3.00	2.50	2.89
6. 1/4.1	3.68	3.75	1.77	5.00	3.75	2.50	3.44

1/ Important is defined as decisions that have direct impact on the progress of the principal mechanisms of the Andean process.
SOURCES: JUNAC, n.d.: 1-12; 1982c: Tomo I, 281-391, Tomo II, 1-584.

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monetary system, based on the dollar standard,[43] had as a goal the stability of the exchange rates through the International Monetary Fund. The international trade system aimed at gradually freeing trade through negotiations called GATT Rounds.

By the early 1970s, the monetary system collapsed. The main reason was a major feature of the system itself. For the dollar standard to function, dollars had to be provided for international transactions. When the world economy recovered from the devastation of WWII, the need for American dollars increased steadily. To furnish the demand for dollars the United States had to run permanent balance of payments deficits which were covered by printing money backed nominally by the federal gold reserves.[44]

The system allowed the United States to live beyond its means. In due time United States gold reserves became just a fraction of the dollars held outside the country.[45] As deficits mounted, the desire for dollars by the rest of the world diminished. This meant that at one point United States deficits or the convertibility the dollar into gold had to be stopped, or the dollar price of gold had to be increased.[46] In August 1971 President Nixon announced the non-convertibility of dollars into gold. In December the Congress of the United States approved the increase of the price of gold

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[43]Briefly, the Dollar Standard (or more technically known as fixed exchange rate pegged to the dollar) meant that the American currency replaced gold as the means of exchange in trade and in other international transactions. The United States government, in 1947, fixed the relationship of the dollar to gold at $35 an ounce, and committed itself to convert dollars into gold at that price. In turn, all other currencies fixed their exchange rates in relation to the dollar.

[44]This situation by which a domestic currency is used also as an international means of exchange is called international seignorage.

[45]By December 1971, the external liabilities of the United States were $51 billion, while the reserves were only $11 billion (ECLA, 1973: 46).

[46]This effect is known as the Triffin dilemma, after Robert Triffin, who was the first to point out this inherent flaw of the system (Triffin, 1960).

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from $35 to $38 per ounce. This meant a *de facto* devaluation of 8.6 percent of the dollar.[47] A second devaluation of the dollar, 11 percent, came in February 1973. In March 1973 the dollar standard was replaced by the generalized floating exchange rate system which exists today.

Parallel to these changes, the international trade system began to move towards protectionism. In August 1971, Nixon, heralding the return to trade protectionism,[48] also announced a temporary ten percent surcharge on US imports. In that year the United States had its first trade balance deficit of this century ($2 billion). These deficits continued from then on with few exceptions.

This situation was the result of structural changes in the international economic system. The most important were: (a) the loss of comparative advantage by the United States, (b) a corresponding loss of competitiveness, and (c) stagflation (inflation accompanied with slow or nil economic growth) in the developed world in the 1970s.[49] Given that quotas and tariffs had been successfully limited and reduced, protectionism in the form of non-tariff barriers were devised by the industrialized countries.

The situation was aggravated with the increase of oil prices in late 1973. This led the developed countries to reduce their imports, while non-oil exporting developing

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[47]Most Latin American countries decided to maintain their existing exchange rate. The exception was Venezuela which revalued by 2.28 percent (IDB, c1973: 69).

[48]Examples of protectionism are: government procurement regulations, customs procedures, health, sanitary and security regulations, technical standards, subsidizing ailing industries, managed trade, and voluntary export restraints.

[49]The developed countries grew by 2.0 percent in 1970 and 1971 (ECLA, 1974: 14), and by 5.8 percent in 1972 (IDB, c1975: 57). Inflation among these countries was 3.7 percent annual average between 1961 and 1971, 4.7 percent in 1972 and 7.7 percent in the following year (IDB, c.1975: 58).

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countries had to cope with higher oil prices combined with the stagnation of their exports. The crisis was solved due to the initial inability of the oil exporting countries to "use" the foreign exchange earned. They recycled the "petrodollars" by depositing them in Western banks. The banks in turn began an era of commercial loans largesse especially to Latin America.

In short, the international economic system in the 1970s was one of changes, disarray, and turmoil. These changes in the international economic system created grave problems for the Third World including the Andean nations. Among the most important were high rates of inflation, low rates of growth, increase in the cost of imports, decreasing participation in international trade, large fluctuations in exchange rates and in the real and nominal rates of interest, and increasing external debt.[50]

At the domestic and at the Andean level, the governments did not correctly assess the changing international situation, preventing them from understanding the profound changes that were emerging in the world economy (Alegrett, 1989: 7).

The international crises affected the member countries differently. The oil exporting countries—Venezuela and Ecuador, and to a lesser degree Bolivia—benefitted. Colombia—an oil importing country—enjoyed an extraordinary boom in the price of coffee—its major export—and a general increase in its exports. Chile the military government applied recessionary policies to cope with the crisis. Peru—a marginal oil

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[50]During the 1970s other trends suggesting the deterioration of the external position of the Andean countries were already in existence. One was the increase of food imports due to the explosive growth of the cities and the stagnation of the agricultural sector. Another trend was the lack of dynamism in the exports of manufactured goods which forced the countries to increase their exports of primary goods. Finally, there was the increasing transfer of financial resources in the form of profit remittances and debt payment. All of these factors led to increasing balance of payments deficits and to more debts.

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exporter and importer—was the most affected. This country did not take any measures to deal with the OPEC decision because of the increased availability of commercial loans at low or negative real rates of interest.

The major changes occurring in the international economic system in the 1970s "directly affected the Andean integration process, since over time it became more and more evident that the impact of integration on the transformation of the national economies and the acceleration of their rates of growth was marginal..." (Carmona, 1984: 14). In other words, external forces beyond the control of the member countries shaped their economic policies, and the Andean integration having marginal effects on the countries, was not useful to reverse the effects of the external factors. More importantly, "changes in the internal economic policies ... increased, among the member countries, the differences with regard to the costs and benefits of the process, and to the convenience or not of adopting neo-liberal policies supported by the Western industrialized countries" (Dávila, 1984: 19). Changes in the international environment, thus, created a recession in the Andean economies forcing the governments to find domestic solutions which—among other consequences—led to the stagnation of the Andean integration process as hypothesized in this research project. [51]

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[51] "Economic nationalism and self-reliant measures could not survive rising inflation, unemployment, and increasing indebtedness, all of which reduced the Andean countries' margin for maneuver" (Mace, 1988: 186), relegating GRAN to a back seat.

"... the integration process came almost to standstill from 1974 to 1976 [and beyond] due to the serious deterioration of the international economy precipitated by the oil crisis and nationalism superseding the need for regional cooperation" (Bawa, 1980: 188).

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4.3.- The Commission, the *Junta*, and the governments, and the relationship among them

At the institutional level, the Commission, composed of government plenipotentiaries, represented the interests of the governments, which were well protected because decisions were taken, in practice, by consensus. The *Junta* as the secretariat and the technical body of the agreement, was in charge of presenting the proposals upon which the Commission had to decide. This power allowed the *Junta* to set the agenda, and become the voice of the community interests. Its power was enhanced by its participation in the Commission's meetings. Although the *Junta* had no vote, in many cases its interventions in the negotiations helped the Commission to solve impasses.

The Cartagena Agreement provided the GRAN with more dynamic and stronger organs than LAFTA; but they were weaker than the European model. The Commission, constituted by ministers in charge of the integration process, met only three times a year, but could meet any time in extraordinary session. The meetings of the Commission were frequently postponed.[52] When the Commission met, it was not able to deal with all the items on its agenda. Attempts to overcome the lack of agreement on specific and crucial proposals led to adjournment of meetings.[53] Proposals piled-up.[54]

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[52]An indirect way to prove this assertion is the regularity of the meetings of the Commission (see table V.9 above). Between 1969 and 1973—during the phase of progress—the Commission met 25 times. That is an average of 5 meetings per year, including 1969 in which the Commission only met once in November, its first session ever. The maximum interval between meetings was 3 months, but it happened only 7 times in the years from 1970 to 1973. During the full five years of the phase of stagnation—1974 to 1978—the Commission met only 19 times, an average of little less than four times a year. The longest interval was 5 months, between November 30, 1973 and April 29, 1974, coinciding with the entry of Venezuela—December 1973.

[53]The Commission's sessions were adjourned only 2 times—for 3 and 5 weeks—between 1969 and 1973. Between 1974 and 1978 recesses occurred 9 times. Three sessions were adjourned two or more times. Adjournments lasted from as little as one week to as long as three months (JUNAC, n.d.).

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Members of the Commission when deciding issues within the realm of other sectors (e.g., industrial programming) lacked authority to make compromises beyond the instructions they had. The Commission members were also weak in making their governments implement the decisions, "... national public organ[s], in many cases, believed [they] have the right to determine whether or not to incorporate a decision into the domestic legislation or to partially execute it" (JUNAC, 1979a: 147).

The *Junta*, as mentioned above, had powers, but it depended upon the Commission for its budget, and the size of its capable staff was never large enough to deal with the multiple tasks it had to perform within the exacting agreement's timetable. Thus, the *Junta,* and the Commission were not able to do their job.

The Commission, representing governments' interests, and the *Junta*, representing community interests, did not have in practice enough supranational authority to impose subregional decisions onto the governments. On the contrary, the governments were able to violate the Cartagena Agreement, and to ignore the decisions of the Commission with impunity. Sovereignty, thus, was always preserved and protected.

Working relations between the Commission and the *Junta* deteriorated during the stagnation phase. At issue was the power struggle between the Commission and the *Junta*.[55] This deterioration began in 1974 with the entry of Venezuela. This country,

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[54]In contrast in the European Union, the Council of Ministers—equivalent to the Andean Commission—meets regularly, and the representatives are the ministers—or their delegates—of the area concerned with the agenda of the meeting. "Altogether there are some eighty Council of Ministers meetings in an average year ..." (Nugent, 1989: 93). The Council, moreover, is assisted by its own secretariat of around 2,000 members (ibid.: 97), and by the Committee of Permanent Representatives.

[55]"The struggle between the Commission and the *Junta* was due to the fact that Venezuela and Chile were uneasy with the increasing power of the *Junta* ... Commission members of these two countries pointed out that the *Junta* should not be so influential and that it was up to the member countries to freely

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supported by Chile, based on Article 15e of the Cartagena Agreement,[56] introduced as a practice private meetings of the Commission which did not include the members of the Junta and the Director-Secretary as it used to be. Over time the Commission invited the *Junta* to participate. The bottom line was, however, that the *Junta* was not another member of the Commission but an invited actor. The supremacy of national over community interests was reaffirmed.

Relations between the *Junta* and the governments of the member countries also deteriorated during this phase of stagnation. According to Article 15i of the Cartagena Agreement one of the responsibilities of the *Junta* was to "... maintain direct contacts with the governments of the Member Countries through the agency which each one indicates for that purpose" (JUNAC, 1983c: 16). The intention of Article 15i was to facilitate communications between the *Junta* and the governments. The governments' contact agencies, in practice, more often than not, made the flow of information from and to the *Junta* more difficult. In order to solve this problem, the *Junta* unsuccessfully proposed the establishment of *Junta's* own offices in all the member countries.

Relations among the members of the Commission became less friendly during this phase. Until the end of 1973 there was a high degree of consensus among the Commission members, and they had a relatively long tenure in their posts. This allowed them a great knowledge of the process and, fostered good relations among themselves and with the *Junta's* members, illustrated by the fact that the members of the

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negotiate and adopt decisions best suited to their interests" (Guerrero, 1979: 139-140).

[56]According to it, the *Junta* has the right "[t]o take part in the Commission's meetings except when that body deems it advisable to hold private sessions" (JUNAC, 1983c: 15).

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Commission and of the *Junta* addressed each other by their first name. Deterioration began in 1974, with a faster turnover of the Commission members (for instance, between 1973 and 1975 Bolivia sent three different representatives, Colombia four, Chile 5, Ecuador five, Peru four, and Venezuela two, Guerrero, 1979: 142), and the introduction of formality and protocol, proper in any international meeting, reducing the possibilities for frank exchanges and clear understanding.

4.4.- Disagreements among the governments of the member countries

Disagreements increased among the governments of the member countries with regard to key *Junta*'s proposals. The major controversies were on the CET, the SPIDs, the common treatment of foreign investment, the CMET, and how to deal with the lack of compliance with the deadlines set by the agreement. These aspects constituted the most important elements of the crisis of stagnation. The deepening division continued between the "developmentalist" (Bolivia, Ecuador, Peru and Venezuela) and the "commercialist" (Colombia, and Chile) governments.

In the case of the CET, the developmentalist countries considered that it should be an instrument for planning and for furthering import substitution industrialization; that it should be supportive of the SPIDs, as such tariffs should be even more protective for products contained in SPIDs; that it should aid the development of strategic sectors and reduce foreign dependency as well as save foreign exchange. The commercialist members were in favor of the CET as an instrument to reduce production costs, to improve the allocation of resources, and to increase productivity. These disagreements were translated

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into different positions with regard to the Junta's proposal on the CET. The commercialist countries wanted lower tariffs than those proposed by the *Junta* while the developmentalist countries wanted equal or higher tariffs (see table V.2).

Tariffs can be used for diverse purposes, although they may not be achieved simultaneously.[57] Besides tariff policy has been changed frequently to deal with immediate problems.[58] These factors made it very difficult to agree on a CET.

Since each government at a given moment in time confronts a diversity of situations and has to attempt to harmonize conflicting interests and needs, it is rather difficult for the governments to coincide on the objectives, the level and structure of the CET. One author argues that it is then more realistic to consider "the common tariff of a union ... a political act. ... The adoption of a common tariff is an act of faith and not a scientific operation" (Touzelet, 1969: 324). The unwillingness or inability of the *Junta*

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[57]For example, import tariffs can been raised across the board in order to deal with structural and temporary balance of payments deficits, and to increase fiscal revenues. This coincides with the aim of protecting local production. The same non-discriminatory increase in import tariffs makes more expensive imported semi-finished goods and capital goods which in turn affects the production costs of the domestic production. Increasing tariff to change consumption patterns is an example of opposition to promoting domestic production of desired goods. The increase of tariffs on commodities for which the governments want to reduce consumption increases their protection, and by doing so, they are promoting domestic production of the very same products governments do not want people to consume (Chan, 1976: 4-12).

[58]For example, in the case of Bolivia, in early 1975, tariffs were reduced on raw materials, and consumer goods, including cars. Due to the increase of imports between 1974 and 1975 by $141 million (37.6 percent), prior deposits, prohibition in the importation of cars, and selective tariff increase were imposed by the end of 1975 and in 1976 (ECLA, 1977: 75; IDB, c1978: 168).

Ecuador in 1973 and 1974 enjoyed large surpluses thus, prior import deposits were eliminated, imports of food were subsidized, tariffs were reduced by an average of 33 percent but favoring especially intermediate and capital goods for agriculture and industry (ECLA, 1976: 250; 1976a: 195, 202). From 1975 to 1978 surpluses began to dwindle. Imports of cars were suspended, application for imports involving advanced payment were refused, tariffs were greatly increased, and prior deposits were reinstalled affecting mostly consumer goods (ECLA, 1976a: 196; 1977: 182).

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to recognize the CET as a political act—rather than a technical/economic one[59]-has made it next to impossible for the governments to agree on this crucial mechanism.

The basic disagreement on the Sectoral Programs of Industrial Development was over the different emphasis given to its objectives. The developmentalist countries wanted it as an instrument for furthering their import substitution process in which planning and state intervention played an important role. The commercialist members saw SPIDs as a mean to increase efficiency, to reduce production costs, and to lead market forces to play a increasingly important role. Colombia[60] and Chile were interested in programming only very few products, and their common external tariff should be low and derived from the rules approved for the CET. The four developmentalist countries favored programming most if not all the reserved products, and with high tariff levels established independently from the methodology adopted for the CET.

In relation to the common treatment for foreign capital, the problem was the Chilean violations as expressed in its Decree Law 600 promulgated in July 1974. The Commission met in September 1974. Based on a report of the *Junta* the representatives

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[59]The *Junta*'s staff in charge of the CET proposal—the Department of Political Economy—prepared a proposal which "had a high academic value," however, it "only satisfied the professional interests of some of the participants." "Unfortunately, this is not what the Andean Group required. The lack of pragmatism to deal with a problem which was highly political and the obstinacy in proposing a CET which the countries were not willing to approve, contributed to aggravate an already difficult problem" (Guerrero, 1979: 252, 227).

[60]In April 1978, the Head of the Global Planning Unit of the National Department of Planning of Colombia stated "that Colombia is only interested in the commercial aspects of integration and that the country will prevent the approval of, or its participation in, other [industrial] programmes" (Puyana, 1984: 302). And since Colombia was the most important member of the agreement, there were few possibilities to approve them. As a matter of fact only two programs were approved later (December 1980). The Siderurgical Program (Decision 160) was just a list of products assigned to be produced. The Fertilizers Program (Decision 162) was only the list of products of this sector, its the tariff reduction program and a CET "no lower than three percent" (JUNAC, 1982d: 25).

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of the other countries declared "[t]hat Decree Law 600 ... is incompatible with the Common Regime for Foreign Capital ..." (Comisión, 1974: 4). After intensive negotiations, the Chilean government promulgated Decree Law 746, in November 1974, which expressly recognized that Decision 24 was part of the Chilean legislation. In exchange, the Commission agreed to completely revise Decision 24, but the Commission took no action due to the pressures to approve the CET and the SPIDs.

The lack of progress on the CET, the industrial programs, and the demand by Chile to modify Decision 24 led to the first major crisis of the Andean Pact. In March 1975, with a veiled threat, the Peruvian representative urged the Commission to approve the Automobile, Petrochemical and Fertilizers Programs "... otherwise [we] would sadly have to reexamine our position towards the mechanisms which are functioning..." (Comisión, 1975: Anexo I). As a result special efforts were made to approve the SPIDs under consideration, but only the Petrochemical Program was approved in August 1975. From the political view point compromises were made so all countries could, in practice, produce whatever they wanted, which from the economic point of view the result was inefficiency.[61] The rest of the year, the Commission did not make progress on the other industrial programs.

By December 1975 negotiations began to modify the overdue deadlines. The crucial issue was the future of the SPIDs. According to Article 53 of the Cartagena Agreement, products reserved for SPIDs which were not programmed by December 1975

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[61]It is not surprising then that studies found that the Petrochemical Program was inefficient from the economic standpoint. One of them concluded: "[t]he costs of supplying the area, ... with [our] model were always less than ... [the model] designed by the *Junta del Acuerdo de Cartagena* ..." (Wengel, 1980: 134).

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should be included in the tariff reduction program. Developmentalist countries, however, had already made clear their unwillingness to comply with this provision.[62]

By the end first of the meeting of 1976 of the Commission—which began in February and ended in April—the *Junta*'s members presented a new protocol proposal which was approved as Decision 100. Chile insisted on a full revision of Decision 24 (Comisión, 1976: 7).[63] The other representatives were sympathetic with the Chilean plea but no progress was made. As part of the solution, four other decisions were also approved. Decision 97 allowed Chile to sell its public enterprises to foreigners. Decisions 98 and 101 approved programs and a special treatment of Bolivia to take advantages of the agreement. This was the first case in which Ecuador accepted a special treatment not common to both. Finally Decision 99 adopted a timetable to approve the SPIDs. There were still two major issues to be agreed upon: the revision of Decision 24, and the modification of the CMET, Decision 30. Two working groups were created by the Commission to deal with these issues without success.

The six countries met unofficially on August 4, 1976. Chile wanted to discuss Decisions 24 and 30 first, the others wanted to sign the Protocol first. Chile's strategy

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[62]The Venezuelan delegate maintained: "it would be unrealistic to think that if a representative package of sectoral programs is not approved, the countries would be willing to liberalize trade for the reserved products, and at the same time continue to comply with the general tariff reduction program..." (Figueredo, 1975: 2).

The Bolivian representative stated: "[it] is fundamental to exhaust the possibilities of the reserved products for industrial programming before these products are incorporated into the liberalization system.." (Pereyra, 1975: 2).

The Peruvian Plenipotentiary declared: "Article 53, ... lacks operativity and is not applicable inasmuch as there are a considerable number of programs whose approval is still pending. It is not possible to refer to them as residual products, which are the ones being regulated by the aforementioned article" (Du Bois, 1975: 1).

[63]The Chilean delegation provided some explanations for its requests in Pipino 1975, and in a document which became part of the *Acta Final*, as Annex VI: *Proposición de Chile. Decision 24.*

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was dictated by its perception that its veto power over the Protocol would yield for it greater advantages. The other countries did not accept Chile's demand and signed the Protocol. The five countries—Bolivia, Colombia, Ecuador, Peru and Venezuela—met later in Sochagota (Colombia), where they defined a common position to Decision 24 and the CMET. In informal talks the five countries presented the Sochagota accords to Chile, and a special temporary treatment. Chile rejected them.

On October 5, since Chile did not want to sign the Protocol nor to withdraw from the Cartagena Agreement, the six countries approved a protocol which created a commission to analyze the conditions in which Chile would remain in the agreement.[64] According to the protocol, if by October 30 consensus was not reached, Chile would withdraw from the agreement ending all its rights and duties. On that date the Commission adopted Decision 102. It spelled the conditions for Chile's withdrawal. This decision and the aforementioned protocol are clear examples showing that interests of the governments are above the rules they have agreed upon.

The Protocol of Lima was subscribed, and other decisions were also approved. By Decision 103 the Commission modified Decision 24. Changes included the elimination of limits of profit remittances, the extension by three years of the time limit for foreign companies to transform into national enterprises, and the access for foreign enterprises to medium-term internal credit. Decision 104 reduced the levels of the CMET. Finally, Decision 105 modified the timetable approved by Decisions 98 and 99

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[64]The protocol was the solution because the Cartagena Agreement does not include the possibility of expelling a member. Chile, on the other hand, did not consider "denouncing" the agreement since doing so would have meant that some rights and obligations would remain in place for a few more years.

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dealing with the creation of the Special Program for Bolivia and the negotiations of SPIDs.

By October 30, the Cartagena Agreement had changed, but the crisis created by Chile was only one problem, albeit the most important, of the stagnation phase. If Chile had been the only source of stagnation of the process, then after its withdrawal, the Andean integration should have resumed its progress. Stagnation continued in 1977 and 1978. Only one important decision was adopted in each of those years (see table V.9). From 1976 to 1978, little progress was made. Although efforts of both the Commission and the *Junta* were focused on approving SPIDs,[65] only the Automotive Program was approved, in September 1977, and no progress was made on the CET. Key to this situation was the lack of enthusiasm of Colombia. This country had consistently supported, since the drafting of the Cartagena Agreement, a very limited role of industrial programming. The Commission devoted the first quarter of 1978 to discuss and adopt the Protocol of Arequipa postponing deadlines again.

4.5.- Strategies of development and the Andean objectives

The most important aims of the Cartagena Agreement were summarized, in chapter III, section 5.1, as: the primacy of government, a more efficient import substitution industrialization, and the secondary role of foreign investment. As in chapter

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[65] "... the greatest efforts of the agreement's organs were oriented towards approving the automobile industrial program .... Once more they made the mistake of putting all the eggs of integration into one basket" (Guerrero, 1979: 303-304).

"To concentrate the efforts in industrial programming is the correct strategy for the success of [Andean] integration..." (JUNAC, 1976: 159).

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IV, a comparison will be made in this section between the main objectives of the agreement and the relevant aspects of the strategies of development of the member countries.[66] If important differences are found, then it is possible to conclude the existence of a relationship between the increasing differences in the strategies of development of the member countries and stagnation of the Andean integration process.

a) Chile and Colombia

In Chile, with the *coup d'état* of September 1973, the strategy of development changed. The new long-term aim, stated in the 1975-1980 Economic and Social Development Plan, was: "to establish a more open economy in terms of world market opportunities and competition, with a considerably smaller public sector, and with private enterprise and the price system subjected to fewer controls and playing a more important role than in the past" (ECLA, 1976a: 154). To accomplish these goals, among other things, the plan "call[ed] for free operation of market mechanisms and the stimulation of competition ...; a favorable climate for foreign investors; reduction of public spending ... and rationalization of public investment; ... transferring responsibilities to private groups ...; reform of the welfare system; ... [and] support for productive sectors that are capable of reducing imports and increasing exports in an efficient way" (IDB, c1976: 189). In other words, a change to a neo-liberal approach which assigns the state a passive role as mere regulator and facilitator of private activities, and integration with the

[66]Countries have been loosely paired by their similarities in their levels of development and industrialization, and by the affinity of their strategies, and economic policies. This is why Chile is coupled with Colombia, Peru with Venezuela, and Bolivia with Ecuador.

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international economy. The main goal was explicitly reiterated in the Development Plan for 1976-1981, and later in its updated version as Development Plan for 1977-1982.[67]

The Colombian Economic and Regional Plan, 1975-1978, continued to support import substitution but only in cases in which it could be done efficiently, provide jobs, and increase exports and the supply of consumer goods (JUNAC, 1982d: 15, Caballero, 1978: 100). This emphasis on efficiency and competitiveness, especially since 1975, constituted the clearest example of moving away from the goal of industrialization by import substitution (Iguiñez, 1983: 19; Caballero, 1978: 102). Colombia had gradually transferred to the market a fundamental role in resource allocation (JUNAC, 1982d: 15-16). Government intervention was to be reduced, according to the 1975-1978 Plan, to "provide the adequate environment for the expansion of existing enterprises and the creation of new ones ..." but at the same time the state participated in the primary and basic industries (Iguiñez, 1983: 23).

With regard to foreign investment, until 1976 Colombia was supportive of Decision 24 and the government applied it as strictly as possible (Caballero, 1978: 116-117). By 1976, the López Michelsen administration favored a more "flexible approach to foreign direct investment in view of the energy crisis" (Guerrero, 1979: 288).

In short, the three main principles of the Cartagena Agreement, primacy of the state in the economy, import substitution industrialization, and subordination of foreign investment were opposed by the Chilean military government. Colombia, on the other hand, was indifferent to the three principles of the Cartagena Agreement.

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[67]"The strategy for development of the Chilean economy has been conceived within the framework ... in which the role of the state is regarded as subsidiary" (IDB, c1978: 190).

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b) Peru and Venezuela

The Peruvian long- and short-term plans, during this phase of stagnation, had among their objectives the "direct and extensive participation of the public sector in the economy, particularly in the production of basic commodities, domestic and foreign marketing, and financial institutions. ..." (IDB, c1975: 400). In 1977, the second phase of the military government installed in August 1975, released its Plan Túpac Amaru. It reaffirmed "the pluralist structure of the economy in terms of the corporate property: state, social, private and reformed private. In relation to industrial development, the Plan intended "to revise the program of import substitution so that the productive structure may be less dependent on imported inputs" (IDB, c1978: 355).

In 1974 Venezuela began to modify its development plan in order to take into account the enormous inflow of foreign exchange due to the increase in oil prices in the previous year. The Fifth Plan of the Nation, 1976-1980 had among other objectives to increase and diversify industrial production, especially in iron, steel, petroleum, and aluminum (IDB, c1979: 410) which were to be under the direct control of the state. At the same time it aimed for increasing industrial efficiency, and for increasing the production of goods of mass consumption (Iguiñez, 1983: 29). The inflow of foreign exchange reduced the need for foreign direct investment, and allowed the government to be very supportive of the subordination of foreign direct investment.

In brief Peru and Venezuela supported import substitution, the primacy of the state, and the subordination of foreign direct investment.

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c) Bolivia and Ecuador

One of the Bolivian aims of its 1974-1975 Biennial Plan, and its Plan for Social and Economic Development, 1976-1980 was to diversify production through the diversification of exports and markets, the increasing domestic supply of consumer and agricultural goods, and the development of industrial production based on selective import substitution of consumer goods for domestic and external markets (IDB, c1975: 208; ECLA, 1977: 71; JUNAC, 1982d: 14).

Government intervention in the economy to guide and manage it was made explicit in its plans and in its acts. There was a large degree of direct state intervention in the production of basic goods. Mining, oil and gas resources belonged to the state, and run by public enterprises. Besides, only the state could invest in petrochemical, metallurgy, and siderurgy (Morales and Machicado, 1978: 31).

As mentioned in chapter IV, section 4.4., the principle of subordination of foreign investment, by which foreign investment should be directed only to areas of governments' interests, was not an aim of the Bolivian government in the phase of progress nor the phase of stagnation. "[W]ith the exception of 1970 and 1971 [when Decision 24 was not yet in application], the country has followed an open door policy to foreign capital" (Morales and Machicado, 1978: 29). The Investment Law of 1972 was quite generous in providing incentives for investment, national and foreign.

The reformist military government which took power in Ecuador in 1972 intended to intervene more directly in the economy, especially in industry (Iguiñez, 1983: 24). The Integral Plan for Transformation and Development, 1973-1977, called for the

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government to exercise complete ownership of the steel, petroleum-refining, fishing, and fertilizer industries (IDB, c1975: 276; Iguiñez, 1983: 22, 24).

The import substitution industrialization pursued by the Ecuadorean military government was a selective one. It was aimed toward an efficient production of goods which could be exported to the Andean Group. It was based on state incentives, public investment in infrastructure, and special treatment of foreign investment (Moncada, 1978: 151). Although the products in the tariff reduction program were important, more emphasis was given to develop production assigned in the SPIDs (JUNAC, 1982d: 16).

Ecuador continued to favor a greater role of foreign direct investment. As such, it maintained its indifference to the principle of its secondary role.

In brief, Bolivia and Ecuador supported the primacy of the state, and import substitution. They continued to be indifferent to the secondary role of foreign investment.

To restate the relationship between the three main principles of the Cartagena Agreement and the aims of the six member countries were as follows. The four developmentalist countries—Bolivia, Ecuador, Peru and Venezuela—supported the primacy of the state, while Colombia was indifferent and Chile was not supportive (see table V.10). In the previous phase, all the member countries supported this principle. Import substitution industrialization was also supported by the four developmentalist countries, while Chile was not supportive of this principle, and Colombia was indifferent. In the previous phase, the former countries and Colombia were supportive of import substitution, while Chile was indifferent. Finally, the principle of subordination of foreign direct investment was supported by Peru and Venezuela; while Bolivia,

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Colombia, and Ecuador were indifferent to it; and Chile was not supportive of this principle. In contrast, during the phase of progress, Bolivia, Ecuador and Venezuela were indifferent to this principle, while Chile, Colombia and Peru supported this principle.

TABLE V.10
RELATIONSHIP BETWEEN ANDEAN AIMS AND
NATIONAL OBJECTIVES: 1974-1978

ANDEAN AIMS	BO	CH	CO	EC	PE	VE	TOTAL
Primacy of government	S	N	I	S	S	S	4S 1I 1N
Import substitution industrialization	S	N	I	S	S	S	4S 1I 1N
Subordination of foreign investment	I	N	I	I	S	S	2S 3I 1N
							10S 5I 3N

S = Supportive I = Indifferent N = Not supportive

The overall picture, in this phase of stagnation, was one of lesser support and increased indifference, as opposed to the generalized support for the principles during the phase of progress. Chile left because its national aims were not in agreement with those of the Andean Group. Colombia became less identified with the principles of the Andean Group. Bolivia, Ecuador, and Peru continued the same level of support as in the previous phase while the new member, Venezuela, supported the 3 mechanisms.

4.6.- Domestic policies and the mechanisms of the Andean Group

It is apparent from the previous discussion that, during this phase of stagnation,

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the member countries became less identified with the principles of the Cartagena Agreement. This can be validated by comparing economic policies pursued by the governments with the four mechanisms of the Agreement. These mechanisms, as defined at the end of chapter III, and redefined in chapter IV sections 2.4 and 2.5, are: Tariff reduction program, Common External tariff, Industrial Programming, Common Treatment for Foreign Investment. In comparing this phase of stagnation with the previous phase, much less correspondence should be expected between these four basic mechanisms and the economic policies pursued by the governments.

a) Chile and Colombia

Based on the neo-liberal strategy of free market, Chile "maintained the policy of periodic mini-devaluations of the Peso, promoted non-traditional exports, ... introduce[d] progressive reductions in customs tariffs ..., ... and step[ped] up the transfer to the private sector of ... [state] companies ... not considered as key enterprises" (ECLA, 1976a: 154). Beginning in 1974 and speeded up from 1975 on, import tariffs were reduced and non-tariff barriers were eliminated. By the time Chile withdrew from the Cartagena Agreement, its policies had little, if any, affinity with the Andean mechanisms.

For Chileans the Andean trade liberalization mechanism was an obstacle, because it introduced discrimination in favor of the Andean imports. Their gradual lowering of tariffs and the elimination of non-tariff barriers meant a position far removed from the CET proposed by the *Junta*. The SPIDs represented for the Chilean government, "a re-edition on a larger scale of old protectionist and interventionist national policies"

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(Wilhelmy, 1982b: 142). Finally, since the military government was eager to attract foreign capital, Decision 24 was considered an obstacle.

To sum it up, "the Chilean decision was to maintain ... a non-discriminatory external opening, and to stimulate foreign investment ... [Because of these factors] the Chilean withdrawal from the Andean Group, ..., [was] congruent with the policies and characteristics of the regime and of the government..." (Wilhelmy, 1982b: 143, 147).

In Colombia the export promotion policy enacted in 1967 (Iguiñez, 1983: 42) began to bear fruits from 1973 on. This policy, and the fact that Colombia was more developed than the other member countries, led to a permanent trade surplus for this country (see table V.11) These results and the strategy of development pursued by Colombia made this country support the tariff reduction program.

The Colombian industrial policy, established in the 1975-1978 Plan, aimed to be in line with the compromises contemplated in the Andean Pact, especially as they relate to industrial programming (Caballero, 1978: 100). In September of 1976, however, during the crisis created by Chile, and in the middle of an anti-inflationary program, both the President of Colombia, Alfonso López Michelsen, and his Finance minister—Rodrigo Botero—voiced their concern about inefficient import substitution industrialization. For them, SPIDs should aim to increase exports and to create jobs "based on industrial efficiency" (Caballero, 1978: 120).

The president also suggested to make Decision 24 more flexible in order to deal with the new international realities (Guerrero, 1979: 288, 290). In relation to the CET, the Colombian government, in 1975, considered the CET a tool to improve the industrial

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TABLE V.11
COLOMBIA: ANDEAN TRADE 1974-1978

	1973	1974	1975	1976	1977	1978
EXPORTS (FOB) (Millions of dollars)						
Gran 1/	66.7	140.5	189.9	218.0	298.8	304.2
World	1,177.0	1,352.0	1,465.0	1,773.0	2,443.2	3,002.7
IMPORTS (FOB) (Millions of dollars)						
Gran 1/	41.8	103.0	90.5	210.0	170.6	228.0
World	1,062.0	1,337.0	1,503.0	1,990.0	2,028.3	2,836.3
TRADE BALANCE (Millions of dollars)						
Gran 1/	24.9	37.5	99.4	8.0	128.2	76.2
World	115.0	15.0	(38.0)	(217.0)	414.9	166.4
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE 1/						
Exports	5.67	10.39	12.96	12.30	12.23	10.13
Imports	3.94	7.70	6.02	10.55	8.41	8.04
RATE OF GROWTH OF EXPORTS						
Gran 1/	-4.85	110.64	35.16	14.80	37.06	1.81
World	35.91	14.87	8.36	21.02	37.80	22.90
RATE OF GROWTH OF IMPORTS						
Gran 1/	46.15	146.41	-12.14	132.04	-18.76	33.65
World	23.63	25.89	12.42	32.40	1.92	39.84

1/ Includes Venezuela from 1974 on; 1977-1978 excludes Chile.
SOURCES: World (69-75): JUNAC, 1977: II-4.25; Andean (69-75): JUNAC, 1977a: 37-47; 1976: INTAL, c.1977: 139; 1977-1978: JUNAC, 1993: 10 and author's calculations.

competitiveness to avoid making the mistakes linked to import substitution (Iguiñez, 1983: 48). This position was reiterated, in September 1976, by the Colombian President.

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In short, Colombia supported only the tariff reduction program. It was indifferent, especially after 1976, to the CET—as presented by the *Junta* in its Proposal 70, to Decision 24, and to the SPIDs. Chile, on the other hand, supported no mechanisms.

b) Peru and Venezuela

b.1) The tariff reduction program.- Peru felt the full impact of the changes in the international economic system.

> The loss of dynamism of the Peruvian economy between 1975 and 1978 went hand in hand with the deterioration of the balance of payments situation, a growing negative position in the level of net international reserves, a substantial fiscal deficit, and high external public debt service payments. In view of this situation the government adopted a number of corrective measures in 1977 and 1978 ... (IDB, c1980: 354).

Given this scenario, Peru, with the exception perhaps of Chile, had the most difficult political, economic and social problems to deal with among the Andean nations.

Andean trade liberalization was viewed by the government as a mechanism which weakened its attempts to reduce trade deficits. As a matter of fact, Peru had trade deficits with the Andean Pact in all the years of this phase, except for 1978 (see table V.12), when the successive devaluations showed results.[68] The government, however, was indifferent to this mechanism instead of not supporting it because the tariff reduction

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[68]Peru's exchange rate (Soles per one US dollar) and trade balance (millions of US dollars) between 1973 and 1980 were respectively as follows:

	1973	1974	1975	1976	1977	1978	1979	1980
Exchange rate	38.70	38.70	40.37	55.76	84.24	156.35	224.73	288.85
Trade balance	79	-405	-1,097	-675	-422	304	1,722	826

Sources: Coronado et al., 1986: 63, 84; BCR, 1993: 1, 111.

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TABLE V.12
PERU: ANDEAN TRADE 1974-1978

	1973	1974	1975	1976	1977	1978
EXPORTS (FOB) (Millions of dollars)						
Gran 1/	35.8	68.9	130.1	140.0	72.4	138.2
World	1,050.0	1,521.0	1,315.0	1,393.0	1,665.8	1,819.6
IMPORTS (FOB) (Millions of dollars)						
Gran 1/	81.8	213.3	226.0	270.0	408.9	87.2
World	1,024.0	1,531.0	1,386.0	2,109.0	1,918.0	1,464.0
TRADE BALANCE (Millions of dollars)						
Gran 1/	(46.0)	(144.4)	(95.9)	(130.0)	(336.5)	51.0
World	26.0	(10.0)	(71.0)	(716.0)	(252.2)	355.6
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE 1/						
Exports	3.41	4.53	9.89	10.05	4.35	7.60
Imports	7.99	13.93	16.31	12.80	21.32	5.96
RATE OF GROWTH OF EXPORTS						
Gran 1/	26.06	92.46	88.82	7.61	-48.29	90.88
World	11.23	44.86	-13.54	5.93	19.58	9.23
RATE OF GROWTH OF IMPORTS						
Gran 1/	50.09	160.76	5.95	19.47	51.44	-78.67
World	28.64	49.51	-9.47	52.16	-9.06	-23.67

1/ Includes Venezuela from 1974 on; 1977-1978 excludes Chile.
SOURCES: World (69-75): JUNAC, 1977: II-4.25; Andean (69-75): JUNAC, 1977a: 37-47; 1976: INTAL, c.1977: 139; 1977-1978: JUNAC, 1993: 10 and author's calculations.

program was viewed as a trade-off with the SPIDs.

Venezuela enjoyed a short prosperity between 1974 and 1977. Its industrial policy

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changed from 1974 on. Emphasis was given to the development of basic metal industries—e.g., steel, aluminum—and petrochemicals (ECLA, 1976: 333). By 1977 economic problems began to develop due to the reduction of oil income. The budget deficit increased, external borrowing increased, trade surpluses were converted into trade deficits,[69] the rate of growth slowed, inflation augmented, and the rate of growth of exports diminished, while consumption continued to increase.

To increase the supply of goods, during the oil bonanza, 1974-1977, the Venezuelan government "made no attempt to retard the growth of imports, and in some cases encouraged it by selective tariff reductions and the granting of credit for purchases abroad" (ECLA, 1976a: 386). The government of Venezuela, however, considered that "trade expansion [was] not an end in itself" (Blanco de Iturbe, 1978: 256), and that industrialization was more important. Venezuela was able to obtain additional exemptions to the tariff reduction program in the negotiations to its entry into the Pact, thus increasing the number of goods protected from Andean competition. This showed that the tariff reduction program could be more harmful than helpful for Venezuela. As such, the government was indifferent to it. The Venezuelan intra-Andean trade figures show increasing exports and imports, and a favorable, but decreasing, trade balance with the rest of the subregion (table V.13).

b.2) Common external tariff.- During this phase, the Peruvian government was indifferent to the CET. Lowering domestic tariffs, as expected by the *Junta*'s Proposal

[69]In 1977 Venezuela had its first trade deficit in forty years (Iguiñez, 1983: 34).

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TABLE V.13
VENEZUELA: ANDEAN TRADE 1974-1978

	1974	1975	1976	1977	1978
EXPORTS (FOB) (Millions of dollars)					
Gran 1/	254.9	173.3	187.0	263.8	121.1
World	14,653.0	10,671.0	10,272.0	9,527.5	9,177.6
IMPORTS (FOB) (Millions of dollars)					
Gran 1/	56.3	125.0	116.0	198.1	246.3
World	4,314.0	5,810.0	6,662.0	11,224.8	12,195.1
TRADE BALANCE (Millions of dollars)					
Gran 1/	198.6	48.3	71.0	65.7	(125.2)
World	10,339.0	4,861.0	3,610.0	(1,697.3)	(3,017.5)
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE 1/					
Exports	1.74	1.62	1.82	2.77	1.32
Imports	1.31	2.15	1.74	1.76	2.02
RATE OF GROWTH OF EXPORTS					
Gran 1/		-32.01	7.91	41.07	-54.09
World		-27.18	-3.74	-7.25	-3.67
RATE OF GROWTH OF IMPORTS					
Gran 1/		122.02	-7.20	70.78	24.33
World		34.68	14.66	68.49	8.64

1/ Includes Venezuela from 1974 on; 1977-1978 excludes Chile.
SOURCES: World (69-75): JUNAC, 1977: II-4.25; Andean (69-75): JUNAC, 1977a: 37-47; 1976: INTAL, c.1977: 139; 1977-1978: JUNAC, 1993: 10 and author's calculations.

(see table V.2), would increase imports in opposition to government's aim. In this phase,

"[c]ommercial aspects [the tariff reduction program and CET] of the integration process

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were not promoted" (Iguiñez, 1983: 49).

The successful demand of Venezuela to consider the approval of the CET as an issue subject to veto (Annex I of the Cartagena agreement), demonstrate this country's protective stand.

b.3) Industrial programming.- The SPIDs were supported by the Peruvian government. Peru's industrial law, which was in effect, prioritized the production of goods similar to the ones reserved for industrial programming.[70]

The 1976-1980 Venezuelan Plan supported the Cartagena Agreement. Particular importance was given to industrial programming. SPIDs were considered "fundamental for a greater expansion, specialization and diversification of production ... [and] there was a similarity between the Venezuelan industrial development priorities and the products reserved for industrial programming" in the Andean Group (JUNAC, 1982d: 20). Special importance was given to the Automobile Program.[71]

b.4) Decision 24.- The government of Peru was also in agreement with Decision 24 as it was. Its domestic legislation in this matter remained in place during this phase.

Venezuela put into force Decision 24 in 1974. The government took advantage of GRAN to avoid "a long [domestic policy] debate ... " (Blanco de Iturbe, 1978: 256).

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[70]"... there is a great correspondence between the priorities established by the General Law of Industries and the type of products subject to industrial programming" (Iguiñez, 1983: 48).

[71]For the former Director of the *Instituto de Comercio Exterior* of Venezuela, and as such the government representative to the Commission, "the Automobile Program is more important than all the tariff reductions. With that industry, we will make fundamental progress in the integration process, ..." (Alegrett, 1977: 68).

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Surplus of foreign exchange allowed Venezuela to strictly apply Decision 24 without major economic or political consequences.

In brief, Peru and Venezuela were indifferent to the tariff reduction program, and of the CET, while they continued to support industrial programming and the common treatment for foreign investment.

The new Peruvian position reflected international and domestic changes which during the second phase of the military government (1975-1980) assigned a very low priority to integration.

> [T]he crisis of the external sector and the domestic opposition [to the regime and its adjustment policies] were of such magnitude that ... integration [was] gradually relegated to the back seat." In practice, "... integration ... [was] supported insofar as it [did] not go against the more pressing objectives like the reestablishment of external credit, ... and internal peace (Wilhelmy, 1982a: 207, 195).

In the case of Venezuela, more important than the specific stands of Venezuela to each one of the main mechanisms was its political stand. With the oil income, Venezuela's international position improved, resulting in a very active foreign policy.[72] In this context, as a foreign policy objective of status and prestige, rather than one of welfare,[73] the Andean Group represented a forum for Venezuela in which it could

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[72]Examples of it were its leadership in OPEC, and in the Non-aligned movement. In Latin America and in the Andean Group, Venezuela aimed for a leadership based on integration and cooperation. An example of this is the creation, in 1975, of the Latin America Economic System (*Sistema Económico Latinomericano - SELA)* due to Venezuela's support which was rewarded with the designation of Caracas as the seat of the secretariat. Venezuela also expanded diplomatic relations very quickly. Between 1969 and 1979 it established relations with 27 states. For a recent study on Venezuela's active foreign policy between 1969 and 1979 see Nones, 1994.

[73]There are four common purposes of foreign policies of all contemporary states: security, autonomy, welfare, and status and prestige. "There is no precise meaning to these terms [status or prestige] as applied to the relations between states, but let us simply use them in a common sense way: Political associations seek to generate deference, respect, and sometimes awe among others. ... Many foreign policies reflect or incorporate these values" (Holsti, 1995: 84, 107).

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became a leader. "For this country the political aspects of integration took priority over the economic ones..." (Portales, 1982: 166).

c) Bolivia and Ecuador

c.1) The tariff reduction program.- With regard to the tariff reduction program, Bolivia became indifferent to this mechanism. In order to fight inflation, Bolivia, kept its currency overvalued, at 20 pesos per dollar, from 1972 to 1979 (when the Peso was devaluated by 25 percent). It unintentionally favored imports which increased almost by fourfold from $204 million in 1973 to $770 in 1978 (see table V.14). This is also reflected in its growing trade deficits with the Andean Group in 1975, 1977 and 1978. These results made the government unwilling to begin the tariff reduction program by December 1976, as stipulated in the original Article 100f of the Cartagena Agreement. The Protocols of Lima and of Arequipa postponed this issue until December 1981.

Ecuador began exporting oil by 1973 when its price skyrocketed. This provided the government with resources to undertake projects aimed at taking advantage of the Andean Group opportunities. To cope with the increased demand created by oil income, imports rose almost four times in five years, from $397 million in 1973 to $1,505 in 1978 (see table V.15). This favored intra-Andean trade. At the same time Ecuador had, except for 1974 and 1978, an increasing trade surplus with the Andean subregion. Between 50 and 83 percent of the exports to GRAN from 1973 to 1978 were oil. With these results, Ecuador, in contrast to Bolivia, continued to favor of the tariff reduction program.

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TABLE V.14
BOLIVIA: ANDEAN TRADE 1974-1978

	1973	1974	1975	1976	1977	1978
EXPORTS (FOB) (Millions of dollars)						
Gran 1/	26.7	62.0	25.7	38.0	11.3	16.0
World	261.0	556.0	443.0	621.0	712.7	725.3
IMPORTS (FOB) (Millions of dollars)						
Gran 1/	7.4	14.4	26.0	19.0	18.4	26.0
World	204.0	390.0	558.0	615.0	586.3	769.5
TRADE BALANCE (Millions of dollars)						
Gran 1/	19.3	47.6	(0.3)	19.0	(7.1)	(10.0)
World	57.0	166.0	(115.0)	6.0	126.4	(44.2)
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE 1/						
Exports	10.23	11.15	5.80	6.12	1.59	2.21
Imports	3.63	3.69	4.66	3.09	3.14	3.38
RATE OF GROWTH OF EXPORTS						
Gran 1/	39.06	132.21	-58.55	47.86	-70.26	41.59
World	29.85	113.03	-20.32	40.18	14.77	1.77
RATE OF GROWTH OF IMPORTS						
Gran 1/	39.62	94.59	80.56	-26.92	-3.16	41.30
World	22.24	253.46	2.19	4.77	-4.67	31.25

1/ Includes Venezuela from 1974 on; 1977-1978 excludes Chile.

SOURCES: World (69-75): JUNAC, 1977: II-4.25;
Andean (69-75): JUNAC, 1977a: 37-47;
1976: INTAL, c.1977: 139;
1977-1978: JUNAC, 1993: 10,
and author's calculations.

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TABLE V.15
ECUADOR: ANDEAN TRADE 1974-1978

	1973	1974	1975	1976	1977	1978
EXPORTS (FOB) (Millions of dollars)						
Gran 1/	76.9	172.1	153.6	192.0	178.4	102.3
World	532.0	1,055.0	897.0	1,174.0	1,436.3	1,557.5
IMPORTS (FOB) (Millions of dollars)						
Gran 1/	34.7	159.8	87.1	89.0	60.5	74.6
World	397.0	959.0	943.0	976.0	1,188.5	1,505.1
TRADE BALANCE (Millions of dollars)						
Gran 1/	42.2	12.3	66.5	103.0	117.9	27.7
World	135.0	96.0	(46.0)	198.0	247.8	52.4
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE 1/						
Exports	14.45	16.31	17.12	16.35	12.42	6.57
Imports	8.74	16.66	9.24	9.12	5.09	4.96
RATE OF GROWTH OF EXPORTS						
Gran 1/	155.48	123.80	-10.75	25.00	-7.08	-42.66
World	63.19	98.31	-14.98	30.88	22.34	8.44
RATE OF GROWTH OF IMPORTS						
Gran 1/	26.18	360.52	-45.49	2.18	-32.02	23.31
World	24.45	141.56	-1.67	3.50	21.77	26.64

1/ Includes Venezuela from 1974 on; 1977-1978 excludes Chile.

SOURCES: World (69-75): JUNAC, 1977: II-4.25;
Andean (69-75): JUNAC, 1977a: 37-47;
1976: INTAL, c.1977: 139;
1977-1978: JUNAC, 1993: 10
and author's calculations.

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c.2) Common external tariff.- Although during this phase of stagnation, 1974-1978, Bolivia did not have an explicit position with regard to the CET—that is, Proposal 70—it is possible to conclude that it was indifferent to it. First, the lack of position meant that the government had not decided on its future tariff policy. On the other hand, the tariff levels in the intermediate and capital goods proposed by the *Junta* were much higher than the Bolivian ones (see table V.2). Since Bolivia had little chance to develop industries in these areas—except for the products assigned to it by the SPIDs—this meant increasing trade diversion, and an increase in the costs of these products.[74] Thus, Bolivia was indifferent to this mechanism.

With regard to the CET, Ecuador supported it, and the *Junta*'s proposals. The tariff levels and the tariff structure supported by Ecuador were the same as those proposed by the *Junta* (JUNAC, 1977f: 31).

c.3) Industrial programming.- Bolivia in the 1970s had a manufacturing sector which was still in an early stage of development. The Investment Law of 1972 served as the main stimulus. It set as the first priority the production of goods in the metallurgy, petrochemical, metalworking, basic chemistry, pharmaceuticals, automobile, electrical, and electronic industries (Iguiñez, 1983: 22, 49). These areas were similar to the products reserved for SPIDs. Beginning in 1973, Bolivia began to promote exports of

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[74] "... import substitution at the regional level gives rise to trade diversion ... This may ..., bring benefits to the union as a whole ... The crucial point is that *all* the benefits ... accrue to the particular country where the new industry is located, while the importing countries face a net cost ..." (Williamson, 1981: 201). And Bolivia was, with those high CET levels, to be diverting cheaper imports of capital and intermediate goods from non-member countries to more expensive ones from the other Andean members.

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manufactured goods, especially of products assigned to it by the SPIDs, and the products for which Bolivia had immediate free access to the Andean market (JUNAC, 1982d: 14). For Bolivia industrial programming was a tool to further its industrialization.

Another result of Ecuadorean oil revenues and government incentives was the increase in the production of manufactured goods. The Industrial Development Law, enacted in 1957 (Iguiñez, 1983: 21) was modified in 1973 allowing more enterprises to benefit from it (IDB, c1980: 241).[75] "Industry grew 11.6 percent in 1974 compared to an annual average of 7.8 percent in 1970-1973" (IDB, c1976: 227). Support for industrial programming increased in this phase. For Ecuador, SPIDs were considered the fundamental means allowing access to the benefits of the Cartagena Agreement and to accelerate its development.

c.4) Decision 24.- The Bolivian Investment Law of 1972 took as many departures from it as the decision allowed. Decision 24 was an instrument the government was indifferent to because it was viewed as limiting Bolivia's possibilities to attract foreign investment. Foreign direct investment did not constitute a significant contribution to economic activity or the financing of important investment (see table V.5).[76]

Until 1976 Ecuador's indifference towards Decision 24 was because it was seeking more foreign investment. Afterwards, the new Military *Junta, in greater need*

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[75]Tax exemptions encouraged investment in industry. In 1975 it was about $100 million, and $80 million in 1977 (IDB, c1978: 229).

[76]The small domestic market, the lack of adequate infrastructure, and export difficulties due to Bolivian landlocked geography have been factors contributing to this result.

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of foreign capitals became even more indifferent to it, supporting the elimination of Decision 24 (Frambes-Buxeda, 1990: 105).

In brief, Bolivia and Ecuador were supportive of the SPIDs. Bolivia was indifferent to the tariff reduction program, the CET and to Decision 24. Ecuador supported the tariff reduction program, the CET, and was indifferent to Decision 24.

d) Conclusion

In short, in the phase of stagnation, the countries were less supportive of the main mechanisms of the Andean Group than in the phase of progress, when all the countries, for their own interests, supported all of the mechanisms. The relationship between government economic policies and the Cartagena Agreement's main mechanisms, table V.16, shows that three developmentalist countries (Ecuador, Peru and Venezuela) supported or were indifferent to the main mechanisms, while Colombia and Bolivia were indifferent, and Chile was not supportive.

Two countries—Colombia, and Ecuador—supported the tariff reduction program, while Bolivia, Peru and Venezuela were indifferent to this mechanism, and Chile opposed it. Four countries—Bolivia, Colombia, Peru and Venezuela—were indifferent to the CET, while Chile was not supportive of this mechanism, and Ecuador supported it. Industrial programming was supported by Bolivia, Ecuador, Peru and Venezuela. Colombia was indifferent and Chile opposed. Finally, in the case of Decision 24, only Peru and Venezuela supported it, while Bolivia, Ecuador, and Colombia were indifferent to it, and Chile against it.

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Indifference was the most common position of the member countries towards the main mechanisms of the Cartagena Agreement, during this phase of stagnation and doubts. In contrast, during the phase of progress support for the mechanisms was widespread (see table IV.15).

TABLE V.16
SUPPORT FOR ANDEAN MECHANISMS: 1974-1978

MECHANISM	BO	CH	CO	EC	PE	VE	TOTALS
Tariff reduction program	I	N	S	S	I	I	2S 3I 1N
Common Tariff	I	N	I	S	I	I	1S 4I 1N
Industrial Programming	S	N	I	S	S	S	4S 1I 1N
Foreign Investment	I	N	I	I	S	S	2S 3I 1N
							9S 11I 4N

S = Supportive I = Indifferent N = Not supportive

By the end of this phase the international economy had changed due to the oil crisis and the demise of the Bretton Woods system. These changes affected the Andean countries differently, leading to greater divergences in their long-term plans and in their economic policies. In general, there was a trend to attract foreign capital, to increase exports, and minimize the consequences of the economic crisis. For the Andean process these changes meant increasing demands to make the common treatment of foreign investments more flexible, to reduce support to the SPIDs, and to increase exports outside the Andean market.

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CHAPTER VI

FROM AREQUIPA TO QUITO (1979-1986): PESSIMISM AND REGRESSION

1.- MAJOR CHANGES IN THE ANDEAN GROUP IN THE 1980s

During the 1980s the Andean process entered into a phase of regression. The indicators showing regression, as stated in the hypothesis of this research project, are: (a) reduction in intrasubregional trade; (b) widespread violations of the Cartagena Agreement; (c) abandonment of the implementation of the Andean mechanisms; and (d) decisions approved by the Commission were the fewest ever and concentrated on unimportant issues or actually weakened the process.

The evidence presented in this chapter supports the hypothesis of this dissertation, i.e., that regression was due to the fact that the majority of the governments of the member countries did not find their current interests reflected in the existing Cartagena Agreement. In other words, their national goals could not be achieved through the Andean integration process.

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Sections 2 and 3 of this chapter corroborate the hypothesized indicators for the phase of regression. The last section of this chapter (section 4), examines the evidence and shows that regression is adequately explained by the hypothesis of this dissertation.

1.1.- The debt crisis

Due to the debt crisis, the 1980s has been termed "the lost decade" for Latin America. This international crisis was spurred by the second oil price rise at the end of the 1970s. The debt crisis produced major changes in Latin America. On the economic front, governments began an asynchronous shift from the import substitution strategy of development, to an export-oriented strategy. In the political front, military dictatorships were peacefully and also asynchronously replaced by elected civilian regimes.

The crisis made the Andean integration process regress rather than progress as expected after the adoption of the Protocols of Lima (1976) and of Arequipa (1978). Three important facts in the early 1980s led to the regression. First, the disequilibria of the external sector characterized by increasing balance of payments deficits and the increasing inability to pay the external debt; second, border conflicts between Peru and Ecuador (1981), and between Colombia and Venezuela (1980); and finally natural disasters (especially in Bolivia, Ecuador and Peru in 1983).

In 1979 oil prices skyrocketed again. As opposed to the first oil price rise of 1973 not many of the new "petrodollars" were deposited in banks. Banks did not increase loans to the non-oil exporting developing countries, and did not roll-over the previous loans. The developed world applied (1980-1982) restrictive monetary and trade policies.

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Interest rates and debts soared, exports by the developing countries decreased, and terms of trade deteriorated for the Third World.[1] The developing countries found themselves in a no-win situation. They had to repay their increasingly costly loans due to raising interest rates and the shift from long-term to short-term loans. At the same time they were unable to earn enough foreign exchange because decreasing export' pricesm and reduced demand from the developed countries. The international debt crisis followed. It was officially recognized as such after Mexico announced, in August 1982, a moratorium of its debt payments. Generalized recession, hyperinflation, high unemployment, and monetary and financial disarray ensued.

Latin American integration processes, including the Andean Group, were paralyzed or suffered reversal because the economic, financial and negotiating capacities of each country was devoted to dealing individually with its own the debt crisis (Axline, 1994: 4; Rodríguez Mancera, 1992: 10). Moreover, these processes regressed from their most common goal: trade. Intraregional trade accompanied the general trend of trade reduction instead of being anti-cyclical (INTAL, 1990a: 26; Rodríguez, 1988: 127). This was caused by trade barriers imposed in the 1980s.

The Andean economies went through adjustment programs of different degrees of harshness and at different times. Peru applied several of them since 1976, Bolivia since 1979, Ecuador and Venezuela since 1981, and Colombia since 1984 (JUNAC,

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[1]In the case of Latin America, the total debt increased on an average of 27.3 percent yearly, going from $161.4 billion in 1978 to $441.6 billion in 1987; interest payments on the external public debt increased by 32.3 percent annually between 1978 and 1987; while the service of the public debt, in the same period, increased at the rate of 16.9 percent per year (IDB, 1989: 503, 509, 511). The value of Latin American exports decreased by 4.3 percent annually from 1980 and 1987, while their volume increased by 4.4 percent per year during that period (IDB, 1988: 15).

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1985: 2).[2] The immediate aims were to reduce inflation, to diminish the balance of payments, and fiscal deficits through recessionary policies. Longer-term aims were to open the economies to international competition, to reduce state intervention in the economy, and to increase productivity, efficiency, and economic growth.

The result was that the Andean countries began to pursue, at different times, and with different degrees of intensity, similar strategies of development and economic policies, ".. the changes in the world economy have made national economies become more and more homogenized in their behavior and practices ..." (Alegrett, 1989: 14). This provided the basis for the Andean countries to modify the Cartagena Agreement and to make it a tool to fulfill redefined national interests.

1.2.- Winds of Democratization

In most Latin American countries, the debt crisis was one of the factors forcing the military back to the barracks in relatively peaceful processes (Drake, 1989; Maxfield, 1989). In the Andean Group, this was the case in Bolivia, Ecuador and Peru. The new civilian regimes had to deal with their legacies: economic recession, social unrest, and domestic and subregional conflicts. As a result the Andean obligations were set aside.

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[2]The economic consequences were devastating. In 1989, per capita gross domestic product (GDP) for GRAN was 7.5 percent below its 1980 level. Gross domestic product decreased at 2.1 percent annually between 1981 and 1983, between 1984 and 1986 to grew at 4.3 percent average in each year, and in 1987 it decreased by 0.4 percent. The ratio between gross investment and the GDP went down from 20.7 percent in 1980 to 14.9 percent in 1989. In the 1980s the Andean subregion was a net exporter of capital, in amounts near 6 percent of its GDP. All countries, except Colombia went into arrears in paying interests to the private banks; and in the case of Peru and Bolivia to the World Bank and the International Monetary Fund. Inflation went up to three digit levels or more in Bolivia in 1982, 1983 and 1984; reaching a record of more than 8,000 percent in 1985. Peru had three digit inflation level in 1983, 1984, 1985, and 1987; and four digit levels between 1988 and 1990. Venezuela had inflation rates between 20 percent in 1980 to 81 percent in 1989 (its highest); while in Ecuador it went from 11 percent to 84 percent in these years, reaching its height in 1988 with 83.6 percent (JUNAC, 1991a: 42, 43; 1990c: 138).

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Bolivia had the most difficult transition from authoritarianism to an elected regime. Between 1978 and 1982 there were several elections, *coups d'état*, and counter *coups*. In September 1982 the Congress elected in 1980, was convened and chose the leftist Hernán Siles Suazo as president to rule until 1986. Conflicts between the Executive and opposition dominated Congress over the expansionary economic policy of the former led to economic havoc. Siles had to call early elections in 1985, and was replaced by the veteran, and by then conservative, Víctor Paz Estenssoro. He quickly enacted a liberal economic policy stabilizing the economy and polity. In August 1989, Paz Estenssoro became the first Bolivian president to finish a full term since 1964. He was replaced by Jaime Paz Zamora, his nephew and a center-leftist.

The 1978 elections and the runoff elections in 1979 signaled the end of the military regime in Ecuador. The reformist Jaime Roldós became president in 1980. In 1981 he died in a plane crash and was replaced by Osvaldo Hurtado, his vice-president. In a highly contested election, in 1984, Hurtado was succeeded by the conservative León Febres Cordero. In both governments, congressional opposition did not allow the executive to fully implement the austerity economic measures due to oil revenue shortfalls and increasing external debt in the case of the former, and the neo-liberal economic program in the case of the latter.

The Revolutionary Government of the Armed Forces of Peru, after the elections of 1980, handed power to the centrist Fernando Belaunde Terry, the same person the military had overthrown in 1968. Although economic conditions sharply deteriorated from 1983 on, Belaunde was able to finish his term and pass the presidential band to

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Alan García Pérez of the left of center APRA party in 1985.

These transitions from authoritarian regimes to elected regimes changed the political, social, economic, and strategic interests that guided the Cartagena Agreement. Since GRAN's inception, this was the first time all its members had elected governments.

1.3.- Regression of the Andean process

The debt crisis and the further changes in the international economic system made the Andean governments concerned mainly to deal with the crisis. Little attention was given to other issues, like integration.[3] The international economic crisis induced the Andean countries to slowly and asynchronically change their strategies of development. This created a growing divorce between the interests of the countries, in a process of finding a new strategy of development, and the usefulness of an Andean Group created to complement the strategy of development that was being replaced.[4] Due mainly to these factors, the debt crisis and the ensuing changes in the strategy of development and in the economic policies, the Andean Group suffered further erosion of political support (Avery, 1983: 155; Puyo, 1989: 30).[5] GRAN became dynamic again when the member

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[3]"The international environment, the debt crisis, the growth problems of the countries of the region, and the economic and social implications of adjustment programs and structural reforms are contributing to hindering the integration process, since these factors are preventing the agreements from evolving in the way it had been expected" (INTAL, 1990: 1).

"... during periods of economic stress, governments prefer national over multinational solutions for economic problems ... in spite of the fact that, from purely national points of view, common ... administered policies might be not only desirable, but also essential" (Feld, et al., 1994: 276-277).

[4]"... presently [1982] there is a clear opposition between national models and policies, and the integration model and policies" (de la Puente, 1988: 226).

[5]"In fact, towards the end of the seventies, it had already become clear that the application of the principal instruments of the Cartagena Agreement was rendered unfit by reasons of an essentially political nature. At that time, a plausible agreement on common interests of the Member States remained distant

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countries adopted a new and similar strategy of development.

General import restrictions reduced intra-Andean trade. Trade was one of the most important mechanisms the countries had to assess the benefits that the Andean integration was accruing to them (UNCTAD, 1989: 2). Deep concerns created the first decrease in intrasubregional exports which occurred in 1982 (minus 4.4 percent in relation to 1981, see table VI.2). There was a widespread consensus about the main cause: the worldwide economic crisis.[6] The direct cause was that "[i]n 1982, the member countries adopted protective short-term policies, in some cases in conflict with ... the [Andean] trade liberalization program and the minimum common external tariff" (IDB, c1984: 140). Violations of the Cartagena Agreement and the decisions of the Commission with regard to trade and other mechanisms became widespread.[7] None of the Andean goals were achieved, and what was more important, achievement was not expected in the near future (Aninat, Ffrench-Davis, and Leiva, 1990: 162; Bawa, 1980:

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on the horizon. This is especially true in relation to the implementation of sectoral programs of industrial development ... the establishment of a Common External Tariff, ... the inobservance [sic] of the guaranteed access to markets ..."

"Harmonization in external trade mechanisms had been sluggish, regulations for treatment of foreign capital and technology had been questioned and unilateral restrictive measures applied to protect themselves from the world crisis pointed to the need for a revision of the Cartagena Agreement to adapt it to new circumstances" (Mairal, 1989: 94, 95).

[6]"The crisis of the Andean integration was in its worst in 1982 and 1983. In those years almost all the countries had dire economic difficulties due basically to the international recessionary tendencies" (JUNAC, 1991a: 87).

[7]"... in the 1980s, the period of real stagnation ... was characterized by the contraction of ... intrasubregional trade and the proliferation of violations" (JUNAC, 1989b: 6).

According to Taylor (1984: 72) "the timetable for realizing the goals of the Cartagena Agreement has been procrastinated or often seemingly forgotten" affecting the tariff reduction program, common tariff and industrial programming.

"... the accords and mechanisms defined at the beginning of the 1970s were eroded and non-compliance ensued ..." (JUNAC, 1991a: 87).

"... all the member countries ... shared generalized violations of the commitments with regard to the [Andean] trade liberalization program and the common tariff, to which the failure of industrial programming was added" (Hurtado, 1990: 3).

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xv; Carmona, 1984: 12; Ferrari, 1991: 68; Fuentes and Martínez, 1990: 5-6; JUNAC, 1987: 2; Rodríguez Mancera, 1992: 3).

This situation and the inability to find solutions for several years constituted the major aspects of the crisis of regression of the Andean process. "Nineteen seventy-nine, ... marks the beginning of the crisis of the Cartagena Agreement" (JUNAC, 1987a: 6). This regression phase ended when the Cartagena Agreement was again drastically modified by the Protocol of Quito, signed in 1987.[8]

1.4.- The Quito Protocol

The changes brought about by the Quito Protocol reflected the immediate and long-term goals the governments wanted to achieve through the Andean Group. These goals were to make the Cartagena Agreement am efficient instrument to collaborate in the economic development of the subregion (JUNAC, 1988a: 8; Márquez, 1989: 13); to dependence on external factors" (Mairal, 1989: 97); and to make its mechanisms more flexible and thus, more viable and similar to the interests of the member countries. In other words, the Andean process of integration was affected by the changes in the national strategy of development pursued by the governments (Tironi, 1976: 63).

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[8]The changes in the 1980s in the international economic system not only the provoked regression in GRAN but in all economic integration processes of the region (Bryan, 1984: 83; INTAL, 1992: 19). "[T]he regional integration movement is in deep trouble. In the best cases, integration schemes are going through periods of extreme difficulty characterized by a slowdown in the decision-making process, a reluctance to adhere to regional commitments and obligations and, in some instances, even a reversal in decision-making itself. In the worst cases, the schemes are in disarray, facing the prospect of complete collapse" (McIntyre, 1984: 15).

The Central American Common Market was paralyzed even before the civil wars in the region virtually brushed it aside. The CARICOM languished due to the external effects on the economies of the member countries. The Latin American Free Trade Association, LAFTA, after several years of intense negotiations was scaled down and replaced, by the Latin American Integration Association, ALADI, in 1980. The main attributes of the ALADI treaty were flexibility and pragmatism (INTAL, 1981: 22).

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Practically no part of the Cartagena Agreement was left untouched by the Quito Protocol. It profoundly modified the chapters dealing with the organs of the agreement, economic policy harmonization, industrial programming, common external tariff, the tariff reduction program, agriculture, and the special treatment for Bolivia and Ecuador. It also added a new chapter on social and economic cooperation.

With the approval of this protocol, the Commission also adopted a set of decisions to facilitate ending of the phase of regression (see section 4.2).

2.- THE MECHANISMS OF THE CARTAGENA AGREEMENT AND THE PHASE OF REGRESSION

2.1.- The tariff reduction program

With the Protocols of Lima and Arequipa, the three largest Andean countries—Colombia, Peru and Venezuela—should have eliminated customs duties among themselves by December 1983. They did it with some delays (see section 3.3). Bolivia and Ecuador should have embarked on their tariff reduction process between December 1980 and December 1990, but by the end of this phase (1987), they had not begun it.

From 1982 on, restrictions on trade among Andean nations were unilaterally imposed by member countries, due to increasing fiscal deficits, devaluations, external debt and high interest rates (Abusada, 1981: 276; Schuldt and Urriola, 1991: 126-127). Trade diminished (see section 2.6), and between 1982 and 1986 bilateral trade accords

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were signed to "address the most critical cases" (JUNAC, 1981: 6).

In October 1982, Venezuela became the first country to impose non-tariff barriers to trade within the subregion. In that year, around 500 items were under trade restrictions. By November 1986, of the 3,340 items in the tariff reduction program (70 percent of the total dutiable items) almost two-thirds were still under non-tariff barrier restrictions, and 9 percent (301 items) were traded under bilateral accords By December 1987, 8 months after the Quito Protocol was signed, items under bilateral accords had increased to 809 items (Figueredo, 1985: 161; JUNAC, 1986a: 6; 1988a: 22).

In brief, for most of the phase of regression, a large portion of intra-Andean trade was subject to trade restrictions, and the attempts to eliminate them were unsuccessful.

2.2.- Common tariff

With the 1976 and 1978 changes made in the Cartagena Agreement, a common external tariff *band* was to be approved by December 1979. In March 1978 the *Junta* presented proposal 96 on the common tariff and related matters.[9] Unsuccessful efforts were made in 1978 and 1979 to meet the deadline to approve it. In 1989 and 1981 these efforts continued, but without success.

In February 1980, the *Junta* presented to the Commission new guidelines for the CET (JUNAC, 1980f), based on them governments reached accords, this resulted in the

[9]Using the concept of effective protection (that is, protection on the value added to the product) to define the floor of the band, the proposal suggested 70 percent as the maximum protection to be granted to any product. For agricultural products, the resulting nominal protections were to be adjusted downward, and upward for capital goods, as well as for labor intensive and high technology products. The average effective rate, considering the modifications, was 38 percent.

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Junta presenting a modified version of Proposal 96 (JUNAC, 1980g).[10] The governments' positions *vis-à-vis* this proposal in 1980, are presented in table VI.1.

As shown in table VI.1, the basic disagreement among the governments was on the level of protection. Two contradictory problems were the main issues. The first was that a protectionist CET would recreate, at the subregional level, the short-comings of the import substitution policies (Koopmann, 1979: 118); the second was that the protection proposed for the floor of the band would not be enough to warrant production at the subregional level.[11]

In 1984, the *Junta* suggested that in the new protocol, which had to be adopted in order to again restore the juridical basis of the Cartagena Agreement, no deadline should be set to approve the CET. This "will facilitate its adoption when the conditions are ripe." The *Junta* also recognized that "the viability of the [Andean] process depends on the convergence of political will and the real capability of the member countries to make commitments, and not on the setting of rigid deadlines" (JUNAC, 1984b: 26).

In short, the CET, a crucial mechanism, was not approved in this phase of regression. Characteristic of this phase, as opposed to the phase of stagnation, was that

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[10]The floor of the tariff band for 1990 was still 70 percent effective protection, but the ceiling was limited to 2.5 times the level of the floor, or 100 percent ad-valorem, whichever was lower. Colombia, Peru and Venezuela would reach gradually tariff levels within the band between December 1980 and December 1990, while Bolivia and Ecuador would do it between 1981 and 1990. The width of the band would be reduced in 1983, 1987 and 1990 from 80 percent effective protection to the target of 70 percent. The criteria to assign levels of effective protection were the same as in Proposal 96, but protection for capital goods was reduced from 40-50 percent to 15-40 percent by considering only the potential generation of unskilled jobs rather than considering both skilled and unskilled.

[11]"Each country seem to have a different idea as to the optimum level of openness of the Andean Group's markets to imports from the outside, ...; and all the members seem to have different opinions as well as ... what would constitute a reasonable degree of protection" (INTAL, 1982: 73).

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TABLE VI.1
GOVERNMENTS' POSITION IN RELATION TO THE CET PROPOSAL

MAXIMUM LEVEL OF THE TARIFF BAND			
	Protection	Levels	Dates of application
Ju	Effective	2.5 times the minimum	See the line below
Bo	Nominal	100	1990, but possible reductions could be agreed upon
Co	Effective	120, 90, 80	1983, 1987, 1990
Ec	Either	Ample and flexible	No opinion
Pe	Effective	120, 105, 90	1983, 1987, 1990
Ve	Nominal	100	Permanent
MINIMUM LEVEL OF THE TARIFF BAND			
	Protection	Levels	Dates of application
Ju	Effective	Co, Pe, Ve: 80, 75, 70 Bo, Ec: 70	Co, Pe, Ve: 1983, 1987, 1990 Bo, Ec: 1990
Bo	Effective	70	Bo and Ec should adopt it 7 years after Co, Pe & Ve
Co	Effective	80, 70, 60	1983, 1987, 1990
Ec	Effective	80	Permanent, to be revised in 1987
Pe	Effective	80, 75, 70	1983, 1987, 1990
Ve	Effective	80	Same as Ecuador

Ju: *Junta*'s proposal
SOURCE: JUNAC, 1980a: 1-2.

there were no attempts to solve the legal situation nor to pretend that the governments were close to approving the CET. The different approaches of the member countries to tariff policies was at the center of the problem.

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2.3.- Industrial programming

In December of 1980 the time span for adopting Sectoral Programs of Industrial Development—SPIDs—expired. In the five additional years for the adoption of Sectoral Programs of Industrial Development (1975-1980), provided by the Protocols of Lima and Arequipa, only the Automobile Program was approved (Decision 120, in September 1977). Between 1977 and 1987, several decisions were approved to "complement" Decision 120.[12]

The Petrochemical Program (Decision 91) was modified by Decisions 130 (August 1978), and 170 (March 1982). Among other things, these decisions dealt with the assignment of products originally allocated to Chile, and the inclusion of Venezuela in this program. The incorporation of Venezuela into the Metalworking Program, and the distribution of the products assigned to Chile were done in Decision 146, July 1979. Finally in December 1980, Decisions 160 and 162 approved the Siderurgical and the Fertilizers Programs respectively. The first was just a list of products to be part of the program, while the second was only the tariff reduction program timetable for fertilizers. In other words, no new industrial program, as defined in Chapter IV of the Cartagena Agreement was approved after the Automobile Program.[13]

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[12]In January 1979 three decisions related to the Automobile Program were approved. Decision 131, involved the rules for a balanced exchange of auto components; Decision 132, complementing rules on a Bolivian assignation; and Decision 134, excluding an item from Decision 120. Some deadlines in Decision 120 were postponed by Decision 149 (September 1979); Decision 158 (June 1980); and Decision 159 (July 1980). Decision 181 (July 1983), suspended the obligations and set deadlines to review the Automobile Program. Finally, in May 1987, as part of the package agreed for the adoption of the new protocol, Decision 120 was abrogated by Decision 223.

[13]Other proposals presented by the *Junta* were: chemical (Proposal 91), pharmaceutical (Proposal 92), and electronic and communications products (Proposal 69). None of them were approved.

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The *Junta* and the Commission, following the clear interest of the majority of the Andean governments for industrial programming continued to devote most of their energies, resources and capacities to approve SPIDs. They considered that the prestige, success, and uniqueness of the Andean Pact were basically centered on the advancement of this mechanism. Its failure, first by not approving most of the industrial programs, and second by not implementing the few approved programs, were the keys in the frustration, lack of solutions, and widespread violations of the Agreement. This situation became even more complicated when some governments began to withdraw approval for other *Junta's* proposals and to threaten not to fulfill their obligations if SPIDs were not agreed upon.[14] Credibility in the Andean process reached a record low. "It could be said, ..., that the whole scaffolding of the [Andean] scheme cracked" (INTAL, 1990a: 92).

Industrial Programming, turned out to be a very difficult mechanism to put into practice. This mechanism failed because governments did not have their industrial development objectives clearly defined; were unable to figure out the financial, technological and human resources needed;[15] and were too ambitious in reserving too many groups of products for industrial programming (INTAL, 1988: 36). Industrial Programming, having to harmonize the interests of the countries, became an illusion. In

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[14]A typical case was this cryptic declaration: "... the government of Ecuador does not consider prudent to continue to discuss new mechanisms aiming to ... define the Andean market [the CET], without solving the most fundamental issue, that is, the consolidation of what has already been built [the existing SPIDs] ... Ecuador will have to abstain its position in issues dealing with new mechanisms defining the market until substantial progress has been done in observing existing obligations..." (Salgado, 1980: 1).

[15]"If the industrial programming is to get ahead according to the schedules $33bn are needed. Apparently this sum cannot be raised on the domestic capital markets nor is the basic technological infrastructure in the subregion developed sufficiently to carry our the ambitious industrial projects. As a consequence, the Andean countries must to a considerable extent rely on capital and technology from abroad, including direct investments by transnational corporations" (Koopmann, 1979: 120).

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November 1983 the Commission, with the adoption of a new Andean industrial strategy, "virtually abandoned" industrial programming (INTAL, 1984a: 62, 81) in favor of industrial cooperation.

With regard to the existing SPIDs, the Metalworking Program, after its modification by Decision 146 of July 1979, was continuously violated. The worst offense was that countries began to produce products assigned to other members (JUNAC, 1989: 33), violating the principle of industrial specialization. The lack of progress of this program was mainly due to economic recession.

The principal factors working against progress in the Petrochemical Program were the magnitude of the investment required (Venezuela was the only country able to afford them), the debt crisis, the rise of oil prices, and the worldwide excess of production capacity (INTAL, 1979: 115, 116; 1982: 82). In 1983, the *Junta* presented a proposal to modify the Petrochemical Program, but the Commission did not act on it.

Against the implementation of the Automobile Program worked the changes in technology, in consumer tastes, and in the direction of the industrial development policies of the member countries brought about by the energy and economic crises of the 1970s. From July 1983 all the rights and obligations derived from this program were suspended, and the program was abolished in May 1987. The most ambitious and most well defined industrial program—and for these reasons the most rigid and difficult to implement—became the first industrial program to be abrogated.

According to 1986 data (JUNAC, 1986: 9-10), of the original 1,670 customs items reserved for industrial programming, only 625 (37 percent) were the object of any

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SPID, or assigned—outside the Industrial Programming mechanism—to be produced by Bolivia or Ecuador.[16]

2.4.- Common treatment of foreign investment

After the changes in common treatment of foreign investments (Decision 24) in 1977 (Decision 103), the governments of the member countries announced at different times their interest in modifying Decision 24 again.[17] The goal was to attract foreign investment. To attain this aim, the governments decided that the best approach would be to increase their autonomy on this issue (Fuentes and Martínez, 1990: 19). In May 1987, at the same time that the Protocol of Quito was approved, Decision 24 was again profoundly modified by Decision 220.

The new common regime of foreign investment reduced the number of foreign enterprises to be nationalized and delayed its process. The new regime required that only foreign enterprises interested in having access to the Andean market should be

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[16]In the Metalworking Program, of the 267 items, 48 percent (118 items) were being produced by 1986; in the Petrochemical Program 40 percent (64 items out of the 162 included in this program) were in production by that year. In the Automobile Program only 11 items were being produced by the time it was suspended in 1987. The Siderurgical Program (with 85 items) remained only a list of products. Out of the 92 items assigned (in December 1970 by Decision 28) to be produced by either Bolivia or Ecuador outside the SPIDs, Bolivia was able to produce 3, and Ecuador 7; but by 1986, only 5 items were still in production, all of them in Ecuador.

[17]In October 1980, during the XXXth. ordinary session of the Commission, the Peruvian representative, in his first and last intervention and presence during his one year tenure as Minister of Industry, Tourism, and Integration, proposed modifying this decision. In July 1983, in the XXXVth. extraordinary session, the government of Peru again proposed that Decision 24 be more flexible, in order to attract foreign investors. In November 1984, during the XLIIth. extraordinary session, Ecuador joined Peru requesting modification of this decision. In September 1985, a meeting of the ministers of foreign relations of the Andean Group pointed out the need to modify Decision 24 in order to promote foreign investment in accordance with the national development plans of the member countries, and with subregional objectives. Peru and Colombia in November (XLIIIrd. extraordinary session) and December 1986 (XLIVth. extraordinary session) declared that changes in Decision 24 were an inseparable issue related to the adoption of the new protocol.

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nationalized, whereas previously all foreign enterprises had to. It increased from 18 to 30 years the date by which foreign enterprises had to transfer 51 percent of their shares to national ownership in Colombia, Peru and Venezuela; and from 23 to 37 years in Bolivia and Ecuador. The minimum national participation was decreased from 30 percent to 15 percent three years after the conversion agreement was signed in the largest countries, and from 10 to 5 percent after five years for the smallest countries.

Governments, on the other hand, could unilaterally permit foreign capital to buy national or subregional enterprises, and allow the reinvestment of profits without the previous 7 percent limit. Governments could also decide about the access of foreign enterprises to domestic credit; about what sectors originally reserved for national enterprises—e.g., basic products, public services, banking, insurance, domestic transport, etc—were not any more so; and about the transfer of profits. In addition, payment of royalties between affiliates and the parent company was allowed, and it also permitted national legislation to decide on the jurisdiction of foreign courts.

These changes in the common treatment of foreign investment increased the discretionary powers of the governments and correspondingly decreased the scope of the common rules. Control of foreign capital was retaken by the individual governments within an emptier subregional shell.

2.5.- Other aspects

Regression characterized the Cartagena Agreement between 1978 and 1986, however, there was a phase (1979-1982) in which the process had bright spots. There

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was a process of creating new institutions. During this phase some common foreign positions were adopted. Finally, there were attempts at the highest levels to reinvigorate the Andean integration process. This was considered to be a sign of "consolidation" of the Andean process (JUNAC, 1980b: 5-7).

a) Expansion of the Andean integration process

In 1979, influenced by the entry into force of the Protocol of Arequipa, the "transition from authoritarian rule" in Bolivia, Ecuador and Peru, and the presidential meeting of May 1979, treaties were signed creating the Andean Tribunal and the Andean Parliament. The Andean Council of Ministers of Foreign Affairs was also established.

The Andean Tribunal was created in May 1979, but only in January 1984 did it begin to function. The Court is in charge of interpreting and unifying legal community provisions, and enforcing the obligations derived from the Andean process. It sits in Quito, Ecuador and is composed of five members. This means that each country has its representative, a situation in which judges may not be seen as impartial (Paolillo 1981: 112). In practice, the *Junta* did not go to the Tribunal to make countries fulfill their obligations because "violations were too widespread showing a conflict between the juridical order and the new subregional realities" (JUNAC, 1987b: 8), and governments agreed not to present claims against each other (Cárdenas, 1994: 5).

In October 1979 the Andean Parliament was created by a treaty signed in La Paz, Bolivia, it entered into force only in May 1984. It is composed of five members of each of the national Congresses, elected by their peers. It only has the power to advise about

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political integration, and it has to be informed about the Andean integration process.

The Andean Council of the Ministers of Foreign Relations of the member countries, was established in November 1979 by the ministers of that area. Its functions are to provide general guidelines for economic integration and political cooperation, to determine the most adequate policies, and to coordinate foreign economic policies (JUNAC, c1979a: paragraph 22, 24m). Although this Council is not an official organ of the Cartagena Agreement, it became, in practice, a higher level body within the Andean Group, because it decided the paths to follow. As a *de facto* higher level in the Andean process, the Council ended up making crucial decisions with regard to the new orientation of the process, thereby taking away an important function from the Commission, which was nonetheless grateful for being relieved of having to make these decisions.[18] This council was the all important forum for the Andean countries to adopt common positions in specific international and regional issues as is shown below.

b) Common Policies

The Council of Ministers of Foreign Relations and the Commission defined a common policy for the renegotiation of LAFTA (Latin American Free Trade Association) and its conversion into ALADI (Latin American Integration Association). The Andean countries displayed a tight cohesion enabling them to impose on the Big Three—Argentina, Brazil, and Mexico—most of the Andean goals. At the meetings

[18]"... the member states began to make accords about integration obviating, in part, some of the official functions of the Commission ... increasingly politicizing the Andean process" (Frambes-Buxeda, 1990: 111, 112).

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organized by the Latin American Economic System—SELA—the Andean countries developed common positions for the adoption of a Latin American view on specific issues related to the New International Economic Order, and the GATT's Tokyo Round.

On political matters, the Andean Council supported the democratization process in the Andean countries. It condemned the July 1980 *coup d'état* in Bolivia, which made the Bolivian government temporarily suspend its participation in the Andean process (see footnote 19, 2nd. paragraph). Also in 1980, the Council, at the initiative of Peru, made the Andean governments declare the Sandinista guerrillas as belligerent forces, thus recognizing its international personality. Through Peru's initiative, the Andean Group supported, in 1982, the old Bolivian objective to regain access to the Pacific Ocean.

Negotiations between the United States and the Andean Group in the late 1970s ended with the signing by the Commission of two Memoranda of Understanding, one on economic cooperation, and the other on technological and scientific cooperation (Alegrett, 1989a: 4-6). Through these Memoranda, Venezuela and Ecuador gained preferential access to the US market, which they had lost because of their membership in OPEC; and the Andean countries got additional advantages in the US Generalized System of Preferences. The Andean Group also negotiated as a unit with the European Community. These negotiations led to a General Agreement signed in December 1983 between the Ministers of Foreign Relations of the Andean countries and the President of the Council of Ministers of the European Community.

The Andean Group was able to project a solid international image, and to gain prestige with common positions beneficial to the interests of each of its members,

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achieving results that individually would not have been able to obtain. A major drawback, however, was that there "has been no formal definition of the basic principles of a joint Andean foreign ... policy" (INTAL, 1982: 101). With the border conflicts between Colombia and Venezuela in 1980, and between Peru and Ecuador (January 1981), the debt crisis, and the economic crisis, the Andean countries concentrated on their own urgent problems, and common foreign positions, which could have yielded better results, were placed on the back burner.

c) Summit meetings

The Andean presidents met eight times, the first in August 1978 and the last in December 1983. Out of these eight, the second meeting, in May 1979, and the seventh, in July 1983, were the most important for the Andean process.[19] These meetings, however, failed to prevent the regression of the process. The presidents provided guidelines, they declared their support to the Andean integration process, and reiterated

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[19]The first summit meeting, in August 1978 was held in Colombia when Julio César Turbay Ayala was sworn in as president. The Declaration of Bogota was signed. It reaffirms the intention to achieve the objectives of the Andean Group; the need for a judicial organ, which should be created in 1979; and the urgency to update the Metalworking and the Petrochemical Programs by the end of 1978. The presidents also agree to meet in May 1979 to evaluate the progress of the Andean process in its first ten years (Comisión, 1978: Anexo III). Details of this latter meeting are given in the text. In October 1979, the presidents met again in Panama, to witness acts related to the Panama Canal.

In 1980, some of the Andean presidents also met for three times. The first in July, in Lima, Peru; the second in June, in Riobamba, Ecuador; and the third, in December, in Santa Marta, Colombia. In all these meetings "the Presidents ... reaffirmed their integrationist commitment and their support for the process, [but] no activities were undertaken at the national level to accelerate it (IDB, c1982: 109). Bolivia self-excluded of all these meetings and also from the meetings of the Andean Council, and of the Commission, until April 1981 (Comisión, 1980: 2-4) because the other member countries did not recognized the new government and condemned the July 1980's *coup d'état*, acts which were considered by the *de facto* regime as an inadmissible interference in the domestic affairs of Bolivia. On the other hand, as a consequence of border problems, the presidents of Ecuador and Peru never visited each other's countries; thus the Ecuadorean president was absent in the meeting in Lima, and the Peruvian in the gathering at Riobamba.

The last presidential meeting in this phase was in December 1983, on the occasion of the closing celebrations in honor of Simón Bolívar's bicentennial birth.

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their conviction that the process went beyond the economic sphere covering social, cultural and political aspects (Zelada, 1979).

In the meeting of May 1979, in Cartagena, Colombia, on the occasion of the tenth anniversary of the Cartagena Agreement, the presidents signed the Mandate of Cartagena *(Mandato de Cartagena)*. "It was meant to confirm their countries' continuing support of the Andean movement" (Mace, 1983: 186). The Mandate reaffirmed that "integration must be the principal instrument for attaining ... development...," and declared, for the first time, that the Andean Group was "essentially a political undertaking" (JUNAC, c1979a: 4, Paragraphs 5 and 6). The Mandate also proposed specific guidelines to reactivate the Andean process and suggested concrete measures to have the process progress with a pragmatic and flexible approach (Mace, 1983: 186-187; Montenegro, 1983: 59-67; Tobón, 1989: 19-21).

The seventh summit was held in July 1983 in Caracas, Venezuela. The presidents met to commemorate the Bicentennial of the birth of Simón Bolívar (the liberator of the five Andean republics and Panama). In this first meeting of all civilian elected presidents, they adopted the Declaration "For Us, the Homeland is Latin America" *(Para Nosotros la Patria es América)*. The presidents reiterated their support of the Andean process, and "decided to make it more dynamic by renewing its aims, actualizing its programs, and perfecting its mechanisms" (JUNAC, 1983d: 3).

Notwithstanding all the political support and concrete measures to re-launch the Andean process, this had to wait until 1987. Meanwhile, between 1983 and 1986 the

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process went deepest into the phase of regression and pessimism.[20]

2.6.- Trade among the member countries

Intra-Andean imports decreased between 1983 and 1986, and also exports in 1982-1984 and 1986. Between 1981 and 1986 trade decreased at the rate of 11.4 percent per year.[21] The record low in exports was in 1986 with $655 million (see table VI.2). This value was the lowest since 1973 and it was just about half of the peak reached in 1981 ($1,238 million). The most successful of the Andean mechanisms, trade, had regressed by 1986 to the levels of 13 years earlier. In 1987, the year after this phase of decay, exports increased by 42 percent, but only reached $932.9 million.

Intra-Andean trade as a percentage of total trade, however, was quite similar to the previous phases. It maintained its meager range of 3 to 5 percent of total exports and of total imports (see table VI.2).[22] These data tell us that intra-Andean trade was marginal and its trends followed the general trade tendency rather than becoming an instrument to ease the peaks and the valleys created by trade with third countries.

With the decrease in intra-Andean trade, trade flows were analyzed in detail. The analyses found a high level of concentration of intra-Andean trade, which made the

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[20]"In 1983 ... the [Andean] integration process was considered to be at its lowest level ever ... because the unfulfillment of the accords, the lack of political will of the governments, and the beginning of a generalized economic crisis, showed that the conditions for the end of the Andean Pact were *ad portas*" (Zapata, 1991: 37).

[21]From 1970 to 1981 intra-Andean trade increased 22.7 percent per year (JUNAC, 1987b: 4).

[22]Trade with the United States, in contrast, was more than 30 per of the total trade. This meant that in trade matters each one of the Andean nations was more integrated with the United States than with the rest of the Andean Group (Kisic, 1989: 7; INTAL, 1980: 175-176).

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TABLE VI.2
ANDEAN GROUP TRADE 1978-1987

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
EXPORTS (FOB) (Millions of dollars)										
GRAN	681.7	1,066.2	1,188.9	1,237.7	1,183.4	752.6	749.5	797.3	655.2	932.9
World	16,282.7	23,801.3	30,214.8	29,026.4	25,469.3	23,197.0	25,534.0	24,565.0	18,957.4	20,537.5
IMPORTS (FOB) (Millions of dollars)										
GRAN	662.1	780.3	959.7	1,247.3	1,250.8	924.1	921.5	813.8	681.0	994.9
World	18,769.9	18,462.9	22,711.1	25,615.7	25,149.5	15,927.0	16,657.1	16,718.0	17,361.8	20,165.0
TRADE BALANCE (Millions of dollars)										
GRAN	19.6	285.6	229.1	(9.6)	(67.4)	(171.5)	(172.0)	(16.5)	(25.7)	(62.1)
World	(2,487.9)	5,338.4	7,503.7	3,410.7	319.8	7,270.0	8,876.9	7,847.1	1,595.5	372.5
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL EXPORTS										
Exports	4.19	4.48	3.93	4.26	4.65	3.24	2.94	3.25	3.46	4.54
Imports	3.53	4.23	4.23	4.87	4.97	5.80	5.53	4.87	3.92	4.93
RATE OF GROWTH OF EXPORTS										
GRAN	-17.34	56.41	11.50	4.11	-4.39	-36.41	-0.42	6.38	-17.81	42.37
World	3.15	46.17	26.95	-3.93	-12.25	-8.92	10.07	-3.79	-22.83	8.34
RATE OF GROWTH OF IMPORTS										
GRAN	-22.71	17.90	22.95	29.97	0.28	-26.12	-0.29	-11.69	-16.32	46.11
World	10.76	-1.64	23.01	12.79	-1.82	-36.67	4.58	0.37	3.85	16.15

SOURCE: JUNAC-Sistema Subregional de Información Estadística. Decisión 115.

association very vulnerable to protectionist policies. In 1982, Colombia and Venezuela accounted for 25 and 50 percent, respectively, of all Andean imports.[23] This meant that the actions of these countries had great impact on the intra-Andean trade, but also that import restrictions imposed by these countries affected each other more than they affected the other member countries.

Trade within the subregion was also concentrated in a small group of products. In 1982, only 1,638 dutiable items registered trade among the members, and they decreased to 1,210 in 1985. Ninety percent of the intra-Andean trade was concentrated in 345 items in 1982, and only in 241 items in 1985 and for each country less than 100 items constituted more than 80 per of their intra-Andean trade (JUNAC, 1986a: 16-17; 1987b: 5). This situation made intra-Andean trade quite vulnerable to import restrictions, since restrictions were not applied to all products but selectively and temporarily; hitting hardest non-essential products, and products competing with national production (both categories were the most likely to be the products transacted among the Andean members). Unilateral restrictions were applied, at its height (1983), to more than 4,300 items (almost 90 percent of the total). In 1982 these items had a total intra-Andean trade value of $230 million (27 percent of total trade excluding oil and derivatives), but only 291 items had subregional trade values of $50,000 each or higher (JUNAC, 1984b: 11, 13, 15). In 1985 and in 1986 this situation deteriorated (see table VI.6, lines 3, 5 and section 2.1 above).

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[23]In 1985, both countries still accounted for 65 percent of the Andean imports. Around 75 percent of the decrease in 1983 intrasubregional imports was due to trade restrictions enacted by Venezuela in 1982 (JUNAC, 1986a: 16). Between 1984 and 1989 Colombia was the major importer from the Andean countries with 39 percent of the total, while Venezuela was second with 27 percent (INTAL, 1990a: 99).

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Concerns about how to overcome trade declines were high. In June 1983, after the first decrease in intra-Andean exports of more than 4 percent (1981-1982), the *Junta* presented to the Commission an "Emergency and Cooperation Program" (JUNAC, 1983e) which diagnosed the situation, predicted a trade reduction of one-third for 1983, (which in fact it decreased by 36 percent in 1983, see table VI.2), and proposed measures. In March 1984 another study (JUNAC, 1984b) showed that the problem was worse than expected and it also proposed measures. No important actions were taken by the Commission until 1987.

With the abrupt decrease of trade in the early 1980s, the crisis of the Andean process became obvious (JUNAC, 1987: 5). The general causes affecting the Cartagena Agreement mentioned above also affected trade among the member countries. "The decline of intra-Andean trade has been attributed to the particular economic situation of the member countries caused by the debt crisis and the policies adopted by the countries rather than by the mechanisms created by the Andean Group ..." (IDB, 1990: 11). This situation of crisis caused widespread violations of the Andean trade norms, paralysis of the community organs to overcome them, and an inability to further integration.

3.- THE VIOLATIONS AND THE ANDEAN INTEGRATION PROCESS IN THE PHASE OF PESSIMISM AND REGRESSION

Violations of the text of the Cartagena Agreement, and the decisions of the

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Commission, predicted by the hypothesis, became more pervasive than ever during these years of regression. The Commission in its meeting of October 1989 taking into account that the Andean presidents in their "Mandate of Cartagena" had ordered strict fulfillment of the obligations (JUNAC, 1979a, paragraph 20), recommended that the plenipotentiaries overcome the existing violations as soon as possible (JUNAC, 1979g: 1). The *Junta*, however, continued to report increasing violations (e.g., JUNAC, 1983h: 4; 1984c: 1; 1984d: 1).

Violations are analyzed in this section following the same procedure as in chapters IV and V. First the non-compliance with the articles of the Cartagena Agreement will be reviewed; second a presentation of the analysis of decisions not incorporated by the member governments in their legislation, and third the violations of decisions already made part of domestic legislation.

3.1.- Violations of the articles of the Cartagena Agreement

The new deadlines set by the Protocol of Arequipa (December 1979) were not met. Even worse, after a time, there was no attempt by the governments, the Commission or the *Junta* to fulfill these obligations, or to promptly reestablish the legal order. The violations reduced the benefits of the agreement, weakened interdependency, and diminished the credibility of the process (Carmona, 1984: 14).

As mentioned above, the CET was not approved, nor were all Sectoral Programs of Industrial Development as mandated by Articles 2 and 6 of the Protocol of Arequipa. In relation to the tariff reduction program the three largest countries continued to lag in

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their tariff reductions, and since 1982 import restrictions reversed the process towards a free trade zone.

Bolivia and Ecuador did not begin their tariff reduction program process by December 1980 as the new Cartagena Agreement stated. Between December 1980 and October 1981, the Commission considered the problem without solving it (see for example Comisión, 1980: 4; 1981: 6; 1981a: 9). It later postponed *sine die* dealing with this issue, and then faded away due to the crisis of the process (see for example: Comisión, 1984: 8; 1984a: 4; 1984b: 3). By 1986, the member countries agreed that Bolivia and Ecuador would begin their tariff reduction program process 180 days after the entry into force of the new protocol (Comisión, 1986: 5).

3.2.- Non-incorporation of the Commission's decisions by the governments

During this phase of regression, the number of decisions which were not incorporated into the national legislation of the member countries increased dramatically. In the phase of progress the maximum number of decisions not incorporated by one or more of the members were at least 11 (see table IV.4). During the phase of stagnation this number increased to 14 (see table V.6). In the phase of regression the maximum number of decisions not incorporated reached the record high of 24, in October 1979 (see table VI.3), 13 being the lowest (except by the end of this phase when it reached the record low of 6 decisions not being observed in May 1987). By then, the Quito Protocol was being signed.

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TABLE VI.3
DECISIONS NOT INCORPORATED INTO THE DOMESTIC LEGISLATION BY THE MEMBER COUNTRIES, 1978-1987

DATE	SOURCE	BO	CO	EC	PE	VE	TOTAL	(*)
08-26-78	(1)	8	6	5	7	9	35	14
11-16-78	(2)	8	6	5	7	8	34	14
05-02-79	(3)	14	11	11	13	13	62	20
07-10-79	(4)	12	12	11	5	14	54	20
10-30-79	(5)	16	12	14	9	17	68	24
Feb-80	(6)	14	11	10	9	16	60	22
05-19-80	(7)	13	10	10	4	15	52	20
10-13-80	(8)	13	8	10	4	10	45	17
11-14-80	(9)	13	8	10	4	10	45	17
08-26-81	(10)	13	6	10	4	9	42	16
11-11-82	(11)	9	5	9	4	7	34	14
01-15-83	(12)	9	5	9	3	7	33	14
04-22-83	(13)	10	5	8	3	7	33	14
Jun-83	(14)	10	5	8	3	7	33	13
01-01-84	(15)	10	5	7	3	7	32	13
06-10-84	(16)	11	6	8	3	8	36	14
05-11-87	(17)	6	3	3	2	2	16	6

(*) Number of different decisions not incorporated into the domestic legislation one or more countries

SOURCES: (1) JUNAC, 1978a; (2) JUNAC, 1978b; (3) JUNAC, 1979e; (4) JUNAC, 1979f; (5) JUNAC, 1979g; (6) JUNAC, 1980; (7) JUNAC 1980c; (8) JUNAC, 1980d; (9) JUNAC, 1980e; (10) JUNAC, 1981a; (11) JUNAC, 1982a; (12) JUNAC, 1983f; (13) JUNAC, 1983g; (14) JUNAC, 1983h; (15) JUNAC, 1984c; (16) JUNAC, 1984d; (17) JUNAC, 1990b.

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It is interesting, however, to point out that during the depth of the recession, (1982-1986), the number of decisions not being observed by the governments remained the same (14) as in the phase of stagnation (1977 and 1978). This fact suggests that the problem of not incorporating some of the Commission's decisions began already in the previous phase of stagnation. It also shows that these were a core of decisions which the member countries consistently were reluctant to observe.[24] Chief among the decisions which were ignored by all the governments, was Decision 49 on the regulations for harmonizing industrial development legislation. Among other decisions which more than two countries had difficulties in observing were Decisions 50 and 69 dealing with temporary entry of private vehicles; Decisions 56 and 56a on international highway transportation[25]; Decision 85 on industrial property; Decisions 87 and 89 on development of technology in copper and tropical forest resources; Decision 120 on the Automobile Program and its modifications; and Decision 148 on Andean social security.

3.3.- Non-compliance with decisions incorporated into the domestic legal order of the member countries

Trade within the subregion was heavily affected by the unilateral actions of the governments. Beginning with 1982 a more extensive and intensive violation of decisions already incorporated in their national legislation began. This situation led to claims

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[24]"... there are a number of decisions which have not been incorporated in the domestic legal system of the member countries even though some of these decisions have been approved several years ago. ... the situation of widespread violations ... has no solution in the near future" (JUNAC, 1980c: 1).

[25]Although Ecuador was the only country which failed to observe these decisions, in practice this situation made impossible unimpeded transportation within the subregion given the geographical position of this country in the area: in the middle of the five members.

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against each government. These claims began to be recorded by the *Junta* in 1976. It stopped presenting its reports on this issue in 1984 when the demands reached a record high (see table VI.4) and the governments had been showing an unwillingness or inability to comply (JUNAC, 1980c: 1).

TABLE VI.4
CLAIMS MADE TO:

DATE	BOLIVIA BY 1/					COLOMBIA BY					ECUADOR BY				
	C	E	P	V	T	B	E	P	V	T	B	C	P	V	T
112476								1		1					
111577		1	2		4	1	3	7	1	12	2	9	3	2	16
111678	1	2			3	2	2	2	2	8		3			3
050279	1	2			3	2	4	5	2	13		5	2		7
071079	1	2	2		5	3	4	7	2	16		5	5		10
103079	1	2	4		7	1	4	2	4	11		4	4	1	9
051980		1	3		4	1	2	4	3	10		2	4	1	7
101380		1	2		3	2	2	4	2	10		3	4	2	9
111480		1	2		3	2	3	4	2	11	1	3	5	3	12
082681		1	3		4	3	4	6	3	16	1	6	11	4	22
111182	1				1	1	2	4		6	1	1			2
011583			4		4	2	7	6	6	21	2	8	9	4	23
042283			4		4	2	7	7	6	22	2	8	9	4	23
060783			4		4	2	8	7	6	23	1	8	9	4	22
030184			4		4	2	8	7	7	24	1	8	9	5	23
063084			4		4	2	8	9	7	26	1	8	9	5	24

Continues in the next page

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TABLE VI.4 (Continued)
CLAIMS MADE TO:

DATE	PERU BY					VENEZUELA BY 2/					TOTAL
	B	C	E	V	T	B	C	E	P	T	
112476	6	20	2		28	2	1			4	33
111577	2	9	3	2	16		6	4		10	45
111678	4	3	3		10				3	3	27
050279	3	5	1	1	10		3	1	3	7	40
071079	1	2	3	1	7	1	2	2	4	9	47
103079	1		1		2	1	8	2	7	18	47
051980	2	1	1		4	1	9	5	9	24	49
101380	3	1	1		5	1	5	6	6	18	46
111480	3	1		2	6	5	9	6	6	26	58
082681	6	2		3	11	6	13	6	9	34	87
111182	5		6	5	16	1	7	7	8	23	48
011583	8	3	2	5	18	6	31	6	11	54	120
042283	8	3	4	6	22	7	32	7	11	57	128
060783	8	4	5	8	25	6	20	6	9	41	115
030184	9	4	6	9	28	6	20	6	10	42	121
063084	9	4	6	9	28	7	33	7	12	59	141

1/ Includes one claim made by the *Junta* on 11/15/77
2/ Includes one claim made by the *Junta* on 11/24/76
SOURCES: JUNAC, 1976b; 1977d; 1978b; 1979e; 1979f; 1979g; 1980c; 1980d; 1980e; 1981a; 1982a; 1983f; 1983g; 1983h; 1984c; 1984d.

A working group which was routinely created by the Commission to discuss the compliance with the Cartagena Agreement and the decisions, reported its "worries about several-years-old claims presented by the countries without any action being taken by the governments of the violating countries, rendering fruitless the activities of this working group" (JUNAC, 1979h: 1). In May 1980 the group suggested to the Commission that

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it devote a session considering exclusively with this issue (JUNAC, 1980h: 2), but the Commission never acted on it. The working group existed until the mid-1980s, when the Commission itself stopped dealing with this intractable problem. Meanwhile, "specific, critical and sensitive cases were abundant in which legitimate interests were being affected eroding confidence in the process..." (JUNAC, 1981b: 1).

These unsolvable violations show that the deeper problems confronted by the Andean process had to be dealt with first, even though all the governments were in agreement that it was a priority task to overcome these violations (Comisión, 1984: 4).

The tariff reduction program among the three largest members, which should have been accomplished by December 1983, was consistently delayed. The worst offender was Venezuela. This country was 23 months late in implementing the 8th tariff reduction corresponding to December 1978 (JUNAC, 1981: 5). By August 1981, Venezuela still owed tariff reductions for 1979 and 1980. By November 1982, this country had not made the reductions for 1981; and by December 1984, it had yet to institute tariff reductions for 1982 and 1983. Colombia was best in fulfilling its tariff reductions. It was 6 months late for the 1978 decrease, and 7 months those for 1979 and 1980. Peru, having a good record of reducing its tariffs, only 4, and 2 months and 1 month late for the years 1978 to 1980; was as late as Venezuela for the last three tariff reductions, 1981-1983. By June 1984, however, Peru had already completed the tariff reduction program (JUNAC, 1983i; 1984c). These delays on the part of Venezuela and Peru, show the effect of the international economic crisis on these two countries. It is also not by chance that the delays coincided with the worst years of the crisis, from 1982 onward.

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TABLE VI.5
DUTIABLE ITEMS VIOLATED: 1978-1987

DATE	SOURCE	BOL	COL	ECU	PER	VEN	TOTAL
08-26-78	(1)	20	28	19	5	91	163
11-16-78	(2)	11	27	16	1	11	66
05-02-79	(3)	14	23	17	1	11	66
07-10-79	(4)	14	38	17	1	11	81
10-30-79	(5)	83	153	97	106	211	650
05-19-80	(6)	83	152	97	73	211	616
10-13-80	(7)	88	309	113	362	357	1289
11-14-80	(8)	178	307	136	208	364	1193
08-26-81	(9)	178	309	135	345	355	1322
11-11-82	(10)	370	352	371	497	1084	2674
01-15-83	(11)	370	352	99	497	1076	2394
04-22-83	(12)	235	308	121	380	2026	3070
Jun-83	(13)	235	344	87	411	2800	3877
03-01-84	(14)	289	323	1405	509	2811	5337
06-10-84	(15)	311	278	1311	455	2911	5266
05-11-87	(16)	25	2	806	1650	1793	4276

SOURCES: (1) JUNAC, 1978a; (2) JUNAC, 1978b; (3) JUNAC, 1979e; (4) JUNAC, 1979f; (5) JUNAC, 1979g; (6) JUNAC, 1980c; (7) JUNAC, 1980d; (8) JUNAC, 1980e; (9) JUNAC, 1981a; (10) JUNAC, 1982a; (11) JUNAC, 1983f; (12) JUNAC, 1983g; (13) JUNAC, 1983h; (14) JUNAC, 1984c; (15) JUNAC, 1984d; (16) JUNAC, 1990b.

The number of items violated by the member countries during this phase of regression grew constantly. Influenced by the presidents' meetings, however, a record low has been achieved in 1978 and 1979, with only 66 items violating either the CMET

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or the tariff reduction program. By 1984, after a sharp increase in 1982, the member countries had combined violations of more than five thousand dutiable items, and by the time of the signing of the Quito Protocol (May 1987), this number was still more than four thousand (see table VI.5).

In relation to existing industrial programs, member countries, which had incorporated these decisions into their domestic legislation, consistently refrained from applying the CET to products already in production (see for example, Comisión, 1981a: Anexo IV) and to implement other aspects of these decisions (JUNAC, 1989: 33-34).

By 1985, all the countries were applying restrictions to most of the products, without discriminating between the Andean and third country imports. Bilateral agreements had been signed to reestablish some of the trade movements while at the same time protecting sensitive products from Andean competition. Table VI.6 line 2 shows that a large percentage of the decreased trade in 1985 was traded under bilateral accords, reaching 50 percent of its intra-Andean trade for Venezuela, 47 percent for Colombia, and 45 percent in the case of Peru.[26] Peru and Venezuela were the countries which had the largest percentage of their intra-Andean trade under restrictions (see line 3). With regard to the 295 items that constituted 90 percent of the intra-Andean trade (line 4), only 26 percent of the items were free of restrictions, and 10 percent of these items had their CMET violated by the member countries.

[26]In 1986, Venezuela had 54.1 percent of its intra-Andean trade under bilateral accords, Peru had 50.0 percent, Colombia 37.8 percent, Ecuador 23.3 percent, and Bolivia zero percent (JUNAC, 1988a: 23).

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TABLE VI.6
TRADE SITUATION IN THE ANDEAN GROUP IN 1985
(Excluding oil and derivatives)

	GRAN	BOLIVIA	COLOMBIA	ECUADOR	PERU	VENEZUELA
(1)	26.2%	n.a.	50%	n.a.	15%	16%
(2)	38.8%	n.a.	47%	n.a.	45%	50%
(3)	35.2%	n.a.	3%	n.a.	40%	34%
(4)	295	5	169	21	78	22
(5)	76	1	49	4	17	5
(6)	27	5	12	3	7	0

(1) Percentage of intra-Andean trade free of restrictions.
(2) Percentage of intra-Andean trade in bilateral accords.
(3) Percentage of intra-Andean trade under restrictions.
(4) Number of items covering 90 percent of exports.
(5) Number of items covering 90 percent of exports which were free of restrictions
(6) Number of items covering 90 percent of exports which their CMET were violated.
SOURCE: JUNAC, 1986a: 19-21.

The widespread violations of the mechanisms of the Cartagena Agreement and of the decisions of the Commission, and the "poor record in implementing [sub]regional decisions" were "the most significant factor[s] explaining the crisis...: (Mace, 1983: 188). Given this situation, the *Junta* (JUNAC, 1986a: 17) reiterated the need to adopt an additional protocol to the agreement.

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4.- UNDERSTANDING THE PHASE OF REGRESSION

The phase of regression was due primarily to the crisis of the international economic system during the 1980s characterized by stagflation (economic stagnation accompanied with high inflation) in the industrialized countries, stagnation of world trade due to protectionism, high interest rates, external debt, high unemployment, and oil price fluctuations (JUNAC, 1982a: 11-12). The Andean governments had to adapt to the new circumstances by often modifying their economic policies, and by doing so they were redefining their strategy of development or the other way around. During these years of trial and error,[27] the Andean process, in turn, suffered because the countries were at the same time trying to redefine the objectives for the pact which would reflect the changing national interests.[28]

The changes in economic policies and eventually in the strategy of development led to an alliance between governments and domestic entrepreneurs (Schuldt and Urriola, 1991: 126-127; Cox, 1989: 2). They agreed that local production had to be protected, and that balance of trade had to be improved by reducing foreign competition. Imports

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[27]Supporting the hypothesis of this dissertation, the *Junta* (JUNAC, 1985: 3) argued that the regression of the Andean process could be explained by "changes in the economic policies and strategies of development, which in many cases have been in conflict with the explicit Andean objectives and mechanisms. In effect, the abandonment of the strategy of import substitution and the adoption of open economy policies provoked a sort of "identity crisis" in the Cartagena Agreement which affected the most important instruments of the agreement."

[28]Other factors contributing to the crisis of the process were the marginality of the Andean integration in the national development plans, which gave greater importance to integration with the world market than the Andean; diplomatic and political conflicts; different levels of development; structural heterogeneity of the member countries; lack of agreements to distribute costs and benefits; political instability; the lack of long-term view which precluded sustained efforts; the lack of macroeconomic policy harmonization; and that the agreement was as too statist, too rigid, and unrealistic 1985: 3; Kisic, 1989: 7; Caretas, 1989: 2).

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from the Andean countries were curtailed, leading to a series of retaliatory measures and to bilateral trade agreements and widespread violations of the agreement ensued. The violations showed the Andean Pact's failure to increase interdependence, and also weakened the credibility of the process, especially by investors who lost money because of the closing of the Andean market (INTAL, 1988: 34; JUNAC, 1981a: 7-8; 1985: 35).

The regression of the Andean process epitomized by the decrease of subregional trade[29] led to the realization that solutions for the existing problems demanded extensive modifications of the Cartagena Agreement, which made the Commission and the *Junta* begin a process of "soul searching."[30]

This section analyzes the effects of the changes in the international system on the Andean process, the attempts of the community organs and of the governments to redefine the Andean process, the paralysis of the Commission's work, and how the strategies of development and economic policies were in conflict with the original aims and mechanisms of the Cartagena Agreement.

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[29]"The unprecedented decrease of intra-subregional trade in 1983 made evident the internal problems of the process and the crisis of the Andean model" (JUNAC, 1987: 5).

[30]The deepest crisis of the Andean Pact made the community organs, especially the *Junta*, devote much time and effort to find out the causes and suggest solutions. Studies done by the *Junta* and individuals interested in the Andean process were presented at seminars and conferences. The *Junta*, also submitted some of its studies to the Commission, the governments, and the public in general.

For examples of the *Junta's* concerns, besides the documents quoted in this chapter, see: JUNAC, 1981c; 1981d; 1984e; 1986b; 1986c; 1986d, 1986e.

The *Junta* also organized several seminars and publicized them. See for instance: Schuldt, 1983; Pacheco, 1983; Aponte 1983; Maza 1984; Quijano, 1984; Lagos, 1984; Abugattás, 1985; JUNAC, 1984f; 1985a; FEDESARROLLO 1984; JUNAC-INTAL, 1985.

The *Junta*, besides, published works by members of the *Junta* and observers of the process. See for example: Carmona 1982; 1984; Florez, 1983; Romero, 1983; Paz, 1985; Ground, 1985; Dávila, 1986.

Other publications dealing with the Andean Group problems during this phase are: Pérez, 1985; Lleras, 1985; Carmona 1985; Lloreda, 1985; Moncayo, 1985a; Cárdenas and González 1986; Cárdenas, 1986; Salazar, 1988.

Among the studies on the crisis of the integration processes in Latin America are: Cornejo, 1983; INTAL, 1984b; Peñaranda, 1984; Nuñez, Margain and Cherol (eds.), (1984); IDB, c1985: 1-180.

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4.1.- The effects of the changes in the international economic system on the Andean countries and on the Andean process

The developed world dealt with the crisis brought about by the second oil price rise (1979), by applying recessionary measures in the form of strict monetary policies. Chief among them were reducing public expenditure, increasing real interest rates, raising the price of oil, and augmenting trade protectionism. These actions, and the net outflow of financial resources from the Third World created the debt crisis.

For the Andean countries, the crisis was "the deepest and the longest in the last 50 years..." (JUNAC, 1985: 1). With balance of payments deficits, the prices of their exports decreasing, and their export markets closing, these countries limited their imports through continuous devaluations, multiple exchange rates, and non-tariff barriers. The gross domestic product of the subregion grew at an average annual rate of 1.4 percent between 1980 and 1987. In the same period, the population increased by an average of 2.4 percent per annum. The balance of payments for the Andean Group was negative in 1982, 1983, 1986 and 1987 by $1.3, $1.8, $3.3 and $2.0 billion respectively; and in 1988 this deficit jumped to $4.9 billion (JUNAC, 1990c: 106, 10, 90). The external debt increased from $24.2 billion in 1977 to $77.2 billion in 1987 or more than three times in 11 years, and the ratio of total debt to gross domestic product was 69 percent, up from 39 percent in 1980 (JUNAC, 1985: 1; 1990c: 126). The result was inflation combined with recession (stagflation) in the subregion, accompanied by an unemployment rate of 10 percent and higher of the economically active population (JUNAC, 1985: 1).

The consequences for the Andean process, during the first half of the 1980s, as

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previously mentioned, were the indiscriminate closing of the members' markets (Aninat, Ffrench-Davis and Leiva, 1990: 166), the loss of importance of industrial development and planning, and the elimination of deadlines to create free trade (Langhammer, 1990: 24). Integration became unimportant. By 1987, however, coinciding with the regional and international trend, the Andean countries agreed to drastically modify the Cartagena Agreement and re-launch the Andean integration process (Grabendorff, 1990: 20).[31]

4.2.- The community organs, the governments, the relations among them and the long march to revitalize the Andean integration process

The basic problem confronted by the Andean process in this phase of regression was that the original Andean integration model—import substitution industrialization at the subregional level—no longer reflected the interests of the majority of the member countries.[32] The Andean organs and the Andean governments had to pursue a new path between a neo-liberal and outward oriented industrialization model (El-Nagger, 1989: 14; Fernández, 1982: 46), and an inward oriented industrialization based on comparative

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[31]In Latin America, the prime example was the Economic Integration and Cooperation Program agreed between by Brazil and Argentina in 1986. It became, in 1991, the *MERCOSUR* (Southern Cone Common Market - *Mercado Común del Cono Sur*) which also included Uruguay and Paraguay. In the case of the Central American Common Market, the Esquipulas I and II declarations, signed in 1986 and 1987, attempted to revitalize it. Finally, the meeting of the Heads of Governments in St. Lucia, 1987, aimed to further the Caribbean Common Market process.

In Europe, the European Community (which in November 1993 became the European Union) agreed in 1985 to create a full-fledged common (single) market by January 1993. In 1988 the United States-Canada Free Trade Agreement was signed, and in 1993, with the inclusion of Mexico, it became the North American Free Trade Agreement. The Association of Southeast Asian Nations (ASEAN) and the Magreb in the mid-1980s agreed also to further their integration schemes.

[32]"In fact, towards the end of the seventies, it had already become clear that the application of the principal instruments of the Cartagena Agreement was rendered unfit by reason of an essentially political nature" (Mairal, 1989: 94).

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advantages (INTAL, 1980: 21-24; Sánchez, 1981: 46-50; Schuldt, 1985: 46).

Up to 1979, the Commission and the *Junta* pursued the existing import substitution path by approving industrial programs. The Mandate of Cartagena, adopted by the Andean presidents in May 1979, attempted to increase the importance of trade and agriculture. The Quito Protocol, signed in May 1987, showed that the member countries wanted an Andean process with more open market policies. Subregional tariff reduction program became the most important mechanism, the role of industrial programming was reduced, and the common treatment of foreign capital was eliminated, for all practical purposes.

The Commission and the *Junta* dealt unsuccessfully with the violations and with furthering the process. By 1980, the process lost momentum. The changes in governments in Ecuador (1979), and Peru (1980), the political turmoil in Bolivia (a new round of *coups*, between 1978 and 1982), and the border conflicts between Colombia and Venezuela in 1980, and between Ecuador and Peru in 1981 made it impossible for the Commission to meet for most of 1981 and 1982. The consequence was that deadlines were not met. Soon after the international economic crisis hit the Andean countries (1982), violations became widespread (1983), especially in the area of trade and industrial programming, the two most important mechanisms of the agreement.

Efforts were made by the *Junta* and the Commission to overcome this situation, which needed a new set of guidelines to redirect the process based on the ongoing and anticipated changes in the international and domestic realms. This demanded changes in the conceptual and pragmatic frameworks from one in which the international

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environment was favorable to the subregion, to another in which this environment was adverse to the Andean process (Moncayo, 1984: 191). The new roles the Andean process could play according to the *Junta* (JUNAC, 1982a: 30-31) were to help ease the consequences of the international economic changes and to coordinate efforts to renegotiate the external debt.

A comprehensive attempt to rescue the Andean integration from its crisis was adopted by the Commission in early July 1983: The Plan for the Reorientation of the Andean Integration Process (*Plan de Reorientación del Proceso Andino de Integración*). This plan (JUNAC, 1983a: 11-83) was based on a series of proposals presented by the *Junta* (JUNAC, 1982a; 1983a; 1983e; Camacho, 1984: 14-18),[33] and discussed by the Commission between 1982 and 1983.

The plan reaffirmed that integration was a complement to the development efforts of the member countries and that the activities proposed were aimed at dealing with common problems (JUNAC, 1983d: 23-24). There were seven priority areas of action: foreign relations, agriculture, trade, industry, finance, science and technology, and infrastructure, border and tourist integration. In each area the focus was on pragmatism and flexibility in order to reactivate the Andean process and to contribute toward defining the new roads of development of the member countries, "... [and] implied the eventual modification of the economic integration program..." (INTAL, 1985 126).

Based on this Plan, the Andean Council of Ministers of Foreign Relations

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[33]"When at the beginning of the eighties it became clearly evident that actions relations to the Agreement had come to a stand still and that there was even retrogression in past achievements, the Andean countries began to put forward new proposals to overcome the situation" (Mairal, 1989: 95).

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prepared a declaration which was approved during the Andean summit by the presidents in late July 1983, "For Us, the Homeland is Latin America" *(Para Nosotros la Patria es América)*.

The Presidents' Declaration and the Plan, however, failed to revitalize the process due mainly to the deepening economic crisis in the Andean countries (ECLA, 1992: 26; JUNAC, 1984b: 1; Camacho, 1984: 18). Both were adopted in 1983, the only year when the Andean nations recorded collectively and individually (with the exception of Colombia) a negative growth in their gross domestic products. It was -4.5 for the Andean Group, -12.3 for Peru, -6.5 for Bolivia, -5.6 for Venezuela, -2.8 for Ecuador, and 1.6 for Colombia (see table VI.7). The economic crisis increased the violations.[34] Again, the contradiction between support at the highest political level and of violations went hand-in-hand.

This glaring failure, at the highest political level, reconfirmed the fact that politics and economics are intertwined, that political wishes should be based on economic realities, and that economic changes are determined by political decisions. This unsuccessful attempt to revitalize the process based on the existing agreement led to more resolute suggestions for a new protocol (Carmona, 1984a: 37), in which the principles and mechanisms of the Andean model would be redefined based on the premise "that the Andean Pact always was more a political than an economic initiative ..." (Valdés, 1984: 66).

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[34]In this phase of regression the number of decisions not incorporated by the member countries were, on average, equal to the highest number recorded for the previous phase (see tables V.6 and VI.3), trade claims (table VI.4) rose to more than a hundred in 1983, and continued to rise in 1984; and the number of items violated (table VI.5) rose almost continuously in this phase having a sharp increase from 1983 on.

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TABLE VI.7
GROSS DOMESTIC PRODUCT, 1978-1987 (RATES OF GROWTH)

	Bolivia	Colombia	Ecuador	Peru	Venezuela	GRAN
1978	3.4	6.2	6.6	0.3	2.1	3.9
1979	1.8	4.3	5.3	5.8	1.3	3.0
1980	0.2	5.5	4.9	4.5	-2.0	1.7
1981	0.9	2.9	3.9	4.4	-0.3	1.8
1982	-4.4	0.5	1.2	0.2	0.7	0.4
1983	-6.5	1.8	-2.8	-12.3	-5.6	-4.5
1984	-0.3	2.9	4.2	4.8	-1.4	1.4
1985	-0.1	2.9	4.3	2.4	1.3	2.2
1986	-2.9	4.9	3.1	9.5	6.8	6.0
1987	2.1	6.0	-5.5	7.8	3.0	3.8

SOURCES: 1978-1979: Bolivia, Colombia, Ecuador, Peru and Venezuela: Programa de Armonización de Cuentas Nacionales (Decisión 114); Unidad de Informática - JUNAC; Andean Group: calculated by the author with data from IDB, c1983: 351.
1980-1987: JUNAC, 1990c: 95-106.

In March 1984, the Commission requested the *Junta* to prepare a draft of a new protocol. It was presented to the Commission in June 1984.[35] The discussions of the draft made clear that the governments wanted a more pragmatic Andean Pact "even though ... [it] might mean, ... a significant retreat in terms of the actual scope of the Andean process (INTAL, 1985: 74). In December of that year, the Commission asked the *Junta* to present a new proposal with the accords it had reached. In February 1985,

[35]For a comprehensive summary of this draft see INTAL, 1985: 127-146.

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the *Junta* fulfilled this request.

Based on the previous documents, the Andean Council of Ministers of Foreign Affairs in its meeting of September 1985, in Cartagena, Colombia, agreed on the political guidelines to reform the Cartagena Agreement. The Commission concentrated on negotiating the new changes of the agreement between the last quarter of 1985 and May 1987. In May 11, 1987,[36] the Commission approved Decision 217: a proposal to adopt a protocol to modify the Cartagena Agreement, and signed it the following day in Quito, Ecuador.

The Quito Protocol (JUNAC, 1987c)[37] made the Andean Tribunal and the Parliament principal organs of the Cartagena Agreement. The Protocol, however, did not incorporate the Council of Ministers of Foreign Relations as an organ of the agreement because the Ministers wanted to remain outside of and above the Andean process. Member countries acquired the right to make proposals, which until that time had been monopolized by the *Junta*.

Policy harmonization and planning coordination were formally retained, but no deadlines were set. The Sectoral Programs of Industrial Development were replaced by

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[36]Attempts by the Commission to deal with the increasing problems in the Andean process began in earnest in the last quarter of 1981. The Commission devoted several of its meetings analyzing the mechanisms, programs and activities, and to find ad-hoc and long-term solutions. Among these meetings were: XXXth. extraordinary session; XXXVth. ordinary session; XXXVIth. ordinary session; XXXVIIIth. extraordinary session; XXXIth. extraordinary session; and XXXVIIth. ordinary session (Comisión, 1981: 3-11; 1983: 4-14; 1983a: 3-18; 1983b: 6-9; 1983c: 5; 1983d: 4). From the first meeting of 1984, the Commission's discussions dealt with the new protocol, the issues and the wording. During this time, in each of the sessions of the Commission, the main item of the agenda was some aspects of the future protocol (Comisión, 1984: 3-8; 1984a: 3-4, Anexo III; 1984b: 2-3, Anexo II and Anexo III; 1985: 3-4; 1985a: 2-8, Anexo I, and Anexo II; 1986: 3-6; 1986a: 4-6; 1986b: 2-7; 1987).

[37]For a detailed summary of the changes brought to the Cartagena Agreement by the Quito Protocol see: Salazar, 1987; Carmona, 1988; Mairal, 1989: 97-109.

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three modes of programming: Industrial Integration Programs, Industrial Complementary Agreements, and Industrial Integration Projects.[38]

Bolivia and Ecuador were to begin their tariff reduction program process in December of 1988. Colombia, Peru and Venezuela could maintain their unilateral lists of exceptions to the tariff reduction program until 1993, and then gradually reduce them until 1995. After 1995, these 3 countries could exempt *sine die* up to 75 items each. Bolivia and Ecuador would reduce their lists between 1997 and 1999, and could maintain *sine die* up to 180 items each. The list of products reserved for industrial programming could be maintained until 1995, when the tariff reduction program for them would begin.

Two new forms of exemption from the tariff reduction program were created: 1) unilateral lists of products subject to "administered trade," in which countries could set import quotas; and 2) a new safeguard clause allowing limits on imports of goods which could cause problems for domestic production of specific products.

The Quito Protocol established that Bolivia and Ecuador would begin to adopt the CMET when the Commission decided it. The approval of the common external tariff was left without a deadline.

The new protocol had a more ambitious agricultural integration program. It established actions for promoting agricultural trade, and the adoption of a common development program for this sector in production and technology. Cooperation was to

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[38]The Industrial Integration Programs were similar to the old Sectoral Programs of Industrial Development. At least four countries had to participate. It could include several sectors, and production assignation was not mandatory. Industrial Complementary Agreements could be made by two or more countries. These agreements aimed to promote co-productions, distribution of markets, joint international trade operations and a more articulated production and entrepreneurial activity. In the Industrial Integration Projects all members had to participate. Countries were to cooperate to develop new productions in one or several sectors.

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be increased in technology, natural resources, tourism, services, social development, border integration, and social communication.

In the same meeting during which the Quito Protocol was adopted (May 1987), the Commission also approved a package of decisions. The most important one was the transition program, Decision 225. It set the framework for the Andean process to restore its vitality, to gradually reduce the violations, to decrease trade restrictions, to oblige the governments not to impose new restrictions, and to overcome the crisis.

Other decisions were: Decision 220 which made more flexible the common treatment of foreign investment (see section 2.4). Decisions 221 and 223 abrogating the Automobile Program and the rules for harmonizing industrial development legislation. Decision 218 made all decisions automatically part of the domestic legislation, with the exception of those which modify existing regulations. In the latter cases, the decisions would be formally incorporated into the national legal system. Finally, Decision 224 approved a joint program to aid Bolivia in transport and communication, and Decision 229 adopted a timetable to eliminate most of the trade restrictions by December 1988.

All these changes signaled the primacy of Andean trade liberalization over the other mechanisms. The adoption of the common external tariff was postponed *sine die*. Industrial programming was left for the future, and its life was extended to 1995, with much more flexible rules. Finally, the common treatment of foreign investment, was made less common and more unilateral.

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4.3.- The decisions of the Commission between 1978 and 1987

During this phase of recession, the Commission devoted much of its time to discuss the *Junta's* proposals and to mold them to the changing needs and interests of the member countries so that the Andean Group could again become a useful instrument for the member countries.

Under these circumstances, between 1979 to 1987, the Commission's output of decisions per session, anticipated by the hypothesis of this dissertation, was the lowest in its history. The Commission approved 105 decisions in its 52 sessions, which means an average of only 2.02 decisions per session, reaching its lowest level in 1985 with 0.7 decisions per session. In the phase of progress (1969-1973) this average was 3.24, and in the phase of stagnation (1974-1978) it was 2.89 (see table VI.8). No decisions were made in 13 sessions (a record number). This gives an average of only 2.69 decisions approved per session in which decisions were adopted. These figures, again, were the lowest for the entire history of the Andean process.

The number of decisions approved is highly correlated with the situation of the process. It went up from 5 to 21 between 1978 and 1979. The high output of 1979 was due to the boost given by the presidential meeting commemorating the 10th anniversary of the Andean integration process (May 1979). In this meeting the presidents directed the Commission to approve measures to inject a new dynamism into the process. From then on until 1983, the Commission's output dwindled.

In 1983, 25 Decisions were approved in 10 meetings. This increased output by the Commission was the result of the two presidential meetings of that year. Twenty-one

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TABLE VI.8 - DECISIONS APPROVED DURING 1979-1987

	69-73	74-78	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	79-87
1 DECISIONS	81	55	5	21	12	5	6	25	4	5	7	20	105
2 NEW ISSUES	58	36	3	17	6	4	4	20	3	5	4	11	74
2.1 Important 1/	32	8	1	6		4	1	2				7	15
2.2 Unimportant	26	28	2	11	6	4	4	18	3	5	4	4	59
3 MODIFYING DECS	23	19	2	4	6	1	2	5	1		3	9	31
3.1 Important 1/	1	7	2	3	4	1	2	2	1		3	8	24
- Strengthening		3		2		2	2					4	8
- Weakening	1	4	2	1	4	1		2	1		3	4	16
3.2 Unimportant	22	12		1	2	3	4	3				1	7
4 SESSIONS	25	19	2	8	7	5	3	10	4	7	3	5	52
4.1 WITH DECS	22	16	2	8	5	3	3	9	1	4	2	4	39
- Ordinary	13	11	1	4	2	2	1	3	1	2	1	3	19
- Extraordinary	9	5	1	4	3	1	2	6		2	1	1	20
4.2 WITHOUT DECS	3	3			2	2		1	3	3	1	1	13
- Ordinary					1				1			1	3
- Extraordinary	3	3			1	2		1	2	3	1		10
5. 1/4	3.24	2.89	2.50	2.63	1.71	1.00	2.00	2.50	1.00	0.714	2.33	4.00	2.02
6. 1/4.1	3.68	3.44	2.50	2.63	2.40	1.66	2.00	2.70	4.00	1.25	3.50	5.00	2.69

1/ Important is defined as decisions that have direct impact in the progress of the principal mechanisms of the Andean process.
SOURCES: JUNAC, n.d.: 1-20; 1982c: Tomo II, 585-594; Tomo III, Tomo IV; Actas de la Comisión.

of the 25 decisions taken were unimportant.[39] Out of the four decisions which were important, two (184 and 185) dealt with new issues (the Statute of the Andean Tribunal and the program to help Bolivia with its transport and communications problems caused by its landlocked geographical situation); and two (Decisions 181 and 189) modified previous decisions weakening the process (the first postponed deadlines set in Decision 120 which approved the Automobile Program; the second made more flexible the common treatment of foreign investment).

From 1984 to 1986, the Commission's output was very low, only 4 decisions in 1984,[40] 5 in 1985, and 7 in 1986, most of these decisions being just of an administrative nature, like approving budgets, and naming members of the *Junta*. It was in these three years during which both the Commission and the *Junta* devoted their efforts to the modifications of the Cartagena Agreement.

With the signing of the Quito Protocol in May 1987, the Commission's production of decisions increased. In the session in which the Protocol was adopted, 11 decisions were approved; all of them were important for the process. In the December meeting the Commission approved 7 more decisions, of which 4 were important.

The foregoing analysis demonstrates that during this phase of regression of the process the activity of the Commission, as indicated by the number of decisions adopted, diminished to its lowest levels ever. This is another important element showing the

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[39]For example the Entrepreneurial and Labor Consultative Councils, the Councils on Industrial Policy, on Science and Technology were created by decisions 176, 177, 178 and 178 respectively but nothing of consequence came from them. Decisions 191 and 199 approved the budgets of the Andean Tribunal and of the *Junta*. And Decisions 192 through 197 approved several aspects of cooperation in agriculture.

[40]"During 1984 the Commission .... met only four times and approved only four decisions, ... none of them of any great significance ..." (INTAL, 1985: 77).

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situation of crisis and regression of the Andean Group.

4.4.- Changes in the strategies of development, and the regression of the Andean process

As in chapters IV and V, the relevant aspects of the strategies of development of the member countries expressed in their development plans will be contrasted here with the three principles of the Cartagena Agreement presented in section 5.1 of chapter III. These principles are: primacy of the government in the integration process, a more efficient import substitution, and the subsidiary role of foreign investment. If the principles of the Cartagena Agreement were not useful to attain the relevant aims of the long-term development plans, short-term emergency plans, structural adjustments, and economic stabilization programs of the majority of the Andean countries, then the phase of regression has a plausible explanation.

The hypothesis of this study leads us to the following explanation: the original aims of the Andean Pact did not reflect the current interests of the majority of the member countries. As in the previous chapters, countries are loosely grouped according to the similarity of their levels of development (industrialization), and economic policies. Colombia is analyzed alone, Peru with Venezuela, and Bolivia with Ecuador.

a) Colombia

This country continued to move towards an export promotion strategy of

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development.[41] Some development plans were aimed to correct imbalances created by external turmoil and others to provide guidelines for long-term development. The 1983-1986 plan is an example of the former. Its basic objective was the reactivation of the economy in the short-run (IDB, c1985: 263). A plan setting long-term guidelines was the 1978-1982 plan. Among other things, it encouraged foreign investment especially for the exploration and exploitation of energy resources, in mining and in industry, and to increase industrial efficiency (ECLA, 1981: 137; IDB, c1980: 214). In this plan the role of the state was reduced to maintain an economic environment favorable for investment" (Iguiñez, 1983: 19, 23; JUNAC, 1991a: 74).

Colombia's long-term plan to shift to an export-oriented model, was thus indifferent to the primacy of the state, and not supportive of import substitution industrialization, and of the subsidiary role of foreign investment.

b) Peru and Venezuela

Peru had plans aiming at both to deal with the imbalances, and to set new long-term bases for development. From 1978 to 1983 the country moved towards trade liberalization demanded by the IMF as a condition for rescheduling its external debt. The last Economic Program (1978-1980) of the Peruvian military government, "involved reducing fiscal deficits ...; pursuing the policy of mini-devaluations ...; reducing the level of effective protection for industry; liberalizing imports and external payments in general; restricting public indebtedness; ... as well as pursuing a cautious wage policy"

[41]"With time, ... the Colombian export-oriented model became ... more incompatible with the import substitution and proindustry bias of the Andean Group ..." (Urrutia, 1981: 193).

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(ECLA, 1981: 440, 448).

The civilian government, which took power in July 1980, moved more rapidly towards economic liberalism until 1983. It aimed to stimulate the efficiency and competitiveness of domestic production and to control the main financial imbalances through the liberalization of imports, the introduction of market mechanisms, the greater role to private sector. The role of the state was to be limited to setting policy and regulating market forces (IDB, c1982: 355; ECLA, 1982: 449; 1983: 659; JUNAC, 1991a: 76). By 1983 with the collapse of the prices of the major Peruvian exports coupled with torrential rain in the north of the country and drought in the south, the government had to apply recessionary policies which expanded its intervention in the economy, and increased trade restrictions.

From 1985 to 1987, the second elected government, which took office in 1985, moved in the opposite direction. The economy was to be stimulated through government intervention in the economy, by protecting domestic production, and by reducing the role of foreign investment (Iguiñez, 1990: 15; JUNAC, 1991a: 76).

In brief, Peru moved—between 1978 and 1983—from a process of outward oriented strategy of development to an inward orientation after 1983. The government of Peru was between 1979 and 1983, not supportive of the primacy of the state, of import substitution, and of the subsidiary role of foreign investment. From 1984 to the end of this phase of regression, the government's interests coincided with the principles of the Cartagena Agreement.

The principal objectives of Venezuela's VI and VII Development Plans (1981-

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1985 and 1986-1989), were, among others: (a) to increase productive capacity through government investment in such basic sectors of the economy as petroleum, aluminum, iron, and petrochemicals; (b) to stimulate domestic and foreign private investment; (c) to increase the efficiency of the productive sectors and of public finance; and (d) to search for economic and financial equilibria. The aim of the investment strategy was to invigorate the import substitution, and the diversification of exports (IDB, c1982: 387). In both plans tariffs on consumer goods were to be reduced, foreign trade was to be selectively liberalized, and the role of the state and of public investment were very important (JUNAC, 1991a: 77).

From these plans, it is clear that the Venezuelan government was supportive of the primacy of the state, and of import substitution, but it was not supportive of the subsidiary role of foreign investment.

c) Bolivia and Ecuador

Bolivia, being the weakest of the five members, and subject to more economic, social and political instability than the others, went into important changes between 1981 and 1985. The Three Year Plan promulgated in October 1981 was the first attempt to apply neo-liberal policies in the country. It "aimed at establishing a new economic development, political and social model characterized ... by ... the elimination of subsidies and artificial prices, the attraction of foreign capital, a more realistic exchange policy based on the market forces, and the participation of the private sector in state enterprises" (ECLA, 1983: 145).

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In August 1985, the new government, adopted an outward oriented strategy of development. It aimed to increase the importance of the market's role as a mechanism of resource allocation, while simultaneously reducing the participation of the state in economic activities (ECLA, 1987a: 101); to encourage the participation of the domestic and foreign private sector in the economy (IDB, c1987: 215), and to increase efficiency of domestic production.

From 1981 on, the principles of the Cartagena Agreement did not reflect the relevant interests of Bolivia. This country was not supportive of the primacy of the state, of import substitution and of the subsidiary role of foreign investment.

The National Development Plan, 1980-1984 of Ecuador pointed to, among other things, more participation of the state in productive activities, but at the same time to further participation of foreign investment (IDB, c1982: 245; c1980: 247; JUNAC, 1991a: 75). In 1982 Ecuador adopted measures which amounted to the adoption of a new strategy of development whose purposes were, among others, to give more importance to market mechanisms and to produce goods in which the country has comparative advantages (IDB, c1984: 214).

The new government, which took office in August 1984, moved towards a more neo-liberal strategy of development to achieve a more efficient allocation of resources through decontrolling the economy and increasing the participation of the private sector in economic activity (IDB, c1988: 288), and reducing the participation of the state in the economy (JUNAC, 1991a: 75).

In short, Ecuador during this phase of regression moved towards a strategy of

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development which was indifferent to the primacy of the state, and not supportive of either import substitution or the subsidiary role of foreign investment.

In summary the member countries' were mostly not supportive of the principles of the Cartagena Agreement (see table VI.9). The two smallest members were not supportive of the Andean aims, Bolivia being more dissatisfied than Ecuador.

TABLE VI.9
RELATIONSHIP BETWEEN ANDEAN AIMS AND
NATIONAL OBJECTIVES IN 1987

ANDEAN AIMS	BO	CO	EC	PE	VE	TOTAL
Primacy of government	N	I	I	S	S	2S 2I 1N
Import substitution industrialization	N	N	N	S	S	2S 3N
Subsidiary role of foreign investment	N	N	N	S	N	1S 4N
						5S 2I 8N

S = Supportive I = Indifferent N = Not supportive

Of the three largest members, only Peru had, by 1987, an economic orientation with aims similar to the principal objectives of the Andean Pact. This was mostly due to the confrontationalist stance chosen by the government of the time with the international banking establishment regarding the non-payment of the external debt. Venezuela, for its part, was still committed to import substitution and to government intervention in the economy, but with the economic crisis it began to seek a greater role for foreign capital. Colombia, like Bolivia and Ecuador, was not supportive of the goals of the Cartagena Agreement due to Colombia's gradual shift to export-oriented industrialization.

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Two countries supported, two were indifferent and one did not support the principle of the primacy of the state. Three of the five did not support import substitution, and four of the five were not supportive of the subsidiary role of foreign investment.

4.5.- Economic policies of the member countries and the Andean mechanisms during the phase of regression

Comparing the relevant economic policies applied by the governments of the member countries to the four main mechanisms of the Cartagena Agreement, as anticipated by the research hypothesis for this phase, the loss of support for the Andean process can be substantiated. The four main mechanisms of the Andean Group, as defined in chapter III, section 5.2, are: Tariff reduction program, Common External Tariff, Industrial Programming, and Common Treatment of Foreign Investment. In this phase of regression almost no correlation should be expected between these four basic mechanisms and the economic policies pursued by the governments.

The dramatic changes of the economic policies of the member countries affected all four mechanisms. Attempts to approve a CET were abandoned due to the crisis which began with the application of restrictions to intra-Andean trade. A deeper motive was the need of the members to have complete freedom to use their foreign trade instruments to cope with the looming economic problems from 1982 on. Therefore, this mechanism will not be specifically considered here. Suffice it to reiterate that with the continuous changes by the member countries in tariff rates and in import controls, as well as with changes

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in the exchange rates and the foreign exchange system,[42] it was meaningless for the community organs and the governments to try to adopt a common external tariff. All the member countries were unwilling to adopt the CET, and for this reason they were not supportive of this mechanism.

a) Colombia

a.1) The tariff reduction program.- Exports to the Andean partners decreased in 1980, and 1982-1984, reaching in 1983 its record low of 60 percent (see table VI.10). Colombian imports from the Andean Group diminished in 1982 and 1984-1987. Trade balance with the rest of the Andean countries was negative between 1981 and 1985, as well as with the rest of the world, which led the Colombian government to apply a restrictive import policy mostly to non-Andean trade.[43] Colombia, however, continued

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[42]Governments used, at different times, a variety of devices single, multiple, fixed, floating exchange rates or any combination of them. They actively intervened in the market by setting the price of the dollar, by officially monopolizing its selling and buying, by auctioning dollars; by assigning a quota to be used by different economic sectors, for a period of time, and by setting priorities.

[43]Colombian trade policies changed in response to external changes. Whenever there was an increase in foreign exchange, imports were gradually liberalized, so the additional exchange would not fuel inflation and create more disequilibria in the economy. This happened from 1975 to June 1980, due to the increase in the price of coffee; and in 1986, again due to increases in the price of coffee, and also to the growth of oil and coal exports. The main policy changes were: decreasing the number of items subject to prior import license, or subject to import prohibition; reducing the tariff rates, especially on capital and intermediate goods; simplifying custom formalities; increasing the amount of foreign exchange to be allocated for imports; and devaluations at a slower rate than domestic inflation (ECLA, 1981: 149-150; 1982: 149, 150; 1989: 173; 1989a: 183; IDB, 1988: 378-379).

When foreign exchange was unexpectedly low, imports were restricted and exports promoted. This was what happened from the mid-1980 to 1985. In these years the government pursued policies opposite to the ones mentioned above. It also increased the support to exports, by financing working capital and exports; providing more tax credit certificates; covering the premiums on commercial, political and extraordinary risks in respect of exports; and providing assistance to exporting enterprises in areas related to the production, packing, wrapping, marketing and transport of merchandise (ECLA, 1982: 137, 148; 1983: 217; 1985: 194; IDB, c1985: 263; c1986: 229; c1987: 238; c1988: 265).

Changes in trade policy were also affected by the fluctuations in income from drug traffic. From 1975 foreign exchange from drugs increased steadily to reach $2.5 billion in 1982. From then on it decreased to a "mere" $885 million in 1985 (Thorp, 182-183). Raising income in the first period and its posterior decrease forced the changes in policies to be more severe.

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TABLE VI.10
COLOMBIA: ANDEAN TRADE 1978-1987

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
EXPORTS (FOB) (Thousands of dollars)										
GRAN	304,224	417,685	387,888	456,668	452,909	181,870	168,593	217,975	281,338	404,980
World	3,002,691	3,300,443	3,945,048	2,956,400	3,094,967	3,080,893	3,483,140	3,551,886	5,107,936	5,024,423
IMPORTS (FOB) (Thousands of dollars)										
GRAN	227,951	257,304	378,883	607,683	603,022	620,325	554,672	433,447	248,734	227,874
World	2,836,315	3,233,194	4,662,604	5,199,156	5,477,701	4,968,080	4,492,392	4,130,686	3,852,085	4,227,978
TRADE BALANCE (Thousands of dollars)										
GRAN	76,273	160,381	9,005	(151,015)	(150,113)	(438,455)	(386,079)	(215,472)	32,604	177,106
World	166,376	67,249	(717,556)	(2,242,756)	(2,382,734)	(1,887,187)	(1,009,252)	(578,800)	1,255,851	796,445
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE										
Exports	10.13	12.66	9.83	15.45	14.63	5.90	4.84	6.14	5.51	8.06
Imports	8.04	7.96	8.13	11.69	11.01	12.49	12.35	10.49	6.46	5.39
RATE OF GROWTH OF EXPORTS										
GRAN	1.80	37.30	-7.13	17.73	-0.82	-59.84	-7.30	29.29	29.07	43.95
World	22.90	9.92	19.53	-25.06	4.69	-0.45	13.06	1.97	43.81	-1.63
RATE OF GROWTH OF IMPORTS										
GRAN	33.60	12.88	47.25	60.39	-0.77	2.87	-10.58	-21.86	-42.61	-8.39
World	39.84	13.99	44.21	11.51	5.36	-9.30	-9.57	-8.05	-6.74	9.76

SOURCES: JUNAC-Sistema Subregional de Información Estadística, Decisión 115, and author's calculations.

backing this mechanism because this country was promoting exports rather than aiming for import substitution.[44] As shown in table VI.6, Colombia had only 3 percent of its intra-Andean trade under restrictions in 1985, while Peru had 40 percent and Venezuela 34 percent.

a.2) Industrial programming.- The Colombian government did not support this mechanism during this phase. Only the already approved industrial programs were accepted because they related to "areas where state intervention is strong ... [but] in all other areas, ... one would ... expect Colombia to be reluctant to allow progress in the industrial programming effort" (Urrutia, 1981: 193). It is not by chance that no other industrial programs were approved after the Automobile Program.

a.3) Decision 24.- With regard to foreign investments, the 1978-1982 administration welcomed foreign capital to finance huge investment for the development of coal and oil;[45] and "for the execution of industrial projects related to chemicals ..., petroleum and coal derivatives, and the rubber and plastic industries" (ECLA, 1982: 150). More importantly, 1987 "saw important changes in the foreign investment requirements; these ... created more flexible procedures governing remittances of profits abroad, the reinvestment and capitalization of profits and the time limit for forming mixed enterprises"

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[44]"... Colombia was the only Andean country, during the 1980s, with a comprehensive export promotion program for manufactured goods" (JUNAC, 1991a: 71).

[45]Foreign capital went into Colombia in increasing amounts until 1987 when the coal and petroleum projects were completed (ECLA, 1989a: 184).

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(IDB, 1988: 379). In other words, although Colombia was not supportive of Decision 24 on the common treatment of foreign investment, the government promoted its modification in the Commission and, only then, implemented the changes.

In short, Colombia was supportive of the tariff reduction program, but it was not supportive of the other three mechanisms: the CET, the SPIDs and the common regime of foreign investment.

b) Peru and Venezuela

b.1) The tariff reduction program.- Trade policy between 1978 and 1983 aimed to increase competition in the domestic market, and augment the availability of foreign goods through import liberalization and the reduction of import tariffs (ECLA, 1982: 459, 463; 1983: 671; 1985: 579). As a result of these changes the margin of preference for Andean imports was reduced, and Peruvian imports from the other Andean members as a percentage of total imports decreased from 1978 to 1983 (see table VI.11).

From 1983 this policy was reversed. Tariffs were increased, some imports were prohibited, the import license was reintroduced, exchange controls were enacted, and multiple exchange rates were imposed (ECLA, 1986a: 543; 1989a: 569; IDB, c1987: 349; 1988: 491). Most of these restrictions were not applied to the Andean partners, thereby increasing the margin of preference their products enjoyed in the Peruvian market creating trade deficits for Peru with its Andean partners in both 1986 and 1987. Therefore, by 1987, can be said that Peru was not supportive of the tariff reduction program.

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TABLE VI.11
PERU: ANDEAN TRADE 1978-1987

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
EXPORTS (FOB) (Thousands of dollars)										
GRAN	138,154	320,915	308,126	242,613	238,957	112,926	186,793	249,801	145,784	157,025
World	1,819,622	3,363,841	3,700,054	2,818,825	2,890,612	2,577,361	2,787,659	3,058,212	2,359,077	2,476,898
IMPORTS (FOB) (Thousands of dollars)										
GRAN	87,170	59,589	107,836	140,904	109,317	68,944	74,843	85,291	166,495	242,162
World	1,463,975	1,737,172	2,879,778	4,017,848	3,296,280	2,254,034	1,988,058	1,730,561	2,431,070	3,247,314
TRADE BALANCE (Thousands of dollars)										
GRAN	50,984	261,326	200,290	101,709	129,640	43,982	111,950	164,510	(20,711)	(85,137)
World	355,647	1,626,669	820,276	(1,199,023)	(405,668)	323,327	799,601	1,327,651	(71,993)	(770,416)
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE										
Exports	7.59	9.54	8.33	8.61	8.27	4.38	6.70	8.17	6.18	6.34
Imports	5.95	3.43	3.74	3.51	3.32	3.06	3.76	4.93	6.85	7.46
RATE OF GROWTH OF EXPORTS										
GRAN	90.92	132.29	-3.99	-21.26	-1.51	-52.74	65.41	33.73	-41.64	7.71
World	9.24	84.86	9.99	-23.82	2.55	-10.84	8.16	9.71	-22.86	4.99
RATE OF GROWTH OF IMPORTS										
GRAN	-78.68	-31.64	80.97	30.67	-22.42	-36.93	8.56	13.96	95.21	45.45
World	-23.67	18.66	65.77	39.52	-17.96	-31.62	-11.80	-12.95	40.48	33.58

SOURCES: JUNAC-Sistema Subregional de Información Estadística, Decisión 115, and author's calculations.

By the end of the 1970s Venezuela liberalized its trade by lowering its tariffs in order to strengthen competition and efficiency (ECLA, 1982: 532). Due to the external disequilibrium,[46] this policy was reversed and imports were increasingly restricted and controlled from 1982 on.[47] These restrictions were also applied to imports from the Andean area. As is shown in table VI.12 Venezuelan imports from the subregion decreased in 1980, 1983, 1985 and 1986, while exports did so in 1978, 1982, 1985 and 1986. Between 1983 and 1987 the balance of trade with the Andean area was positive, thanks to these indiscriminate restrictions, while before, thanks to better times for the Venezuelan economy, it ran deficits. Thus, Venezuela during this phase was not supportive of the tariff reduction program.

b.2) Industrial programming.- As part of the conditions imposed by the IMF to deal with its balance of payments problem, Peru had to reduce protection to industry Peru between 1978 and 1983.[48] In April 1982 a new General Law on Industries was

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[46]In 1982 the current account showed a negative balance of approximately $3.5 billion, and a loss of $7 billion in the country's international reserves was recorded (ECLA, 1984: 633). In the following year, there was a net outflow of long-term capital, the first since 1974. The amortization payments for 1983 were equivalent to 95 percent of total exports, forcing the government to ask for moratoria (ECLA, 1985: 670, 674-675; 1986a: 601; 1989: 705).

The single fixed exchange rate in place for 18 years, was replaced in 1983 by a multiple exchange rate with three rates. The bolívar was devalued, on average, by 16 percent in that year, in 1984 by 30 percent, in 1985 by 9 percent, in 1986 the bolívar was devalued by 50 percent, and in 1987 by 60 percent (ECLA, 1985: 664-665; 1986a: 589; JUNAC, 1990c: 128).

[47]Customs tariffs were increased, the list of prohibited imports was expanded, import quotas were established, and prior licenses were introduced (IDB, c1985a: 406; ECLA, 1984: 649-650; 1985: 669).

[48]In March 1979, the National Register of Manufactures (a protective mechanism which prohibited imports of goods similar to those manufactured in the country and which was one of the main protective mechanisms in the 1970s), was abolished and replaced by a list of imports prohibited up to 1980. In December 1979, the new custom tariffs came into force. It had the express purpose of improving the efficiency of domestic industry and forcing prices down by reducing effective rates of protection to 90 percent or less (ECLA, 1981: 450).

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TABLE VI.12
VENEZUELA: ANDEAN TRADE 1978-1987

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
EXPORTS (FOB) (Thousands of dollars)										
GRAN	121,059	202,233	303,006	354,798	298,845	301,968	322,015	238,885	160,946	215,076
World	9,177,638	14,176,739	19,051,709	20,099,221	16,347,774	14,495,106	15,919,720	14,377,444	8,664,150	10,538,726
IMPORTS (FOB) (Thousands of dollars)										
GRAN	246,302	315,197	303,717	357,460	401,504	143,883	187,436	185,207	157,228	199,845
World	12,195,073	11,051,271	12,249,979	13,560,999	13,396,956	6,653,492	8,058,228	8,399,112	8,594,399	9,765,288
TRADE BALANCE (Thousands of dollars)										
GRAN	(125,243)	(112,964)	(711)	(2,662)	(102,659)	158,085	134,579	53,678	3,718	15,231
World	(3,017,435)	3,125,468	6,801,730	6,538,222	2,950,818	7,841,614	7,861,492	5,978,332	69,751	773,438
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE										
Exports	1.32	1.43	1.59	1.77	1.83	2.08	2.02	1.66	1.86	2.04
Imports	2.02	2.85	2.48	2.64	3.00	2.16	2.33	2.21	1.83	2.05
RATE OF GROWTH OF EXPORTS										
GRAN	-54.10	67.05	49.83	17.09	-15.77	1.05	6.64	-25.82	-32.63	33.63
World	-3.67	54.47	34.39	5.50	-18.66	-11.33	9.83	-9.69	-39.74	21.64
RATE OF GROWTH OF IMPORTS										
GRAN	24.32	27.97	-3.64	17.70	12.32	-64.16	30.27	-1.19	-15.11	27.11
World	8.64	-9.38	10.85	10.70	-1.21	-50.34	21.11	4.23	2.33	13.62

SOURCES: JUNAC-Sistema Subregional de Información Estadística, Decisión 115, and author's calculations.

promulgated. Its main characteristics were trade openness and competitiveness. The role of the state was limited to planning, setting standards, and promoting national industry (ECLA, 1984: 563). The changes in industrial policy in Peru from 1978 to 1985 meant that the Andean industrial programming lost support of the government. Between 1985 and 1990, the second civilian government, immersed in widespread mismanagement and in growing debt problems, was indifferent to this mechanism.

Industrial programming was supported by Venezuela until the mid-1980s. For example, in order to take better advantage of the Petrochemical Program, in 1979, the Venezuelan petrochemical industry was attached to the petroleum state company, *Petróleos de Venezuela S.A.* (IDB, c1980: 392). Earnest attempts were also made to implement the Automobile Program. In 1979, agreements in this sector were reached with Bolivia, Peru and Colombia (ECLA, 1981: 523).

b.3) Decision 24.- With regard to the common treatment of foreign investment, the government which took power in Peru in 1980 adopted incentives for domestic and foreign private investment in oil and mining through new laws in these areas enacted in 1980 and 1981 respectively (ECLA, 1983: 659, 668, 679). During the second civilian government, Decision 24 was kept in place even after Decision 220 (which made the common treatment of foreign investment more flexible), was approved by the Commission (Iguiñez, 1990: 124). This was, however, a support by default since there was a "lack of a clearly defined policy regarding foreign investment" (EIU, 1990d: 37).

Due to the increasing balance of payments deficits, the Venezuelan support for

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the common treatment of foreign investment began to wane in 1983. In 1986 legal provisions inhibiting or deterring direct foreign investment were amended (IDB, c1988: 411). This country, by the end of the phase of regression, was not supportive of Decision 24.

In brief, by 1987, Peru and Venezuela were not supportive of the tariff reduction program, or the CET, and indifferent to industrial programming. Peru was supportive of the common treatment of foreign investment, but Venezuela was not.

c) Bolivia and Ecuador

c.1) The tariff reduction program.- For Bolivia and Ecuador Andean the tariff reduction program became less important than before. Even though they had not opened their markets to the other members, intra-Andean trade was becoming more and more onerous. Bolivia had increasing deficits with the rest of its Andean partners between 1977 and 1979, and in 1984 and 1985 (see chapter V, table V.13; and table VI.13), due to its overvalued peso.

Ecuador's exports diminished in 6 of the 10 years of this phase of regression and as a result the balance of trade with the Andean Group was negative from 1984 to 1987 (see table VI.14) Ecuadorean trade policies also changed in response to international influences.[49] As a result, Ecuador remained basically indifferent to this mechanism.

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[49]Changes in the price of oil, bananas and coffee were determinant for introducing restrictive or expansive import regulations. From 1980 to 1983 prior deposits for import were raised; tariffs on luxury items were raised, and imports restricted or prohibited (ECLA, 1982: 243; 1983; 380; 1984: 321; 1985: 311-313;). From 1984 on, the new government liberalized trade. Import prohibitions were eliminated, some import duties, especially on intermediate goods, were reduced ((ECLA, 1986a: 297; 1987a: 301, 1989: 311; IDB, c1986: 253).

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TABLE VI.13
BOLIVIA: ANDEAN TRADE 1978-1987

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
EXPORTS (FOB) (Thousands of dollars)										
GRAN	15,954	22,102	42,595	44,514	34,232	23,817	15,634	16,853	24,250	30,711
WORLD	725,274	855,998	1,037,185	983,968	898,531	817,954	781,508	672,766	640,338	569,793
IMPORTS (FOB) (Thousands of dollars)										
GRAN	26,021	51,211	30,111	33,689	19,338	21,749	27,755	27,544	17,385	15,351
WORLD	769,482	841,544	665,393	917,081	554,135	576,746	488,477	690,867	674,033	766,296
TRADE BALANCE (Thousands of dollars)										
GRAN	(10,067)	(29,109)	12,484	10,825	14,894	2,068	(12,121)	(10,691)	6,865	15,360
WORLD	(44,208)	14,454	371,792	66,887	344,396	241,208	293,031	(18,101)	(33,695)	(196,503)
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE										
EXPORTS	2.20	2.58	4.11	4.52	3.81	2.91	2.00	2.51	3.79	5.39
IMPORTS	3.38	6.09	4.53	3.67	3.49	3.77	5.68	3.99	2.58	2.00
RATE OF GROWTH OF EXPORTS										
GRAN	1.76	18.02	21.17	-5.13	-8.68	-30.42	-34.36	7.80	43.89	26.64
WORLD	41.41	96.81	-41.20	11.88	-42.60	-8.97	-4.46	-13.91	-4.82	-11.02
RATE OF GROWTH OF IMPORTS										
GRAN	41.45	38.54	92.72	4.51	-23.10	12.47	27.62	-0.76	-36.88	-11.70
WORLD	31.25	9.37	-20.93	37.83	-39.58	4.08	-15.30	41.43	-2.44	13.69

SOURCES: JUNAC-Sistema Subregional de Información Estadística, Decisión 115, and author's calculations.

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TABLE VI.14
ECUADOR: ANDEAN TRADE 1979-1987

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
EXPORTS (FOB) (Thousands of dollars)										
GRAN	102,296	103,288	147,248	139,106	158,459	131,999	56,416	73,767	42,929	125,061
WORLD	1,557,491	2,104,233	2,480,804	2,167,975	2,237,416	2,225,646	2,561,944	2,904,736	2,185,849	1,927,694
IMPORTS (FOB) (Thousands of dollars)										
GRAN	74,612	97,281	139,201	107,607	117,596	69,203	76,749	82,288	91,128	309,708
WORLD	1,505,056	1,599,714	2,253,305	1,920,617	2,424,457	1,474,625	1,629,953	1,766,724	1,810,224	2,158,136
TRADE BALANCE (Thousands of dollars)										
GRAN	27,684	6,007	8,047	31,499	40,863	62,796	(20,333)	(8,521)	(48,199)	(184,647)
WORLD	52,435	504,519	227,499	247,358	(187,041)	751,021	931,991	1,138,012	375,625	(230,442)
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE										
EXPORTS	6.57	4.91	5.94	6.42	7.08	5.93	2.20	2.54	1.96	6.49
IMPORTS	4.96	6.08	6.18	5.60	4.85	4.69	4.71	4.66	5.03	14.35
RATE OF GROWTH OF EXPORTS										
GRAN	-42.66	0.97	42.56	-5.53	13.91	-16.70	-57.26	30.76	-41.80	191.32
WORLD	8.44	35.10	17.90	-12.61	3.20	-0.53	15.11	13.38	-24.75	-11.81
RATE OF GROWTH OF IMPORTS										
GRAN	23.30	30.38	43.09	-22.70	9.28	-41.15	10.90	7.22	10.74	239.86
WORLD	26.63	6.29	40.86	-14.76	26.23	-39.18	10.53	8.39	2.46	19.22

SOURCES: JUNAC-Sistema Subregional de Información Estadística, Decisión 115, and author's calculations.

c.2) Industrial programming.- At the beginning of the phase of regression, industrial programming was still producing some benefits for Bolivia and Ecuador. In Bolivia in 1979, "the manufacture of metal products ... increased by 6% as the result of the installation of various industries, under the auspices of the Andean Group's allocations of fields of production, for the manufacture of tools and compressors and the assembly of motorcycles and motor-vehicles" (ECLA, 1981: 101). Over time, the manufacturing sector suffered serious decay due to the structural adjustment programs, and the recessionary short-term policies derived from them. In 1985, new policies focused on export-oriented industrialization. The result was that industrial programming lost government support. From 1985 on, the new economic policy left the industrial sector subject to the free market (JUNAC, 1991a: 78).

Ecuador continued to implement the sectoral programs. This interest, however, was short-lived. The authorities decided, in 1983, to begin to gradually eliminate subsidies to industry and the customs protection regime (IDB, c1983: 243; ECLA, 1986: 263). With the new government in office, changes were more comprehensive from 1984 on. They aimed toward "a progressive withdrawal from the decades-old protectionist framework of manufacturing ... " (ECLA, 1987a: 297), to improve production efficiency, and to export manufactured goods (IDB, c1986: 253).

c.3) Decision 24.- Between 1974 and 1982 foreign direct investment in Bolivia did not play a major role. Some of the reasons were the country's institutional problems, the small size of the domestic market, transport and marketing difficulties, and the lack of

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progress with respect to regional integration programs (ECLA, 1984: 124). In 1982 a new investment law was decreed. It promoted industries with a high degree of import contents (JUNAC, 1991a: 74). During the 1980s, Bolivia was supportive of either making the Andean common code more flexible, or of eliminating it. Therefore, this country was not supportive of this mechanism.

Ecuador began encouraging foreign investment from 1982 on, especially in the hydrocarbon and mining sectors.[50] Decision 24 was suspended in 1985. Any foreign enterprise in the country that exported more than 80 percent of its production was not required to become a mixed or national enterprise. In addition, the ceiling on the remittance of profits was eliminated (ECLA, 1986a: 293; IDB, c1987: 263, Hey, 1995: 204-209).

To restate, Bolivia and Ecuador were indifferent to the tariff reduction program, and not supportive of the CET, industrial programming, and the common treatment of foreign investment.

d) Conclusion

Table VI.15 shows the summary positions, by 1987, of the member countries with regard to the four main mechanisms of the Cartagena Agreement. The general conclusion is that the member countries were not supportive of the most important Andean mechanisms. In this sense, both the phase of regression and the deep changes in the

[50]In that year, amendments were introduced into legislation to encourage foreign contractors to participate in the exploration and development of new oil fields (IDB, c1984: 215; ECLA, 1984: 315). In 1985 the government amended the mining code to attract a greater flow of private investment, both national and foreign (ECLA, 1987a: 297-298; 1989: 308; IDB, c1987: 263).

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TABLE VI.15
SUPPORT FOR ANDEAN MECHANISMS IN 1987

MECHANISM	BO	CO	EC	PE	VE	TOTALS
Tariff reduction program	I	S	I	N	N	1S 2I 2N
Common Tariff	N	N	N	N	N	5N
Industrial Programming	N	N	N	I	S	1S 1I 3N
Foreign Investment	N	N	N	S	N	1S 4N
						3S 3I 14N

S = Supportive I = Indifferent N = Not supportive

Cartagena Agreement introduced by the Quito Protocol find an explanation.

Out of the four mechanisms, three were clearly not supported by the member countries, the CET, industrial programming, and the common treatment of foreign capital; while the tariff reduction program had relatively more support. This can explain why Decision 24 on the common treatment of foreign investments was radically modified, that the CET was maintained in the new Cartagena Agreement but without a deadline, and that industrial programming was made very flexible. On the other hand, the tariff reduction program had only its timetable extended. Given this situation, it is pertinent to ask why the governments did not abandon this enterprise, and instead they chose to profoundly modify it?

Bolivia and Ecuador although they were not supportive of the aims, or the mechanisms, did not leave the Andean Group. They remained because being lesser partners they would lose access to the other markets, as well as the increased political

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clout the pact provided at the international level. Being the least important members, their withdrawal of the process would not have had much impact on the process.

Colombia had also political reasons to stay. The Andean Pact was viewed as a tool to manage its "boundary problems with Venezuela," which was "Colombia's major foreign policy problem" (Urrutia, 1981: 191-192); and as a medium "... for an active and permanent international economic policy" (Moreno, 1982: 190).

In the case of Venezuela, the main reason to remain in the process was economic. Its interest in pursuing import substitution made industrial programming the sole mechanism Venezuela was in support of. At the same time Venezuela expected that the CET would not be adopted, and Decision 24 would be changed. All of these factors provided Venezuela with the necessary incentives to stay in the process.

Finally, Peru being in a chaotic political and economic situation, did not have time to deal with Andean issues. This country remained in the Andean Pact by default.

The main reason for this lack of support for the principles and mechanisms of the Cartagena Agreement lies with the changes in the international economic system (increasing protectionism and recessionary economic policies of the industrialized world). This in turn forced the Andean governments to began a process of changing and adapting their policies and eventually their strategies of development. The Andean process, in turn went to this phase of regression, which eventually led to the changes in the principles and relative importance of the mechanisms of the Cartagena Agreement.

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CHAPTER VII

FROM QUITO TO .... (1987-1995):

RE-ROUTING SUBREGIONAL INTEGRATION

1.- THE RECENT EVOLUTION OF THE ANDEAN SUBREGIONAL INTEGRATION PROCESS: 1987-1995

The last nine years of the Andean integration process can be periodized in two phases: a short phase of stagnation, from 1987 to 1989, and a phase of progress, from 1990 to the present (1995). The common thread of these phases is that there were new principles and the importance of the mechanisms was reordered. These modifications in fact changed the Andean model and re-routed the process, shifting its orientation from an industrialization endeavor to a commercial undertaking.

The indicators show stagnation if: (1) trade within the subregion diminishes in one or two years; (2) implementation of the mechanisms suffers delays; (3) the output of the Commission is limited, and more focused on modifying existing decisions and on weakening the process; and (4) violations are more numerous than during the phase of

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progress. Progress is demonstrated, as proposed in this dissertation, by the following indicators: (1) increasing intra-Andean trade during all years of the phase, (2) the mechanisms are implemented without major delays; (3) decisions by the Commission are adopted in a timely manner; and (4) violations are minimal. Sections 2 and 3 analyze these indicators for the last two phases.

The explanation for the phase of progress, as advanced in the hypothesis, is that the governments of the member countries find that some of their goals can be achieved through the Andean Pact. For the phase of stagnation the explanation is that one or more of the countries do not find their interests reflected in the aims and mechanisms of the Cartagena Agreement. Section 4 of the present chapter corroborates these ideas.

1.1.- The two phases during the re-routing of the Andean process

The expected revitalization of the Andean Pact did not crystallize after the signing of the Quito Protocol in May 1987. The reduction of the violations, especially non-tariff barriers to trade, was far from accomplished by 1989. From 1987 on, intrasubregional trade, however, began to increase. This fact again proves that results in the Andean endeavor were much more dependent on the conditions of the member countries and on governments' interests, than the process itself.

It is only by the end of 1989 that the Andean Group not only recovered its vitality but progressed rapidly. Deadlines, between 1989 and 1992, were progressively shortened, obligations were fulfilled, decisions furthering the process were adopted by the Commission, and intra-Andean trade grew quickly. Behind these facts were the rapid

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convergence of the economic policies of the Andean countries, and the direct participation of the presidents in the process through summit meetings.

Over time, the different speeds at which the various governments moved away from an inward to an outward oriented development strategy created disagreements among the Andean members. These disagreements were related to key issues, such as the implementation of the free trade zone, the definition of the common external tariff (CET), and the scope of policy harmonization. The result was the slow down of the process from 1992 until this writing (1995).

1.2.- The new Andean model of economic integration

With the signing of the Quito Protocol in May 1987, the Cartagena Agreement was profoundly modified (see chapter VI, section 4.2), and through the accords of the Andean presidents, the member countries showed what these changes meant. Based on both the Quito Protocol and the actions of governments, the new aims and the reordering of the importance of the mechanisms can be discerned.

The Quito Protocol, continued to assign the Andean Group the role of "a tool to contribute to the economic development of the subregion" (Márquez, 1989: 9). The principles and main mechanisms, however, were modified in order to make the agreement more flexible, and to keep it in tune with the changes the countries had already undergone, or were continuing to go through. The Cartagena Agreement became a more pragmatic and realistic instrument reflecting the interests of the countries (ECLA, 1992: 26; JUNAC, 1987b: 14; 1989c: 1). These interests dictated the replacement of the

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state by the private sector as the leader in the economy, and the attraction of foreign investment. At the same time, Salgado (1992: 38) lamented that "the Quito Protocol ... took away from the original Cartagena Agreement all the aspects that made it the quintessence of a Latin American version of economic integration."

Salgado was referring to the loss of primacy of industrial programming, to the relaxed rules on the common treatment of foreign investment, and to the watering down of the formation of the Andean market. All existing mechanisms were made more flexible, important obligations were abolished, some deadlines were eliminated, while others were reset, "facilitat[ing] the return to legality with regard to the existing obligations..." (Vacchino and Solares, 1992: 5).

In the case of the tariff reduction program, the Quito Protocol, and the transition program approved by Decision 225, allowed the continuing existence of non-tariff barriers under the guise of bilateral "managed trade," and under three new forms of trade safeguards (INTAL, 1990a: 92; JUNAC, 1988b: 7; EIU, 1992b: 42).[1] There was no deadline for completion of the tariff reduction program.

The Protocol also meant the replacement of the Sectoral Programs of Industrial Development by three new forms of industrial integration,[2] which in practice led to the demise of industrial programming. The common treatment of foreign investment was

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[1]"In the Transition Program the member countries gave legal coverage to their violations ... Safeguards became automatic and unilateral, and the non-tariff barriers were given an indefinite time to be lifted. ... The only real effect of the Quito Protocol was to mutilate the [Andean] Liberalization Program through managed trade" (Puyo, 1989: 31).

[2]They were an industrial integration program, industrial complementation agreements, and industrial integration projects. See chapter VI, section 2.3 for details of these new modalities of industrial programming.

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made even more flexible and less common. "In other words, given the impossibility of achieving an Andean production zone ... governments opted explicitly ... to concentrate efforts on trade liberalization ..." (Rodríguez: 1988: 127). The objective was to achieve international competitiveness and efficiency as an indispensable condition of guaranteeing subregional integration, which meant leaving behind the import substitution model (JUNAC, 1991: 7).

The Andean presidents (JUNAC, 1991b: 105-133) explicitly stated that the creation of a common market was the Andean Group's new long-term objective. The means to achieve this objective were: the establishment of a free trade zone, and of a customs union; the progressive harmonization of economic policies; the gradual liberalization of the movements of capital, people and services; physical, and border integration; activities to further competitiveness and technological development; as well as cooperation in specific foreign policy issues. The main mechanisms in the economic sphere were: the tariff reduction program, a common external tariff, and gradual and narrowly defined economic policy harmonization.[3]

From the above it is possible to assert that the new aims of the Andean Group were: the primacy of market mechanisms, export-oriented industrialization, and a greater role of foreign investment. The main mechanisms to be used in the GRAN to achieve these aims were: the tariff reduction program, a common external tariff, and a minimum policy harmonization.

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[3]The original long-term objective, although never explicitly stated (see chapter III, section 5.1) was the creation of an economic union; that is an integration in which policy harmonization and common planning were essential as opposed to a long-term aim in which limited policy harmonization and no common planning was considered.

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1.3.- Factors influencing the Andean economic integration process from 1987 to 1995

The Quito Protocol signed in May 1987, was not an isolated fact but part of the reinvigoration of economic integration movements in the world. Since the mid-1980s, there has been a renewed interest in pursuing some form of economic integration, either at regional or subregional levels.[4]

For Latin America, including the Andean countries, the end of the Cold War and the disappearance of the Soviet bloc brought, among other things, the cessation of the civil wars in Central America, and a growing concern about the need to reverse its increasing marginality in both the international polity and the international economy (see table VII.1).[5] The adoption of market oriented policies, opening of their economies to global trade, reduction of the role of the state, and economic integration were means to increase the efficiency needed to reverse trade, production, investment and technological marginality (INTAL, 1990a: 36; Rico, 1992: 61).

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[4]Besides MERCOSUR (mentioned in chapter VI, footnote 31 new integration processes aiming mostly to establish free trade zones in Latin America, are the agreements between Colombia and Venezuela; Mexico and Chile; Mexico, Colombia and Venezuela, also known as the Group of Three or G-3; Argentina and Chile; Chile and Venezuela; Mexico with Costa Rica, El Salvador, Guatemala and Honduras; Colombia and Venezuela with the Central American Common Market; Venezuela and CARICOM (a non-reciprocal free trade zone for Caribbean products); Colombia and CARICOM. In July 1994, twenty-five countries surrounding the Caribbean Sea established the Association of Caribbean States. It began to function in August 1995. It is composed of the Caribbean islands, the nations of Central and South America bordering the Caribbean, Guyana, Suriname, and French Guiana.

[5]"... during the 1980s ... [w]ith an annual rate of growth of 1.2 percent; a decrease in per-capita product of 1.0 percent; and an annual decrease in investment of 4.3 percent, and of the terms of trade by 3.1 percent, Latin America confronts a real process of increasing marginalization in the world economy" (Rico, 1992: 60).

"... the challenge was no longer *dependencia* but something worse, *prescindencia:* the rich countries were largely ignoring the Third World, including Latin America" (Berryman, 1995: 113).

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TABLE VII.1
LATIN AMERICA's SHARE OF WORLD TOTALS (%)

	1970	1975	1980	1985	1990
GDP	6.0	7.0	7.5	6.8	6.4
Foreign direct investment	10.3	15.2	11.8	8.1	5.8
Credit	3.0	12.0	4.7	2.9	3.6
Exports	5.7	5.7	5.5	5.3	3.8
Imports	5.7	6.3	5.8	3.9	3.1

SOURCE: Martínez, 1992: 57

At the same time, changes in the international economic system caused by the weakening of the dollar, the increasing protectionism of the developed countries,[6] President Bush's proposal for a Western Hemispheric free trade area,[7] the need to coordinate positions in GATT's the Uruguay Round, the democratization process, and the shift to outward oriented development strategies, were additional factors leading to the revival of the Andean integration process (Hirst: 1992: 19-20).

Most of the Andean governments, due to their external debt problem, found out

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[6]"... in the results of the international business cycle survey, "Economic Survey International" (ESI) published in January 1991 ... the majority of the experts consulted in Latin America expect increased protectionism on the part of the USA in the next five years, ..." (Brand, 1991: 289).

For a recent study on American protectionism see: *US Barriers to Latin American and Caribbean Exports 1994*. New York: United Nations, Economic Commission on Latin America and the Caribbean, 1995. LC/G 1861, LC/WAS/L.28.

[7]In June 1990, President Bush proposed new economic relations with Latin America through the "Enterprise for the Americas." It contained the creation of a free trade area from Anchorage to Tierra del Fuego; to encourage American investment in the region; and to reduce the external debt (INTAL, 1991: 8-9). This program was revived during the first summit meeting of presidents of the Americas since 1967, held in Miami in December 1994. It was agreed, as one of the eight initiatives, to create a hemispheric free trade zone by the year 2005 (LAWR, WR-94-49, December 22, 1994: 577).

"In order to create appropriate conditions for the realization of the Bush plan, the Latin American countries have, ..., increased their integration efforts" (Brand, 1991: 287).

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that they had to follow the advice of the World Bank and the International Monetary Fund (Green, 1995: Chapter 2). This meant neo-liberal policies such as the unilateral opening of their economies. Under these circumstances, the Andean Pact could be used by the member countries as a springboard,[8] and as a safety net.[9] By focusing on an accelerated Andean trade liberalization process, the member countries would be able to increase their exports to each other. By lowering import tariffs to non-members, trade diversion would be reduced and the competitiveness needed to conquer the international market would be improved. The expanded market would provide some safeguard against the increasing protectionism of the industrialized world, "to develop their potentials in an uncertain and fiercely competitive international economy" (Rosenthal, 1993: 18).

Integration with the international economy and within the region was then seen as complementing each other (Fauriol, 1993: 3; Rosenthal, 1993: 13, 18) rather than being mutually exclusive.[10] The increase of exports and competitiveness became the immediate goals (Fuentes and Villanueva, 1989: 15-17; Esser, 1989: 18; Lahera, 1992; Massad, 1989: 102-105; Peña: 1990: 8; Weintraub, 1993: 10).

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[8]"... integration could be an efficient springboard for attaining integration into the world market ..." (INTAL, 1992: 22).

"... the regional market should be a mean to increase exports to extra-regional zones as part of the strategy of international integration,..." (ECLA, 1991: 21).

"... the Andean market is perceived by many entrepreneurs as a secondary and temporary arena *vis-á-vis* the world markets ... the subregional integration process is the arena to facilitate integration with the rest of the world" (Schuldt and Urriola, 1991: 129).

[9]"... integration ... offers a way of diversifying risk in an international economy that is rife with uncertainty" (Rosenthal, 1993: 13)

[10]This new form of integration was called "open regionalism." There is a growing literature on this new phenomenon. See for example: Baumann, 1995; Bekerman, 1993; Cárdenas, 1994; ECLA, 1994a; de Melo and Panagariya (eds.), 1993; Flores, 1995; Fuentes, 1991; Lahera, 1992; 1992a; Massad, 1989; Palacios 1995; Porta, 1993; Robson, 1993; Salazar, 1990; Salgado, 1991; SELA, 1992; Ventura, 1995.

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At the Andean domestic level, the asynchronous replacement of the import substitution strategy of development by an export-oriented strategy, allowed the Andean countries to have new shared aims to revitalize economic integration.[11] The revival, however, also recognized that the existing approach to integration failed to expand intra-Andean trade and to form a subregional market. This led to a new and more pragmatic concept of integration as an open, flexible process of economic cooperation for the purposes of expanding trade and creating conditions for increased competitiveness in world markets (IDB, 1991: 9). The new approach (see table VII.2) basically followed the orthodox economic theory on economic integration, aiming to create a common market (ECLA, 1991: 5-6; Gana, 1991: 10-11).

Progress, however, slowed down from 1992 on due to the different speeds in implementing the neo-liberal approach to development by the member countries. Peru (and Bolivia) wanted a free trade zone without distortions (meaning full harmonization of policies directly affecting trade), while Colombia, Ecuador and Venezuela wanted to go at slower pace. This, eventually, led to Peru's temporary and partial withdrawal, in August 1992, in matters related to trade, policy harmonization, and negotiations with third countries.[12] In other words, domestic factors were most important in slowing down

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[11]"One of the permanent difficulties GRAN was confronted with, had been the lack of shared commitments to common long-term objectives by the countries. This is the determining factor for a steady progress of the integration process" (Peñaranda, 1990: 8). "In the last three years [1989-1992], the Andean Group has developed [sic] great impetus due to two fundamental factors. First, through the coincidence in the Member Countries' economic policies, and secondly, through the Andean Presidents' decision to directly steer and conduct the integration process" (Cárdenas, 1993: 1).

[12]Another plausible explanation for Peru's behavior was that it is creating problems as a means to prepare its way out of the Andean Group, as voiced by Carlos Boloña, the minister of Finance (El Comercio, 1992b: A2).

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TABLE VII.2
ANDEAN ECONOMIC INTEGRATION APPROACHES: 1960s AND 1990s

1960s-1980s	1990s
END PRODUCT	
Creation of common markets in the long-term.	Creation of common market in a very short period of time.
PRINCIPLES AND MECHANISMS	
Basically, trade diversion through import substitution.	Preference for subregional trade creation and open trade.
Primacy of joint industrial programming.	No preferred sector.
Common treatment of foreign investments.	Equal treatment of foreign and domestic investments.
Special treatment to relatively less developed countries.	Principle of reciprocity and limited special treatment.
Primacy of the state and its direct intervention in the economy.	Market economies and primacy of the private sector.
PRACTICES	
Multilateral trade liberalization was progressively replaced by bilateral accords.	Accelerated trade liberalization encompassing the whole universe of products.
Gradual process toward adopting a common external tariff with high levels and with many rates, and the adoption of a common minimum external tariff.	Rapid process toward adopting a common external tariff with low levels and with few different tariff rates.
Increasing proliferation of non-tariff barriers.	Rapid elimination of all non-tariff barriers.
Integration limited basically to products.	Integration expanded to services.
Economic policy harmonization was agreed but never pursued.	Limited economic policy harmonization is expected.

SOURCE: Adapted from ECLA, 1991: 3-4.

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the recent progress of the Andean process, but these factors have not been powerful enough to stagnate it.

2.- MAIN ASPECTS OF THE ANDEAN INTEGRATION PROCESS BETWEEN 1987 AND 1995

2.1.- The presidential summit meetings

The phase of regression in which the Andean Group was immersed was replaced not by a phase of progress but by one of stagnation after the Quito Protocol was signed. By May 1988, all the member countries had ratified the protocol. The entry into force of the protocol, however, did not make the governments comply with the laxer rules they had agreed upon.

From 1989 to the end of 1991, progress was swift due mainly to the meetings of the Andean presidents.[13] They held nine meetings in this three-year period. Three of

[13]The Andean presidents got together in Caracas (February 1989), for the first time since December 1983, on the occasion of the swearing in of Carlos Andrés Pérez as President of Venezuela. In this meeting the presidents decided to participate directly in the integration process. This personal involvement imitated the example set before by the summit meetings of the Group of Eight, and of the presidents of the MERCOSUR countries. These meetings had shown that high level reunions were needed to solve the impasses arisen at the lower levels which had prevented furthering the integration process elsewhere. Several other reasons also explain the need for presidential leadership to accelerate the Andean integration process from 1989 on. First, the potential beneficial impact of President Bush's proposal of the "Enterprise for the Americas" made in June 1990. Second, the revitalization and acceleration of the integration processes all over the world, especially the European Community and MERCOSUR. Third, the increasing similarities of the Andean countries' economic development strategies and economic policies. Fourth, the creation of continental trading blocs such as NAFTA, APEC and ASEAN. Fifth, the increasing protectionism in the industrialized world. Sixth, the delays in the negotiations of GATT's Uruguay Round. And, seventh, the belief that the Andean process was still a relevant tool to help the countries dealing with their economic crises, furthering economic development and reducing their marginalization in the international economic system.

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these meetings were the most important: Galapagos, Ecuador in December 1989; La Paz, Bolivia in November 1990; and Cartagena, Colombia in December of 1991.[14] During these years, the Commission became a rubber stamp of presidential decisions accorded in advance by the ministers of foreign relations. From 1992 onwards the presidents' meetings were suspended and the process slowed down because of the different speeds and depths with which the member countries were liberalizing their economies.

Besides the accords to create a common market (detailed below), the presidents declared in several of the meetings that the Andean process was a political endeavor. For example, in February 1989 (in their first meeting), the presidents proclaimed that "Subregional integration ... besides being an economic project is a political, social and cultural task" (JUNAC, 1991b: 11). In the following meeting (May 1989) they recognized "that the Andean integration is a comprehensive process aimed at ... the achievement of the *shared objectives* of the member states ... for which is required an adequate harmonization of the legitimate interests of each one of the member countries" (JUNAC, 1991b: 15, italics added).

a) The "Strategic Design," Galapagos, December 1989

The most important and detailed document issued by the Andean presidents setting

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[14]The other six meetings were: (1) Caracas, Venezuela, when President Carlos Andrés Pérez took power. A "Joint Declaration" was signed. (2) Cartagena, Colombia, in May of 1989; the presidents signed the "Manifesto of Cartagena." (3) Machu Picchu, Peru, May 1990; the Andean Presidential Council was created. (4) Lima, Peru, in July of 1990 when President Alberto Fujimori took power. The presidents decided that President's Bush "Enterprise for the Americas," should be carefully studied. (5) August, 1990, Bogota, Colombia, when the Colombian president César Gaviria Trujillo assumed office; they adopted a "Declaration on Enterprise for the Americas." (6) Caracas, Venezuela, May 1991. The "Caracas Declaration" was signed.

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the new aims of the Andean process and the relevant mechanisms was the "Strategic Design for the Orientation of the Andean Group" (JUNAC, 1991b: 35-78), approved in Galapagos, Ecuador, in December 1989. The Design changed the process drastically, setting the path for the reactivation of the Andean Group (Lora, 1992: 167; González, 1992: 71). Even more important, "politically, ..., economic integration became guided by a Strategic Design which adapted the original [Andean] approach to the new national policies and the current world environment" (Serrano, Sanz and Gabaldón, 1991: 7).

The Strategic Design was based on the assumption that the Andean integration was still a valid instrument to cooperate with the development of the Andean countries. According to the Andean presidents, integration was possible at that moment because the economic policies of the member countries coincided in fundamental aspects.

The Design had two main objectives: the consolidation of the Andean economic area, and to improve the Andean Group's integration with the rest of the world. The first objective was viewed as contributing to the development of competitiveness within the subregion, as a springboard for conquering other markets, as a means to use resources more efficiently, and as a way to share the costs of scientific and technological development. The second objective would increase the negotiating power of the Andean Pact as an economic bloc, and would improve Andean competitiveness in the world. In other words, the presidents changed the Andean Group model, making it not only compatible with but reinforcing international integration.

The creation of a common market was the practical way to achieve these objectives. Therefore, the presidents decided, as a first step, to create a customs union

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by 1999 (thus, *de facto,* restoring deadlines into the Cartagena Agreement); and a gradual liberalization of the movement of capital and labor.

b) The "Act of La Paz," La Paz, November 1990

The presidents met for the seventh time in La Paz, Bolivia, in November of 1990. They approved the Act of La Paz (JUNAC, 1991b: 105-133). The most important accord (from which Ecuador abstained)[15] was the decision to accelerate trade integration. The basis for this acceleration was the increasing convergence of the economic policies of the member countries. All the governments pursued greater efficiency and competitiveness of their economies through liberalization and opened them to foreign trade and investment. They also implemented an economic program based on private initiative, fiscal discipline, and a restructured and efficient state (JUNAC, 1991b: 107).

Deadlines to fully implement the tariff reduction program and CET were shortened from 1999 to 1995. Measures were also agreed upon to speed-up policy harmonization, to relax the common treatment of foreign investment, and to begin easing the movement of people. These measures meant that "State planning and sectoral programming [were] abandoned and replaced by the market, ..." (ECLA, 1992: 29).

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[15]"The Ecuadorean reservations had been a major stumbling bloc during the discussion at the summit, with Borja's [the president of Ecuador] counterparts refusing to accept a 'twin-track' solution that would allow Ecuador to move forward at a slower pace. In the event Ecuador was given six months [until June 1991] in which to decide whether or not it would go along with the measure" (AGR, RA-90-10, December 20, 1990: 1).

"There is a fear in influential circles that Ecuador's highly protected industrial sector will not withstand the strong competition from the partner countries—especially Venezuela—after the trade barrier are removed" (Brand, 1991: 293).

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c) The "Act of Barahona," Cartagena, December 1991

The last presidential meeting was on December 1991, in Cartagena, Colombia. They signed the Act of Barahona (JUNAC, 1991m). They agreed that the tariff reduction program should be accomplished by January 1993, and that Ecuador would do it by July 1994. The CET would be approved in the same month and applied as of January 1992. They also agreed that by January 1993, subsidies of exports should be eliminated.

Without precedent was the accord of the presidents on specific issues about the CET detailed in section 2.4. The Commission, however, was unable to agree on the CET by the end of December 1991, and the first crucial deadline of this phase was not met which marked the slow down of the process.

The accords the presidents made in these nine meetings, not only gave the Andean Group a new aim, the creation of a common market, but also touched on other areas; such as policy harmonization, common treatment of foreign investment, industrial programming, transportation, agriculture, services, infrastructure, border integration, and last, but not least, common foreign policy positions. Most of the agreements were made in order to allow for free competition.[16]

2.2.- The tariff reduction program

The Quito Protocol, in practice, made the process of the tariff reduction program to have infinite existence, since some products would be exempt forever from this

[16]Case in point were the accords on infrastructure and transportation. A coordinated improvement in these areas aimed to reduce the costs of transportation (e.g., road repairs), and the delays and additional costs due to the lack of adequate infrastructure (e.g., ports).

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process. In May 1987, concomitant to the approval of the protocol, a transition program (Decision 225) was also adopted. It spelled out the procedures to eliminate the existing violations. The program would be in place until the Quito Protocol entered into force, then all the violations would be immediately eliminated. The Protocol went into effect in May 1988 but violations continued. Bolivia and Ecuador did not begin their tariff reduction process in 1988 as stipulated in the new Cartagena Agreement. Between 1987 and 1989, little progress was made to fulfill the new obligations because of the difficult economic circumstances of several member countries.

As a result of the summit meetings the tariff reduction program quickly progressed. Bolivia and Ecuador began their tariff reduction processes, and non-tariff barriers and violations of the tariff reduction program were reduced. The presidents successively shortened the deadline to create the free trade zone from December 1999 to January 1993 (see table VII.3).[17]

The presidential accords were formalized by the Commission. After the end of the presidential meetings (December 1991), the Commission regained its importance. Its Decision 324 (August 1992) moved forward the deadline to create the Andean free trade zone from July 1994 to February 1993.

Peru, however, did not vote, nor participate in the free trade zone, because in August 1992 the Commission agreed to suspend its participation in the negotiations of trade issues until December 1993. The main reasons for Peru's withdrawal were its

[17]In the meeting in Cartagena, Colombia, in early December of 1991, the presidents decided to create the free trade area by January 1993. Ecuador (which was lagging behind the application of neo-liberal policies), would join by July 1994. At the summit of In November of 1990 (La Paz, Bolivia), Ecuador was already allowed to begin trade liberalization by January 1992.

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TABLE VII.3
SHORTENING OF DEADLINES FOR THE CREATION OF THE FREE TRADE ZONE

	Cartagena Agreement May 1987	Galapagos December 1989	La Paz November 1990	Barahona December 1991
ANDEAN TRADE LIBERALIZATION PROGRAM				
AUTOMATIC TARIFF REDUCTION				
BEGINS: Col, Peru, Ven	Dec. 1970	Not appl.	Not appl.	Not appl.
Bolivia	Nov. 1988	Dec 1991	Dec 1990	Not appl.
Ecuador	Nov. 1988	Dec 1989	Jan 1992 5/	Not appl.
ENDS: Col, Peru, Ven	Dec. 1983	Not appl.	Not appl.	Not appl.
Bolivia	*Sine die*	Dec 1995	Dec 1991	Dec 1991
Ecuador	*Sine die*	Dec 1995	Jul 1992 5/	Jul 1992
ELIMINATION OF THE LIST OF EXCEPTIONS				
BEGINS: Col, Peru, Ven	Dec 1993	Dec 1991	Dec 1990	Not appl.
Bolivia	Dec 1997	Dec 1995	Dec 1990	Not appl.
Ecuador	Dec 1997	Dec 1995	Dec 1992	Dec 1992
ENDS: Col, Peru, Ven	Dec 1995	Dec 1993	Dec 1991	Dec 19917/
Bolivia	Dec 1999	Dec 1997	Dec 1991	Dec 1991
Ecuador	Dec 1999	Dec 1997	Dec 1994	Jul 1992
RESIDUAL: Col, Peru, Ven	*Sine die* 1/	Dec 1995 3/	Dec 1995 3/	Jan 1993 3/
Bolivia	*Sine die* 2/	Dec 1999 4/	Dec 1995 4/	Jan 1993 4/
Ecuador	*Sine die* 2/	Dec 1999 4/	Dec 1995 4/	Jul 1994 4/
MANAGED TRADE				
80 % reduction of the lists	Not appl.	Dec 1990	Not appl.	Not appl.
Elimination	Dec 1997	Dec 1991	Dec 1990 6/	Not appl.
Reserve list for Industrial Programming	Not appl.	May 1990 (80% of the list)	Jun 1991 (Rest)	Not appl.
FULL FORMATION OF THE FREE TRADE ZONE	*Sine die*	Dec 1999	Dec 1995	Jul 1994

1/ Up to 75 dutiable items could be kept in the unilateral list of exemptions of each country.
2/ Up to 180 dutiable items could be kept in the unilateral list of exemptions.
3/ Up to 50 dutiable items could be kept in the unilateral list of exemptions.
4/ Up to 100 dutiable items could be kept in the unilateral list of exemptions.
5/ Accord reached in May 1991, *Acta de Caracas* (JUNAC, 1991l: 2).
6/ Ecuador: July 1991. Accord reached in May 1991, *Acta de Caracas* (JUNAC, 1991l: 2).
7/ Peru: July 1992.

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increasing trade deficit originated by its overvalued currency, and its inability to make other members support policy harmonization (see section 4.3 below). More importantly, through this decision Peru revoked tariff reductions (which were irreversible according to Article 45 of the Cartagena Agreement), and negotiated bilateral agreements with the other members which would provide free access to a limited number of items only.

In April 1994, through Decision 353, Peru agreed to gradually rejoin the tariff reduction process. By December 1994 Peru was to reduce its tariffs for a large number of products.[18] The remaining products would follow suit provided that there was substantial progress in the harmonization of the different policies and mechanisms directly related to trade. The reintegration of Peru, however, was postponed twice. According to Decision 377, adopted in June 1995, January 1996 was the latest deadline.

The free trade zone is not a reality because Peru still has to complete its tariff reduction.

2.3.- The external tariff

a) The common external minimum tariff (CMET)

The common external minimum tariff (CMET) continued its existence for a much

[18]Peru did apply these tariff reductions to Colombia and Venezuela, based on simultaneity and reciprocity. Ecuador delayed its tariff reduction in favor of Peru. With the conflict between them during the first quarter of 1995, all plans to grant each other tariff reductions were shelved. Border disputes like this, and the one in January 1981, did not have dire consequences beyond delaying for a while meetings of the Commission and disrupting border trade. In any case they were in no way as disruptive as the July 1969 "Soccer War" between Honduras and El Salvador which accelerated the collapse of the Central American Common Market leading it to a profound crisis of this process (Fagan, 1970: 1; Lizano, 1982: 255).

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longer time than expected because the CET was not approved until November 1994.[19] Its level and range, however, were reduced after the Quito Protocol by Decisions 260 (February 1990), 273 (November 1990), and 309 (September 1991). Decision 309 lowered the average from 13.7 percent (as already reduced by Decision 273) to 7.9 percent; decreased the number of levels from 7 to 5; reduced the maximum level from 30 to 20 percent; and raised the minimum from 0 to 5 percent (JUNAC, 1991: 5).

The modifications aimed at making the CMET more similar to the tariff levels the member countries were adopting, and by so doing, reduced the violations of this mechanism. These changes also aimed at fulfilling the presidents accords, who in May 1989, ordered the CMET to be "revised and adapted to the present needs of the subregion" through "the substantial reduction and simplification of the CMET [to be accomplished] by the first quarter of 1990" (JUNAC, 1991b: 18, 50).

b) The common external tariff (CET)

The Quito Protocol did not set any deadline for the approval of the CET,[20] because "it has been one of the most difficult problems to deal with in the subregion" (Aninat, 1992: 21). As in the case of the tariff reduction program, the president set a deadline and successively shortened it December 1999 to January 1992 (see table VII.4).

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[19]The CMET was a transitional device to give time to adopt the CET by December 1975. It was easily approved in December 1970, because it allowed the countries to set any tariff above the minimum agreed upon.

[20]The present article 62 of the Cartagena Agreement, dealing with the CET, reads: "At the *Junta's* proposal, the Commission will approve the Common External Tariff which should provide adequate levels of protection to subregional production, taking into account the agreement's objective of gradual harmonization of the diverse economic policies of the member countries" (JUNAC, 1988: 33).

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TABLE VII.4
SHORTENING OF DEADLINES FOR THE CREATION OF THE CUSTOMS UNION

	Cartagena Agreem't May 1987	Galapagos December 1989	La Paz November 1990	Barahona December 1991
COMMON EXTERNAL TARIFF				
APPROVAL	*Sine die*	Dec 1992	Dec 1991	Dec 1991
FULL IMPLEMENTATION: Col, Peru, Ven	Not appl.	Dec 1997	Dec 1993	Jan 1992
Bolivia and Ecuador	Not appl.	Dec 1999	Dec 1995	Jan 1992
ESTABLISHMENT OF THE ANDEAN CUSTOMS UNION	Not appl.	Dec 1999	Dec 1995	Jan 1992

An important internal factor influencing the acceleration of the adoption of the CET was the increasing similarities in tariff policies. Governments were reducing tariff rates and simplifying tariff structure (see tables VII.5 and VII.6).

Given the successive reductions of the time span to adopt and implement the CET, in September 1991 the *Junta* presented preliminary ideas on this topic (JUNAC, 1991c), and later presented proposals 245, 245/Mod 1, 245/Mod 2 suggesting three levels of tariffs, and only 10 percentage points difference between each level. The Commission was unable to agree on these, and other issues related to the proposal on the CET. In the meeting in early December 1991, in Cartagena, Colombia, the presidents agreed on the specifics of the CET.[21]

[21]The CET would have four levels: 5, 10, 15 and 20 percent until January 1994, when the 20 percent level would be eliminated. Bolivia's current tariffs of 5 and 10 percent required no change. Automobiles were granted a 40 percent special tariff. The application of a common tariff on products not produced in the subregion could be deferred until the beginning of their production. A list of products with zero tariff, and another with 5 percent were to be adopted. Finally, a flexible tariff system would be applied to some agricultural products.

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Later in that month, the Commission met but could reach no accord. Peru and Bolivia supported a CET containing only the four tariff levels agreed upon by the presidents.[22] Colombia and Venezuela argued that the other criteria should be included, and declared that by March 1992 they would unilaterally apply a CET based on the presidential accords and the *Junta*'s latest proposal.[23] The missed the deadline constituted a major factor for the slow down that ensued, especially after the temporary and partial withdrawal of Peru in August 1992.

In February 1992 the Commission made some progress but was unable to approve the CET because of the unexpected request of Ecuador to apply a lower tariff[24] for 1,022 customs items.[25] Colombia and Venezuela decided to immediately apply the CET they had agreed on beforehand. Ecuador, for its part, announced that it would soon modify its tariff structure to make it more similar to the *Junta's* proposal, and the special regime this country had requested. It did so by May 1992.

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[22]"On the CET Peru was pressing for the simplest, lowest and speediest formula, while others were holding out for higher initial levels and slower transition. ... On export subsidies, Peru was alone in pressing for the other to emulate its own decision to eliminate them completely" (LAWR, WR-91-49, 19 December, 1991: 4).

[23]This decision became unavoidable after "[t]he Presidents of Colombia and Venezuela, the two major partners of the Andean Group, ... agreed ... in January 1992 ... on a [bilateral] CET ..." (LAWR, WR-92-06, February 13, 1992: 9).

[24]"The principal obstacle to the adoption of the CET by some countries is probably the tariff increase for basic products ... once this conflict is solved the other problem is to adopt a CET which fits all interests" (Abusada, 1991: 17).

[25]In this issue, Colombia was willing to allow Ecuador only 5 percentage points above or below the CET, and Peru proposed that 50 percent of the list would be left to Ecuador to set tariffs while for the rest the tariff should be negotiated (Integración Latinoamericana, 1992: 57).

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The CET was vetoed by Peru in the Commission's June 1992 meeting,[26] and thereafter abstained. The other countries, however, were not able to agree, although progress was reported.[27] Two "incomplete" decisions were approved: Decision 324 on August 1992, and Decision 335 on March 1993, but the implementation of the CET was postponed three times. Finally, in November 1994, the Commission approved Decision 370 on the CET (Comisión, 1994b). The structure approved was: 5 percent for raw materials, 10-15 percent for semi-manufactured goods, and 20 percent for finished goods. The average of the CET was 13.5 percent (JUNAC, 1995: 2, 1995a: 6-7). All the special treatments agreed to by the presidents, and more, were included in Decision 370 (LAWR, WR-94-47, December 8, 1994: 562; AGR, RA-94-10, December 22, 1994: 1; JUNAC, 1995: 2-3; 1995a: 6-7; 1995d: 8-9).[28] The CET was implemented in February 1995 by Colombia, Ecuador and Venezuela only.

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[26]Peru argued that "the draft decision ... establishes several "Common External Tariffs," there were too many products exempt from the general rules, and it did not follow the political guidelines agreed by the Andean presidents ..." (Comisión: 1992: 4). The deeper reason was that the *Junta's* proposal was quite different from Peru's tariff goals of a single level of 15 percent. In the same session, Peru also vetoed the *Junta's* proposal on the acceleration of tariff reduction among the Andean countries and on trade policy harmonization. In casting its negative vote, Peru stated that "the free trade zone, the common external tariff and the harmonization of export policies should be dealt together by the Commission since these are interrelated issues" (ibid.: 5). Casting two vetoes in a single meeting of the Commission was without precedent. In this case meant that the CET and the creation of the free trade zone were postponed.

[27]"... the Commission having made important progress on the Common External Tariff, decided to continue to consider the issue in its next meeting" (Comisión, 1992a: 4).

"... there were a 87 percent consensus and 13 percent discrepancies among Colombia, Ecuador and Venezuela..." (Comisión, 1994: 4).

"... the *Junta* ... stressed the important progress reached [on the CET]" (Comisión, 1994a: 3).

[28]There were special treatments for Bolivia and Ecuador, for automobiles, for agricultural products, for items related to health, education and mass media, and for products not being currently produced in the subregion. In case of temporary scarcity, countries could lower their tariffs to 5 percent, and to zero percent if the scarcity lasts more than 6 months. In addition, for 4 years Colombia, Venezuela, and Ecuador could apply their national tariffs to 230 items for the first two countries, and to 400 items for Ecuador. In each of the first three years these countries should reduce their lists by 50 items; and in the fourth year they should eliminate the rest.

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By 1995 no unique and all encompassing CET was in existence. Peru and Bolivia were applying their national tariffs; while Colombia, Ecuador, and Venezuela were applying a common tariff to only 44 percent of the dutiable items. For most of the other items countries were free to apply any tariff.

Adopting the CET was again the most contentious issue in the Andean process. Its protracted negotiation led to the slow down of the process. The similarities of the member countries's foreign trade policies and of their tariff levels were not enough to reach an agreement.[29] Different economic performances, different rhythms in adopting neo-liberal policies, especially reducing tariff and the number of rates (see tables VII.5 and VII.6), and different effects of economic policies pursued, led to these difficulties. Countries with more open and liberal economies like Peru and Bolivia, demanded a quick harmonization of economic policies in order to reduce the negative effects of their asynchronous and dissimilar application. Countries with a less liberal approach, Colombia, Venezuela and Ecuador, wanted to maintain some interventionist economic policies which gave them undue advantages.

More specifically, the aforementioned considerations meant that Peru was not willing to provide more protection to Andean products than it allowed to its own. Countries, however, were not willing to relinquish control of this fundamental policy tool (Peñaranda, 1990: 12),[30] unless the CET reflected very closely the present and potential

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[29]"... it is expected that an external tariff scheme [with low and relatively uniform levels] will be difficult to adopt even though it could have ample political support in each one of the member countries" (Abusada, 1991: 15).

[30]"... a common external tariff ... means ceding some sovereignty with regard to the .... protection of national production in each one of the member countries" (Gana, 1991: 16).

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TABLE VII.5
TARIFF AVERAGE IN THE ANDEAN GROUP: 1986-1992

PHASE	YEAR	BOL	COL	ECU	PER	VEN
STAGNATION	1986	19.99	46.08	38.54	63.53	31.44
	1987	19.99	48.04	39.23	67.46	33.59
	1988	18.85	48.20	39.22	70.36	33.59
	1989	16.65	44.53	42.50	72.13	27.77
PROGRESS	1990	9.80	39.30	32.80	26.30	17.80
	1991 1/ (*)	9.80	14.29 6.72	18.52 15.52	17.60	15.60
	1992 2/ (*)	9.80	11.79	11.94 9.27	17.65	11.74
	1993	9.80	11.60	11.94	16.30	11.80

1/ November 11, 1991
2/ May 28, 1992
(*) Average without tariff surcharges.
SOURCES: JUNAC, 1992: 3; 1994c: 26.

future tariffs of the member countries.

2.4.- Industrial programming

The Quito Protocol replaced the Sectoral Programs of Industrial Development with three forms of industrial programming: industrial integration program, industrial complementation agreements, and industrial integration projects.[31] In the implementation

[31]See chapter VI, footnote 38.

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TABLE VII.6
ANDEAN GROUP: DISTRIBUTION OF DUTIABLE ITEMS (MAY 1992)

Tariff level	Junta's Proposal	Bolivia	Colombia	Ecuador	Peru	Venezuela
0			29	24		118
2				1,014		
5	1,799	256	2,554	957		2,371
7				54		
10	769	6,013	1,124	1,128		1,123
12				5		
15	2,088		1,800	667	4,766	1,706
20	1,545		1,534	975		1,645
25				1	1,716	13
30				1,358		
35			10	322		
40			30	25		
50				6		
Total	6,201	6,269	7,081	6,536	6,482	6,976
Average	12.72%	9.80%	11.79%	15.51%	17.65%	11.74%
Number of levels	4	2	7	13	2	6

SOURCE: JUNAC, 1992a: 2.

of these new forms market forces and entrepreneurial initiatives would play a more important role than planning (JUNAC, 1991: 8; ECLA, 1992: 27; Garay, 1990: 93).

In practice, little was done from 1987 on with regard to industrial programming. The Automobile Program was abrogated by Decision 223 (May 1987), and also the

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Fertilizers Program by Decision 303 (July 1991).[32] Industrial programming in any of its forms ceased to exist when the Commission, in March 1993, adopted the "first incomplete" CET through Decision 335. Article 11 of this decision abrogates, among others, all the decisions concerning industrial programs.[33] The CET and market mechanisms now determine industrial production in the subregion.

2.5.- Common treatment of foreign capital

The influx of private foreign capital became crucial to aid the Andean goals of modernization, increasing efficiency and competitiveness, and acquiring new technologies. In the Andean summit of November 1990, La Paz, Bolivia, it was agreed "to remove obstacles to foreign investment ... especially with regard to the access of foreign enterprises to the advantages of the expanded market" (JUNAC, 1991b: 110). The common treatment of foreign investment, Decision 220, was modified by Decision 291 (March 1991) which made "such treatment more flexible and ... adapted it to the Member Countries' policy of opening up to the world" (Cárdenas, 1993: 9).

Decision 291 provided that treatment of foreign capital be the same as that applied to domestic capital. Article 2 of Decision 291 stated that foreign investors have the same rights and duties as national investors unless national legislation states differently. As a

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[32]In May 1989, at the presidents' insistence the existing Sectoral Programs of Industrial Development (Metalworking, Petrochemical and Siderurgy) were transformed into Industrial Integration Programs (Decisions 296, 299 and 300) in May 1991, but they were not implemented.

[33]The only remaining program is the industrial complementation agreement among Colombia, Ecuador, and Venezuela (November 1993) related to automobiles. It is paradoxical that the last industrial program to be approved (Decision 120, September 1977) and the first to be abolished (Decision 223, May 1987), is now the only existing form of industrial programming.

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consequence there were no more limits to profit remittances or reinvestment, and no more obligation to nationalize the enterprise (that is, to sell the majority of their assets to nationals). There was, also, equal access to domestic credit, and governments were free to compete among themselves to attract investment. "In other words, with regard to foreign investment full authority ... returned to the national level" (ECLA, 1992: 31).

2.6.- Policy harmonization

The need for at least some policy harmonization became more acute the closer the integration process came to eliminating tariffs among the members, and the lower the CET was going to be. Policy harmonization prevented any government from protecting inefficient producers. To do otherwise would have made the increase of production efficiency at the Andean level secondary to the protection of domestic production.[34]

The Quito Protocol completely relaxed the mechanism of policy harmonization, and decisions related to policy harmonization were made more flexible or abrogated.[35]

From 1989 to 1992 the trend changed. In their summit meetings, the presidents first set deadlines to harmonize customs tariff exemptions, and set a cap on incentives to Andean exports. They also ordered the adoption of a common treatment on dumping,

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[34]"... if the member countries really want to have stable and real free trade then they should harmonize key economic policies such as tariffs on third countries, exchange and fiscal policies, government procurement, norms of origin and of safeguards, anti-dumping surcharges, and foreign investment" (ECLA, 1991: 24).

" ... [the] Andean Common Market implies a gradual process of harmonization of economic policies directly related to the functioning of the expanded market ... to avoid distortions in competition" (JUNAC, 1991: 6).

[35]For example, the norms to prevent distortions in trade competitiveness were made more flexible by Decision 230; and the common rules for industrial development were abrogated by Decision 231.

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on export subsidies, and on restrictive practices to free competition; the tightening of the existing Andean norms of origin of the merchandise; the elimination of tariff exemptions; the harmonization of export promotions measures; the adoption of a common customs valuation system; and the definition of guidelines for exchange and monetary policies. Finally, the presidents agreed on the approval of guidelines for the harmonization of fiscal, monetary, financial and payments, and labor policies.

Not all the presidential accords were adopted by the Commission.[36] The ones adopted were directly related to trade or to aspects facilitating trade. In many cases, however, these decisions meant only the approval of general principles, or procedures, or a timetable to continue to debate the issue.[37] No decision, however, was approved to harmonize other policies, such as exchange and monetary policies, but preliminary ideas have been exchanged and studies have been proposed.[38] The basic reason for this lack of progress was that "the coordination of macroeconomic policies means a restriction of the degree of freedom to manage domestic policies, and .... to abandon part of

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[36]The Commission, from 1989 to 1995, approved decisions concerning a common tariff nomenclature, the adoption of GATT's customs valuation system, the mechanisms to insure free competition, common norms about dumping and countervailing duties, and a common customs document. Decisions were also adopted about the elimination of customs tariff exemptions, the prohibition of export restrictions, and actions aiming to restrict competition, the elimination of subsidies, the harmonization of incentives for intrasubregional exports, and the adoption of norms of origin of merchandise (JUNAC, 1992d). Other decisions dealt with industrial property, copyrights, and international road and air transportation of persons and merchandises.

[37]An example is the harmonization of incentives to export. Decision 330 of October 1992, approved with Peru's abstention, in reality, defined only concepts, types, and forms of incentives to be harmonized. Until now, nothing concrete has been done.

[38]See for example: JUNAC, 1992d: 6-8; 1992e; Morales, 1994; Espejo 1994; Gordillo, 1994; Pascó 1994.

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national sovereignty..." (Gana, 1991: 7).[39]

2.7.- Trade within the Andean Group

Among the Andean countries, trade increased steadily in the two phases. Up to a point, then, it can be said that the hypothesis that in times of stagnation trade decreases at least in one year, and in times of progress it increases in all years seems not to be validated for the phase of stagnation, 1987-1989. A closer look at trade figures (table VII.7), however, shows that this is not quite so. During the phase of stagnation intra-Andean exports increased only by the very low rates of 4 and 7 percent in 1988 and 1989, while imports among Andean countries increased by 1 percent in 1988 and, in 1989 actually decreased by 10 percent. The 42 and 46 percent increases in exports and imports respectively in 1987 can be mostly attributed to the relative improvement of the Andean economies in 1986 and 1987 (see chapter VI, table VI.7, and table VII.11), to the very low levels of trade reached the year before (see table VI.2), and to the fact that the signing of the Quito Protocol in May 1987 created new hopes in the subregion.

Between 1990 and 1994, both, Andean trade increased by 20 percent or more each year, and from January to September of 1995 by 42 percent (El Comercio, 1995g: E2).[40] The rapid progress in the elimination of non-tariff barriers and in the reduction of tariffs were the reasons for this improvement, especially due to the full elimination of

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[39]"With regard to policy harmonization, it is evident that members are not yet ready to relinquish sovereignty because they prefer their own interests instead of subregional interests" (Kisic, 1992a: 63).

[40]It is important to point out that intra-Andean trade in 1990 (the first full year of the last phase of progress) surpassed the highest trade level attained so far (which was in 1981, just before the Andean Group went into accelerated regression, see table VI.2).

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TABLE VII.7
ANDEAN GROUP TRADE: 1987-1994

Phase->	STAGNATION			PROGRESS				
	1987	1988	1989	1990	1991	1992	1993	1994
EXPORTS (FOB) (Millions of dollars)								
GRAN	932.9	972.0	1,038.6	1,328.9	1,812.6	2,227.5	2,867.8	3,428.0
World	20,537.5	20,420.1	25,264.1	31,407.1	29,494.7	28,562.8	29,740.0	34,252.4
IMPORTS (CIF) (Millions of dollars)								
GRAN	994.9	1,002.0	905.8	1,260.2	1,716.8	2,045.7	2,653.0	3,280.3
World	20,165.0	22,911.0	17,339.1	18,055.5	22,695.4	26,860.6	29,411.2	30,731.0
TRADE BALANCE								
GRAN	(62.1)	(30.0)	132.9	68.7	95.9	181.8	214.8	147.7
World	372.5	(2,490.9)	7,924.9	13,351.6	6,799.3	1,702.2	328.9	3,521.4
INTRASUBREGIONAL AS PERCENTAGE OF TOTAL TRADE								
Exports	4.54	4.76	4.11	4.23	6.15	7.80	9.64	10.01
Imports	4.93	4.37	5.22	6.98	7.56	7.62	9.02	10.67
RATE OF GROWTH OF EXPORTS								
GRAN	42.37	4.19	6.86	27.95	36.40	22.89	28.74	19.53
World	8.34	-0.57	23.72	24.32	-6.09	-3.16	4.12	15.17
RATE OF GROWTH OF IMPORTS								
GRAN	46.11	0.71	-9.61	39.13	36.23	19.16	29.69	23.64
World	16.15	13.62	-24.32	4.13	25.70	18.35	9.50	-4.49

SOURCES: 1987-1991: JUNAC, 1994; 1993-1994: JUNAC, 1995b: 20; 1995c: 21; 1995f: 24, 26, 28, 30, 40 and author's calculations.

duties in Colombo-Venezuelan trade in 1992,[41] and to the free trade zone formed by Bolivia, Colombia, Ecuador and Venezuela at the beginning of 1993 (EIU, 1993e: 38, 46). Another reason was the improved performance of most of the Andean economies. Between 1990 and 1992 the Andean Group as a whole had its highest GDP growth of this phase (see table VII.11).

[41]Trade between Colombia and Venezuela went from $594 million in 1990 to $1.7 billion in 1994, increasing its sharing of total intra-Andean trade from 45 percent to 50 percent (JUNAC, 1995c: 21).

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3.- VIOLATIONS OF THE ANDEAN OBLIGATIONS

As in the previous chapters, the first type of violations to be analyzed are those infringing the articles of the Cartagena Agreement. The second type of violations are related to the non-incorporation of decisions of the Commission by the member governments. Finally, the third type of non-fulfillment refers to violations of decisions which have already been incorporated to the domestic legal system by changes in national laws.

3.1.- Violations of the Cartagena Agreement

Between the signing of the Quito Protocol (May 1987) and 1989, the violations of the old Cartagena Agreement continued.[42] With the entry into force of the Quito Protocol, many of the violations of the old agreement ceased for the simple reason that most deadlines were abolished. Some of the remaining commitments, however, were not met. For example, member countries did not eliminate non-tariff restrictions to trade once the protocol went into force; and the tariff reduction program was not started by Bolivia and Ecuador in December 1988. Industrial programming continued its paralysis. Finally, with regard to the CET, the member countries did not deal with it. Thus, the situation could be characterized as one of stagnation, since there was no sign of diminishing violations of the Cartagena Agreement.

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[42]"Today [October 1987] trade can be characterized by the coexistence of the multilateral order of the [Cartagena] Agreement with an informal scheme based ... on unilateral non-tariff restrictions and on bilateral accords" (JUNAC, 1987b: 22).

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The presidential accords in the summit meeting of December of 1989 meant stricter obligations than the commitments the member countries had agreed to in the Quito Protocol. It can be said, then, that after 1989 violations of the agreement ceased.

Once the presidential meetings stopped (1992), there was little progress, but there were no violations of the agreement. One exception was Decision 321, approved in August 1992. This decision dealt with the temporary cessation of Peru's obligations with regard to the tariff reduction program and the CET; and its abstention from decisions in these areas and in policy harmonization. This meant that Peru reversed its tariff reduction program, and did not apply the CET or any policy harmonization decision even though, from the legal point of view, it would have had to comply with them.

3.2.- Failure to incorporate the Commission's decisions into the domestic legal systems of the member countries

During the phase of stagnation (1987-1989), nine was the maximum number of decisions not incorporated by the member countries into their national legislation (see table VII.8). This number compares favorably with its similar during the phase of regression, which was 24 (see table VI.3). The minimum number was 6, it, again, compares again favorably with the minimum number, 13, in the previous phase.[43]

In the present phase of progress, the maximum number of decisions not incorporated into the domestic legal systems of the countries dropped from 8 to zero

[43]The first datum (05-11-87) is repeated from table VI.3. It technically belongs not to the regression phase (which ended with the signing of the Quito Protocol (May 1987) but to this phase of stagnation. This is why, in the text above it is stated that the minimum number of decisions not incorporated during the previous regression phase was thirteen.

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TABLE VII.8
DECISIONS NOT INCORPORATED INTO THE DOMESTIC LEGISLATION BY THE MEMBER COUNTRIES, 1987-1992

Phase	Date	Source	BO	CO	EC	PE	VE	TOTAL	(*)
STAGNATION	05-11-87	(1)	6	3	3	2	2	16	6
	03-08-89	(2)	6	3	3	2	2	16	6
	07-18-89	(3)	6	3	6	2	2	19	8
	09-22-89	(4)	8	4	7	3	3	25	9
	11-10-89	(5)	8	4	7	3	3	26	9
PROGRESS	02-28-90	(6)	7	4	5	3	1	20	7
	03-26-90	(7)	6	4	3	3	3	19	7
	09-21-90	(8)	2	2	3	2	2	11	3
	01-16-91	(9)	6	2	5	3	3	19	8
	03-15-91	(10)	4	2	0	2	3	11	5
	05-03-91	(11)	3	2	0	2	3	10	4
	06-18-91	(12)	1	1	0	1	3	6	4
	10-04-91	(13)	2	2	0	1	3	8	3
	11-22-91	(14)	1	2	0	1	2	6	2
	06-10-92	(15)	0	0	0	0	0	0	0

(*) Number of different decisions not incorporated into the domestic legislation one or more countries

SOURCES: (1) JUNAC, 1990b; (2) Ibid.; (3) JUNAC, 1989d; 1989e; (4) JUNAC, 1989f; (5) JUNAC, 1989g; (6) JUNAC, 1990b; (7) Ibid.; (8) JUNAC, 1990b; (9) JUNAC, 1991d; (10) JUNAC, 1991e (11) JUNAC, 1991f; Abusada, 1991; (12) JUNAC, 1991g; (13) JUNAC, 1991h; (14) JUNAC, 1991i; (15) JUNAC, 1992.

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(June 1992 on). One explanation is "the favorable effects of the convergence of national policies and subregional policies ..." (Fuentes and Martínez, 1990: 22). Another reason for this fulfillment was the abrogation of decisions the member countries found too hard to comply with, or were simply not willing to do so. Between 1987 and 1994 seven decisions were eliminated, which more or less coincided with the maximum number of decisions not incorporated in the domestic legislation during this phase. A third reason was that the Commission postponed deadlines and modified decisions whenever it was apparent that the member countries were not going to fulfill their obligations.[44]

To summarize, as expected by the hypothesis of this research project, during the phase of stagnation (1987-1989) the number of decisions not incorporated into the national legislation was less than in the previous phase of regression (1978-1987), but more than in the phase of progress (1990-1995).

3.3.- Violations of decisions already incorporated into the legal systems of the member countries

The most relevant violations of decisions already incorporated into the domestic legislation of the member countries were related to not applying the agreed upon tariff levels. As expected in this study, during the phase of stagnation, the number of dutiable items violated was high (see table VII.9) although not as high as during the phase of regression, when it reached 5,300 items in March of 1984 (see table VI.5). The

[44]An example is the second decision about the CET, Decision 335, approved in March 1993. Its deadlines were postponed three times (Decision 350, December 1993; Decision 357, April 1994; and Decision 365, July 1994).

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TABLE VII.9
DUTIABLE ITEMS VIOLATED: 1987-1992

Phase	Date	Source	BOL	COL	ECU	PER	VEN	TOTAL
STAGNATION	05-11-87	(1)	25	2	806	1650	1793	4276
	03-15-88	(2)	0	765	95	3835	1608	6303
	11-15-88	(3)	0	108	123	325	120	576
	03-08-89	(4)	144	252	3321	85	655	4457
	07-18-89	(5)	139	160	395	53	315	1062
	09-22-89	(6)	139	127	275	34	545	1120
	11-10-89	(7)	139	127	275	34	354	829
PROGRESS	02-28-90	(8)	138	15	275	3	224	655
	03-26-90	(9)	0	15	9	3	224	251
	09-21-90	(10)	11	728	339	865	1915	3858
	01-16-91	(11)	0	22	319	867	1924	3132
	03-15-91	(12)	0	28	3716	1346	1602	6692
	05-03-91	(13)	0	0	107	1321	1555	2983
	06-18-91	(14)	0	24	3	1347	951	2325
	10-04-91	(15)	8	203	4	281	206	702
	11-22-91	(16)	8	287	2	73	205	575
	06-10-92	(17)	562	282	390	213	302	1749

SOURCES: (1) JUNAC, 1990b; (2) JUNAC, 1988c; (3) JUNAC, 1988d; 1988e; (4) JUNAC, 1990b; (5) JUNAC, 1989d; 1989e; (6) JUNAC, 1989f; (7) JUNAC, 1989g; (8) JUNAC, 1990b; (9) Ibid.; (10) JUNAC, 1990b; (11) JUNAC, 1991d; (12) JUNAC, 1991e; (13) JUNAC, 1991f; Abusada, 1991; (14) JUNAC, 1991g; (15) JUNAC, 1991h; (16) JUNAC, 1991i; (17) JUNAC, 1992.

exception was the 6,300 items violated by March of 1988, which could be partially explained by the reduction of tariffs by the member countries, thereby increasing the

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violations of the CMET.

The number of violations steadily declined from September 1989 (after the second presidential summit held in May 1989), until March 1990 (after the summit meeting in Galapagos, Ecuador, held in December 1989). Thereafter the figures were high principally due to the acceleration of the tariff reduction program after each presidential meeting. These high numbers show, not the lack of political will, but more likely than not, the cumbersome domestic procedures to enact tariff reductions.[45]

Another reason for the high number of items violated was that the rapid reduction of tariffs on imports from non-member countries (see table VII.5) placed them below the common minimum tariff (CMET).[46] Since the *Junta* has not reported on these issues from 1992 on, there is no way to know if the member countries are fulfilling these obligations.

The number of trade claims against the member countries among themselves, by the *Junta* and by private companies was not recorded by the *Junta* from 1984 (see table VI.4) until 1990 (see table VII.10). By June 1984, the number of total claims had reached 141. Between September 1990 and June 1992 the number of total claims was between 2 and 13. The last figure corresponds to the last report available (June 1992).

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[45]For example, by Decision 258 (February 1990) the member countries from May 1990 on had to accelerate their tariff reductions. By September 1990 the number of items violated had risen to more than 3,800 from its record low of 251 in March 1990. These violations remained high, reached their peak of 6,700 in March 1991 and remained high until October 1991. In between, Decision 281 (March 1991) and Decision 301 (July 1991) were approved accelerating again the tariff reduction process.

[46]The CMET was reduced in February 1990 (Decision 260), and in March the number of items violated went down to only 251 (the lowest recorded in this phase) from 655 in February. In September 1991 the CMET was reduced again (Decision 309) and the violations went down to 702 items in October and to 575 in November from 2,325 in June.

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TABLE VII.10
CLAIMS MADE TO:

DATE	BOLIVIA BY						COLOMBIA BY						ECUADOR BY 1/					
	C	E	P	V	J	T	B	E	P	V	J	T	B	C	P	V	J	T
092190														1			1	2
011691														1				1
031591					2	2		1				1		1			1	2
050391														2			1	3
061891														2			1	3
100491								1				1						
112291								1				1		1				1
061092			1			1		1	2	1		4		2	1			4

Continues below ...

TABLE VII.10
CLAIMS MADE TO: ... (CONTINUED)

DATE	PERU BY 2/ 3/						VENEZUELA BY						Total	Sources
	B	C	E	V	J	T	B	C	E	P	J	T		
092190									1			1	3	1
011691									1			1	2	2
031591								2				2	7	3
050391					1	1							4	4
061891								1			1	2	5	5
100491	1					2							3	6
112291	1					2		2			1	3	7	7
061092	1	1	1			4						0	13	8

J = The *Junta*

1/ Includes a claim made by an Ecuadorean company to the *Junta* against its government on 06/10/92

2/ Includes one claim made by Peru to the *Junta* on 03/15/91 due to restrictions imposed by the other members countries as a response to the cholera outbreak in Peru.

3/ Includes a claim by a Peruvian company to the *Junta* against its government on 10/04/91, 11/22/91, and 06/10/92.

SOURCES: (1) JUNAC, 1990b; (2) JUNAC, 1991d; (3) JUNAC, 1991e; (4) JUNAC, 1991f; Abusada, 1991; (5) JUNAC, 1991g; (6) JUNAC, 1991h; (7) JUNAC, 1991i; (8) JUNAC, 1992.

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The number of items affected by non-tariff barriers diminished, especially after the entry into force of the Quito Protocol, May 1988, and after the Andean presidents agreed, in May 1989 to "lift immediately and effectively all measures which prevent the full functioning of the [Andean] Liberalization Program, and to abstain from applying new unilateral restrictions" (JUNAC, 1989f: 1; 1991b: 17). In May 1987, by the time the Quito Protocol was adopted, there were more than 5,200 items under non-tariff barriers; by March 1989 the number was less than 700 (JUNAC, 1988b: 5; 1989b: 13). Non-tariff restrictions to intra-Andean trade were completely eliminated by 1992 as a result of the presidential accords.

4.- UNDERSTANDING THE PHASES OF STAGNATION AND PROGRESS

This section presents an explanation of the last nine years of the Andean economic integration process. This period is a composite of two phases: stagnation (1987-1989) and progress (1990-1995). The first three parts will deal with the factors which play a role in explaining both phases. The fourth part deals with an analysis of the output of the Commission in the form of decisions adopted between 1987 and 1994. The last two parts analyze the long-term aims and the economic policies of the governments, focusing on the extent to which they were congruent with the aims and main mechanisms of the new Cartagena Agreement, and of the presidential accords during the last two phases of the Andean process.

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4.1.- The first attempts to change economic policies in the Andean countries (1987-1989)

The signing of the Quito Protocol was a consequence of the beginning of the tendency of national interests to converge again. At the same time the protocol was the minimum common denominator the member countries agreed upon to keep the Andean process alive. The denominator was to improve trade levels and to minimize obligations.

Both the *Junta* and the Commission worked to comply with the Quito Protocol. The "Transition Program" (Decision 225) approved by the Commission in May 1987, and the Plan of Action (June 1987) to put it into practice contained guidelines for gradually clearing the most egregious violations (Comisión, 1987b: 3-4; JUNAC, 1987d). By October 1987, according to the *Junta*, "governments were not fulfilling some obligations [stated in the program] because of the economic difficulties the countries were going through ..." (Gutiérrez, 1987: 19).

Stagnation was the outcome because the Quito protocol was signed before national objectives were clearly defined and during a time when economic recession was still the main concern.[47] In these circumstances, the governments did not find much use for the Andean Pact,[48] and violations remained. The lack of compliance proves again, as proposed by the hypothesis of this dissertation, that governments will pursue their

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[47]"The lack of an explicit and clear political project setting precisely the supreme objectives of the subregion ... constitutes a weak flank" (Rodríguez, 1992; 12).

"... today [March 1987] there are divergent conceptions with regard to the basic guidelines for the strategy of development. In consequence, it is not possible to propose a new strategy of economic development which is applicable to the subregion, nor to pretend that integration can be based on the permanent similarities of the development models of the five Member Countries" (JUNAC, 1987: 14-15).

[48]"... the Quito Protocol ... [has not] been able to make the [Andean] group move without stumbling, even though its objectives have been diluted" (Salgado, 1992: 38).

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interests above and beyond any Andean commitment; and that the Andean institutions can do little to modify this behavior.

4.2.- The revival of the Andean Pact: The convergence of economic policies (1990-1992)

The same economic objectives and the very similar economic policies pursued by the Andean governments from 1989 on provided the basis for the revival of the Andean Group. The presidential meetings were the means for the acceleration of the Andean process. The deadlines for creating a customs union were hastened, policy harmonization was quickened, and some steps easing the movements of capital and labor were taken in order to create a common market. The leading role was taken over by the presidents. The Commission and the *Junta* were left with the task of incorporating the presidential accords into the Andean integration process.[49]

The attempt to speed up Andean integration was meant to facilitate the integration of the Andean countries with the international system in the short-term through trade, and in the medium-term through increased efficiency. Andean integration was also a tool to give these countries more weight in the international system. In other words, subregional integration was a by-product of the Andean governments' unilateral decisions for

[49]"... the [Andean] institutions have been weakened. Today [1993] the *Junta* is a mere Secretariat, because its proposal capacity has been lost. In addition, there is more progress in informal meetings than in the meetings of the Commission. This has originated awkward situations like the Peruvian withdrawal, the continuous changes of decisions, and the adoption of openly illegal norms ... The origin, of course, has to be looked in the meetings of the presidents" (ANDI, 1993: 26).

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international integration and neo-liberal policies (Abusada, 1991: 8; Martínez, 1992: 52).[50]

There were other uses, old and new, that the governments found for the Cartagena Agreement. First, the Andean Group continued to be a tool for aiding development processes. Second, it was considered to be a protection from external crisis (CRESET, 1989: 31). Third, integration was seen "as a network of commitments which provided economic liberalization with stability and continuity" (SELA, 1991: 104).

The main problem was that progress in integration demands greater and greater similarities in domestic economic policies; and more and more common positions with regard to international economic and non-economic issues; as well as a greater participation of society (SELA, 1991: 104).

4.3.- The slow down of the Andean process (1993-1995)

The need for greater harmonization of economic policies was not met by the governments, resulting in a slow down of the Andean integration process. It began when the tariff reduction program was put only partially into practice; the CET was not approved on time; and the harmonization of policies did not progress. These crucial failures combined to end the summit meetings.[51] All of this made the Andean process

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[50]In an entrepreneurial meeting held in Caracas, Venezuela, in May 1989 (after the first presidential meeting, in the same city in February), the participants declared "that the strengthening of the Andean integration is the most adequate road to insure the insertion of our economies into the new realities and the demands of the world economy, and guaranties our permanent presence ... in the international economic scene" (Cumbre Empresarial Andina, 1990: 111).

[51]The self-*coup* of April 1992 in Peru and the failed *coups* in Venezuela in February and November of the same year were the *coup de grâce* to the summits. They were postponed first and later forgotten until September 1995. New governments in Ecuador in 1992, and in Bolivia in 1993 contributed to this state of

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slowdown its progress.

August 1992 can be singled out as the date when the slowing down of the Andean process began. On that date, the Commission approved Decision 321 by which Peru became an observer in the most important aspects of the Andean process: the Andean free trade zone, the CET, policy harmonization, and trade negotiations with third countries.

One precedent for Peru's withdrawal was its statement at the Commission's meeting in December 1991 when the CET was not approved. The Peruvian delegation deplored the lack of agreement on the CET which "increases distortions to competition ... thus, Peru reserves its right to apply the necessary measures to counter their effects ..." (Comisión, 1991: 5).

Another precedent was Peru's Supreme Decree No 014-92-ICTI/DM (April 1992) temporarily suspending the tariff reduction program, adducing the existence of trade distortions due to the lack of equitable competition as a result of the failure to adopt the CET, and to eliminate export subsidies (Cárdenas, 1992: 54). In other words, Peru was demanding the simultaneous creation of the free trade zone, and of the customs union; and at the same time pressing for some economic policy harmonization (JUNAC, 1992b: 45), so unfair competition could be avoided. The temporary suspension of the tariff reduction program by Peru's decree showed that accords can be unilaterally dissolved if they do not fit the interests of the violating country. This fact exemplifies a main finding of this research project, namely, that the governments are the main actors in the process

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and are able to create and undo obligations.

A final precedent was Peru's veto, in June 1992, of the CET, because from the "technical point of view, it was not a CET and was not observing the guidelines set by the presidents in December 1991" (Comisión, 1992: 4).[52]

The most obvious cause of Peru's temporary withdrawal was its increasing trade deficit with the other Andean countries (see table VII.15) officially attributed to the existing distortions in the Andean competition. "Presently, Peru considers that intra-Andean trade is distorted because direct subsidies to exports are maintained by the majority of the countries of the subregion and they are creating a fictitious competitiveness. ... This distortion mainly affects Peru, because it does not subsidize its exports" (VMTINCI, 1993: Paragraph 15).[53]

The most likely reasons for the deficit, however, were domestic currency overvaluation,[54] and economic instability in the form of high inflation, high taxes and

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[52]From a political point of view, the reason given by Peru's minister of Finance, and not recorded in the Final Act of the Commission's meeting was: "Peru could not and would not vote into being the free-trade area and the customs unions, as long as Venezuela did not resume diplomatic relations [severed after President Fujimori's *self coup* on April 1992]" (LAWR, WR-92-25, July 2, 1992: 7).

[53]A different version follows. "Full integration has been held up by developments within Peru. After president Fujimori assumed dictatorial powers with his *autogolpe* on April 5, Venezuela suspended diplomatic relations. Trade talks were also complicated by Peru's desire to retain its higher tariff schedule (with rates of 15% and 25%) and fear that free trade within the Andean Pact would further erode its trade position given its overvalued exchange rate. Thus, in August 1992 Peru suspended its membership until the end of 1993" (EIU, 1993e: 46-47).

[54]The Central Bank adopted in 1990 a policy of quasi-non-intervention in the exchange rate market which led to currency overvaluation. The reasons were: first, there was an inflow of foreign currency owing to the high interest rates because of the Central Bank's tight money policy, as inflation remained a priority. Second, an unregistered influx of dollars was generated by the cocaine trade. Private studies put income from this source at anywhere from $600 million to $1.4 billion a year. Third, the government was willing to support the domestic currency when it showed signs of weakening. Fourth, the substantial inflow of short-term capital and the large inflow of dollars from the privatization of state enterprises, and from foreign investment (EIU, 1992d: 6; 1995d: 10).

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interest rates (Kisic, 1992a: 60, 63-64). In simpler terms, during the negotiation of Decision 321, "Peruvian officials argued the need to temporarily withdraw from the Andean Group because of the deepening of its economic crisis" (INTAL, 1992a: 93).

The slow down brought about by the temporary withdrawal of Peru also reflected the differences among the governments as to the pace and depth of the implementation of the new strategy of economic development,[55] and more importantly the results they were obtaining.[56] "The most important factor[s] which could affect integration plans [were] the persistence of an unsatisfactory performance of the economies, ... their macroeconomic disequilibria" (ECLA, 1991: 18); and the differences in foreign trade policies, and in the speed to open their economies (SELA, 1991: 96).

Between 1989 and 1992 Peru had the lowest rate of growth of the subregion (see table VII.11), the highest rate of inflation (Portocarrero, 1992: 69), and its currency was

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[55]For example, although by 1992 in Colombia "there [was] a loose consensus that economic liberalisation [was] necessary, there remain[ed] a strong lobby for protection, "managed" change and administrative controls" which slowed the implementation of the program (EIU, 1992f: 4).

In the case of Ecuador, "[n]otwithstading the free market approach in some areas [e.g., foreign trade], President Borja's government [1988-1992] is well behind other Latin American countries [e.g., Chile, Argentina, Peru, Bolivia, Colombia and Venezuela] in other key aspects of economic reform, such as trimming back the state sector through privatisation and attracting more foreign investment. Ecuador's implementation of trade liberalisation is also slower than that agreed upon by its partners in the Andean Pact, ... (EIU, 1991c: 8).

"...Peru's economic and trade liberalization process ... is much more accelerated than the other Andean countries" (Canale, 1992 3). "Peru also believed it has gone far further in trade liberalisation than any of its Pact partners other than Bolivia" (EIU, 1995d: 42). "... Peru recognizes ... that it has progressed quicker than its other Andean partners in the same correct direction, however ... the different degree of application of the economic policies among the member countries is detrimental to Peru" (VMTINCI, 1993: paragraph 16).

[56]"The concurrence in time and results and/or difficulties in the adjustment processes help to create an identification among the countries. Paradoxically, then, the same motivation which unites some countries separates others" (Hirst, 1992; 27).

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the most overvalued in relation to the dollar,[57] and in relation to the other Andean currencies (de la Cuba, 1992: Paragraph 12; Anonymous, c1992: 14). As a result, its intra-Andean trade deficit went from $114 million in 1988 to $295 million in 1994 (see table VII.15). The lack of agreement to approve the CET in December 1991 could thus be seen as a pretext for Peru to partially and temporarily withdraw from the process. The evolution of its economy shows that macroeconomic variables are now much more stable, but its currency is still the most overvalued in Latin America (La República, 1995a: 10).[58]

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[57]

REAL EFFECTIVE EXCHANGE RATE 1/ (1980 = 100)

PHASE->	STAGNATION			PROGRESS			
	1987	1988	1989	1990	1991	1992	1993 p/
Bolivia	126.0	132.5	138.2	163.8	157.8	161.9	166.1
Colombia	165.0	171.0	177.5	200.9	194.3	178.1	169.7
Ecuador	180.9	240.6	208.2	226.1	215.5	214.1	193.0
Peru	97.9	99.7	64.7	49.5	40.4	39.4	42.9
Venezuela	186.0	166.6	195.9	217.9	203.9	195.9	189.0

Source: 1987-1993: IDB, 1994: 45, 63, 81, 145, 169.
1/ Real effective exchange rate takes into account the domestic and foreign inflation rates (consumer or wholesale price index), export subsidies and import tariffs and non-tariff restrictions, and selected bilateral exchange rates of the main partners weighted according to the relative significance of exports to those countries and imports from them (see for example, ECLA, 1994: 100).
p/ Preliminary.

[58]The government wants to continue its minimum intervention in fixing the exchange rate and at the same time fears that any abrupt increase of the rate of exchange would fuel inflation, a fact which is today politically unacceptable since the government has fighting inflation as its main preoccupation.

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TABLE VII.11
GROSS DOMESTIC PRODUCT, 1987-1994: RATES OF GROWTH

PHASE	STAGNATION			PROGRESS					
	1987	1988	1989	1990	1991	1992	1993	1994	1995
Bolivia	2.1	2.8	2.4	4.4	5.0	1.8	4.0	4.2	3.5
Colomb	6.0	3.7	3.2	4.3	2.0	3.8	5.2	5.7	5.5
Ecuado	-5.5	12.8	0.5	3.0	5.0	3.6	2.0	4.0	2.5
Peru	7.8	-8.8	-11.2	-5.4	2.8	-2.5	6.5	12.3	7.5
Venezu	3.0	5.7	-8.1	6.5	9.7	6.1	-0.4	-3.3	2.0
GRAN	3.8	3.1	-3.8	3.9	5.9	4.1	2.4	2.1	n.a.

SOURCES: 1987-1989: JUNAC, 1990c: 95-106
1990-1994: JUNAC, 1995c: 29
1995: ECLAC, 1996: 3. Preliminary estimates. Figures have been rounded to the nearest zero or five

Beyond economic policy considerations, foreign policy reasons could convince the Peruvian government in the future to rejoin the Andean Group. If this is so, then, it can be argued that the Cartagena Agreement is still a useful tool for this country. In this case, the increased negotiation capacity within the Andean bloc could become the most important reason to stay.[59] Specific foreign policy considerations could be relevant arguments for Peru to stay in the Andean process. The considerations are: (1) the possibility of improving relations with Ecuador;[60] (2) participation in present and future

[59]This rationality is not different from the ones stated at the end of chapter VI explaining why in the phase of regression, when aims and mechanisms were not supported by the member countries, the governments did not end the Andean process.

[60]Although border conflicts, such as the latest one between Ecuador and Peru in February-March 1995, have temporarily paralyzed the Andean Pact (and this case was no exception), the closer relations derived from the Andean Pact do improve bilateral and personal relations which in "normal" times allow for real

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accords signed by the Andean Pact as a bloc with other countries or groups of countries; (3) international negotiating power in fora such as the World Trade Organization (which in December 1994 replaced GATT), and UNCTAD; and (4) support and goodwill from the other member countries towards Peruvian problems.

Peru, however, was not the only factor causing the slow down of the Andean process. Another factor was the perception of Venezuela and Colombia that immediate integration of their markets, the largest and most dynamic of the Group, would provide them greater benefits.[61] The adoption of a bilateral CET on March 1992, constituted an important step towards increasing their interdependence.[62]

Related to the above were the negotiations of integration agreements by Colombia and Venezuela with Mexico, Chile, Argentina, the CARICOM, and the Central American nations. This did not only reduce the margin of preference for the Andean partners,[63] but did also reduce the negotiating capacity of the Group and of the countries individually

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attempts to address more positively the border problem. This was the case of the three visits, in 1992, of President Fujimori to Quito, the first ever by a Peruvian President. The first visit of an Ecuadorean president to Peru is still being awaited.

[61]"... trade [between Colombia and Venezuela] of US$2.3 bn is projected for [1995], from US$700 m four years ago" (AGR, RA-95-05, June 26, 1995: 8). During the first semester of 1995, Colombia's exports to Venezuela were 48 percent of its Andean exports, while Venezuela's exports to Colombia were 82 percent of its Andean exports; these two countries exported $1,725 million during this period, and constituted 79 percent of the total intrasubregional exports (Gestión, 1995a: 21).

"The relation between Colombia, Venezuela and Bolivia have [sic] been strengthened through times and with the Andean Pact. ... [I]t looks like the increased trade between Colombia and Venezuela is affecting negatively the Peruvian manufacturing sector" (Lizardo, 1995: 17, 18).

[62]"At the end of the 1980s it was clear that the pair of Colombia-Venezuela should be the second pole of integration in Latin America [the first being Brazil-Argentina-Uruguay] ... [W]e believe that integration with Venezuela is the central piece in the strategy of Colombia to participate in the international market in the 1990s. ... The Andean Pact cannot exclude integration with other Latin American countries ... but it should be a bridge towards ALADI ..." (Moreno, 1989: 35-36).

[63]"... the subregional market is being eroded by trade accords. As a matter of fact, a trade liberalization accord among Mexico, Venezuela and Colombia would, in practice, eliminate Ecuador's possibilities to export to latter two..." (ANDI, 1993: 26).

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(INTAL, 1991: 42; JUNAC, 1991j: 1-3). Bolivia and Peru have shown interest in having closer links with MERCOSUR.[64] The disintegration of the Andean Group has been made more likely with the approval of Decision 322 in August 1992 (Peru abstained), which allowed the member countries to pursue bilateral negotiations with the sole obligation to keep the Commission informed. A possible future scenario could be the dismembering of the Andean Pact and the creation of an integration process among Colombia, Ecuador and Venezuela.

The temporary withdrawal of Peru shows, as anticipated by this study, that the governments of the member countries, when they are in agreement, can go beyond what the Cartagena Agreement states.[65] "Community interests are generated from the sum of the different national interests. ... community needs ... [are] subordinated to ... national interests, and to the options chosen by each state with regard to the 'method' and the 'results' obtained from their processes of economic reform" (Hirst, 1992: 27).

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[64]In early 1990s, Bolivia was "considering whether it might be better to become a member of the fledgling Mercado Común del Cono Sur (Mercosur)" (EIU, 1991f: 10). In July 1992, according to the *Financial Times* (Kendall, 1992: 5) "[t]he government of President Jaime Paz Zamora said that Bolivia, which has lower tariff than the other Andean countries, "may well" seek full membership of Mercosur ... Such a move, ... would require [Bolivia] to withdraw from the Andean Pact."

"The Peruvian minister of Economics and Finance, Carlos Boloña Behr, declared ... that his country is studying the possibility of having closer links with Mercosur ... It seems to us a more advanced integration system which has a bright future... (El Comercio, 1992a: A1).

[65]Although the treatment accorded to Peru by Decision 321 was not considered in the text of the Cartagena Agreement, neither it allow the Commission to sanction the arrangement they adopted by Decision 321.

A more important aspect of Decision 321 was in its Article 3. This article allowed Peru to make trade agreements with the other members "within the existing legal framework." The agreements signed, however, included norms to solve controversies outside the purview of the *Junta* and the Andean Tribunal (Cárdenas, 1994: 10), the organs legally in charge of dealing with these issues.

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4.4.- The Commission's output during the phase of stagnation (1987-1989 and the phase of progress (1990-1994)

The output of the Commission, as expected in this dissertation, was higher during the phase of progress than in the phase of stagnation. After approving 20 decisions in 1987 (due to the optimism created by the signing of the Quito Protocol in May 1987), the Commission adopted only 11 decisions in each 1988 and 1989 (see table VII.12). Between 1987 and 1989, the average number of decisions adopted per session went from 4.0 in the first year, to 2.75 in the second, to a mere 1.83 in the last year of that phase.

Of the 20 decisions approved in 1987, 15 were important new or modifying decisions. Nineteen of the 22 decisions adopted in 1988 and 1989 were not important.[66] The three important decisions were: Decision 243 setting the rules by which Ecuador would begin its tariff reduction process; Decision 244 which modified Decision 169 on Andean multinational enterprises; and Decision 257 modifying the norms about international road transportation. In other words, only one decision dealt with a new issue.

In the following phase, that of progress, the Commission's output rose to around 20 decisions in each year except for 1991 when it rose to 34 (the highest ever), and for 1995 when it went down to 15. The average number of decisions adopted per session was 3 or more during this phase, reaching an average of 5.5 decisions in 1993.

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[66]Among these decisions were Decision 236 codifying the Cartagena Agreement; Decision 239 recognizing the Andean Confederation of Lawyers as a subsidiary organ of the agreement; Decisions 240 and 241 extending a member's *Junta* term; Decisions 245, and 246 approving the budgets of the *Junta* and the Andean tribunal; Decisions 250-256 on cooperation in agriculture; and Decisions 247 naming members of the *Junta*.

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TABLE VII.12
DECISIONS APPROVED DURING 1988-1994

	69-73	74-78	79-86	1987	1988	1989	87-89	1990	1991	1992	1993	1994	1995	90-95
PHASE --->				STAGNATION				PROGRESS						
1 DECISIONS	81	55	85	20	11	11	42	21	34	18	22	19	16	130
2 NEW ISSUES	58	36	63	11	9	9	29	16	21	16	16	10	6	85
2.1 Important 1/	32	8	8	7	1		8	10	11	5	2	4	2	34
2.2 Unimportant	26	28	55	4	8	9	21	6	10	11	14	6	4	51
3 MODIFYING DECISIONS	23	19	22	9	2	2	13	5	13	2	6	9	10	45
3.1 Important 1/	1	7	16	8	1	1	10	3	11	2	3	3	2	24
- Strengthening		3	4	4	1	1	6	1	6	2		1	1	11
- Weakening	1	4	12	4			4	2	5		3	2	1	13
3.2 Unimportant	22	12	6	1	1	1	3	2	2		3	6	8	21
4 SESSIONS	25	19	47	5	4	6	15	7	9	4	4	5	7	36
4.1 WITH DECISIONS	22	16	35	4	4	4	12	7	8	4	4	5	6	34
- Ordinary	13	11	16	3	1	2	6	3	4	3	3	2	2	17
- Extraordinary	9	5	19	1	3	2	6	4	4	1	1	3	4	17
4.2 WITHOUT DECISIONS	3	3	12	1		2	3		1				1	2
- Ordinary			2	1			1						1	1
- Extraordinary	3	3	10			2	2		1					1
5. 1/4	3.24	2.89	1.81	4.00	2.75	1.83	2.80	3.00	3.77	4.50	5.50	3.80	2.28	3.61
6. 1/4.1	3.68	3.44	2.43	5.00	2.75	2.75	3.50	3.00	4.25	4.50	5.50	3.80	32.66	3.82

1/ Important is defined as decisions that have direct impact in the progress of the principal mechanisms of the Andean process.
SOURCES: JUNAC, n.d.: 1-33; Actas de la Comisión.

Between 1990 and 1995, of the 129 decisions adopted by the Commission, 57 were important, and 72 were not. Examples of the important decisions were: Decision 258 implementing the Strategic Design approved in Galapagos, Ecuador; Decision 281 implementing the deepening of the Strategic Design approved in La Paz, Bolivia, November of 1990; Decisions 260 and 273 modifying the CMET; Decision 263 withdrawing products from the list of products reserved for industrial programming; Decision 271 approving the Andean road system; Decisions 282 to 285, and 330 harmonizing some trade policies; and Decision 293 on norms of origin; Decisions 335 and 370 adopting the CET; Decisions 350, 357 and 365 modifying the CET; and Decisions 340 and 341 reducing the debts of the member countries owed to the *Junta* and the Tribunal.[67]

The slow down of the process from 1993 on is shown by the fact that of the 56 decisions approved between this year and in 1995, only 15 were important. This situation is also illustrated by the fact that for the first time in Andean history, eight decisions were adopted with the abstention of Peru and/or Ecuador;[68] that for the first time ever

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[67]Examples of unimportant decisions adopted by the Commission were (besides naming members of the *Junta*, and approving budgets): Decisions 276 and 328 related to agricultural cooperation; Decision 290 approving the Andean insurance policy for international road transportation; Decision 337 on rules for importing used clothes; Decision 342 recognizing the Andean Association of Enterprises and Institutions of Water and Sewage; and Decision 351 on common rules for copyrights.

[68]Decisions in which Peru abstained from voting, in accordance with Decision 321 (temporary and partial withdrawal of Peru), were: Decision 322: Rules to negotiate trade agreements with Latin American and Caribbean countries; Decision 324: Guidelines for the CET, the tariff reduction program, and incentives for intrasubregional trade; Decision 330: Elimination of subsidies and harmonization of incentives to intrasubregional trade; Decision 335: The CET; Decision 357: Modification of the CET; Decision 370 adopting the last version of the CET; and Decision 371 approving the flexible tariff system for agricultural products. Ecuador abstained from voting on Decision 281 related to the deepening the tariff reduction program after the presidential meeting in La Paz, Bolivia.

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two proposals of the *Junta* were vetoed by Peru and on one of them Ecuador abstained;[69] and that one proposal was approved with Peru's negative vote.[70]

From the foregoing analysis, as expected by the hypothesis of this study, it can be concluded that during the last phase of progress, the activity of the Commission was greater than during a phase of stagnation.

4.5.- The long-term economic aims of the member countries and the Andean Group

As in the previous chapters, in this section the member countries' relevant long term economic goals, as defined and changed by their governments, will be compared with the new aims of the Cartagena Agreement. These new aims as stated at the beginning of this chapter are: primacy of the market, export-oriented industrialization, and the increased role of foreign investment. The similarity between the Andean aims and the goals of the governments during the phase of progress, and the dissimilarity during the phase of stagnation will constitute, as anticipated by this research project, a owerful explanation for the stagnation and the progress in the process.[71]

a) Colombia

Between 1987 and 1990, that is for the phase of stagnation, 1987-1989,

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[69]Peru vetoed Proposal 245/Mod. 2 on the CET on June 1992. Ecuador abstained and Peru also vetoed Proposal 251.Mod. 2 on deepening the Andean integration process in June 1992.

[70]Decision 320 on air transportation.

[71]Following the practice of the preceding chapters Colombia has been analyzed alone, while Peru has been paired with Venezuela, and Bolivia with Ecuador. The rationale for this is the similarities in their levels of development, and their economic policies.

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Colombia[72] continued with its development model of "efficient industrialization." This meant periodic adjustments of the dollar to compensate for the rise in domestic costs, credit and tax incentives for exports, and gradual liberalization of imports, coupled with a cautious handling of fiscal and monetary policies (ECLA, 1989b: 207), and the increasing role of the market. In the development plan for 1987-90 (*Plan de Economía Social*), the role of the state was diminished, the privatization of public enterprises was proposed, and the tariff reduction program was accelerated (JUNAC, 1991a: 74).

In February 1990, the outgoing government of Colombia unveiled the "Modernization Program for the Colombian Economy," *(Programa de modernización de la economía colombiana)*. Its basic objective was to integrate Colombia into the international economy by gradually increasing its competitiveness through trade liberalization (Zapata, 1991: 40; IDB, 1990: 83; IDB, 1991: 61, 63). "It was based on the consensus that, in order to recover from the growth rates of the 1980s, a different development strategy was needed" (Fleischer and Lora, 1994: 15).

This program was continued by President Gaviria (1990-1994) which took office in August of 1990 (IDB, 1991: 61). His development plan for 1991-1994, entitled Peaceful Revolution *(La Revolución Pacífica)* in addition, emphasized investment in export infrastructure (EIU, 1992b: 9), and the reduction of state intervention in the economy (Fleischer and Lora, 1994: 15; ECLA, 1994: 85). He "opted for greater and more rapid liberalisation ... The overall strategy [was] letting markets determine prices, opening up to external competition and allowing more foreign participation in the

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[72]For accounts of Colombia's economic reform see Urrutia, (comp.) 1993; Urrutia, 1994; Lora, (ed.) 1991; Lora and Crane (eds.) 1991; Thorp, 1991.

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economy..." (EIU, 1992f: 4). The 1994-1998 Plan under the new administration of the also Liberal Ernesto Samper Pizano, continues along the lines of his predecessor.

In short, Colombian administrations have been moving toward a neo-liberal model. This process was accelerated between 1990 and 1994. Colombia, thus, was supportive of the primacy of markets, of export-oriented industrialization, and of a greater role for foreign investment in these last two phases of the Andean process.

b) Peru and Venezuela

Peru, between 1987 and July 1990, the last three years of the García Administration,[73] saw the end of the "heterodox" economic model based on the expansion of consumption (1987-1988) and the application of orthodox programs without external support (1988-1990). These years were "a lacklustre [sic] period of policy-making leading to considerable demoralization" (Thorp, 1991: 137). During this period, attempts were made to reactivate industry through increasing protection.[74] At the same time, foreign direct investment continued to be under the rules of Decision 24 even though they were already relaxed in May 1987 (JUNAC, 1991a: 76-77).

"The new government [headed by Alberto Fujimori, 1990-1995] had two main economic objectives: to stabilize the economy and to achieve the reintegration of Peru into the international financial community" (IDB, 1991: 147). It launched a drastic

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[73]For the political and economic conditions of Peru since the 1980s see: Apoyo, 1992; Crabtree, 1992; Escobal, 1992; Graham, 1992; Paredes and Sachs, 1991; Pastor and Wise, 1992; Rudolph, 1992; Thorp, 1991.

[74]"In 1986, ... [a] wide range of imports was also banned [in Peru] to encourage further import substitution and promote local manufactures" (EIU, 1990d: 8).

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stabilization program based on closing the fiscal deficit through a substantial real increase of the price of gasoline and of public utility rates; the elimination of all subsidies and price controls; the replacement of the multiple exchange rate system by a market-determined floating exchange; the elimination of import licensing procedures, tariff exemptions, and non-tariff barriers; the reduction of customs tariffs; the simplification of the tariff structure; and the elimination of all restrictions to foreign investment (IDB, 1991: 7-8, 147-148; 1992: 164; EIU, 1992d: 9).[75]

In longer terms, the government adopted "a new pattern of economic development based on efficiency, modernization, and international competitiveness, gradually eliminating foreign trade difficulties ... The state [furthermore] must provide guidance, not implement productive activities" (Fujimori, 1993 [1995]: 442-443). The new constitution approved in 1993, "enshrine[d] the principles of the free market economy, [and] reduced the role of the state ... (EIU, 1995d: 6). During the 1990s, industrial development was to be based on technological modernization, efficiency, competitiveness and quality. The aim was to develop production lines in the areas in which Peru has comparative advantages (Portocarrero, 1991: 6-8).

To summarize, during the phase of stagnation (1987-1989), Peru was clearly not supportive of any of the new aims of the Andean Pact. Between 1990 and the present, Peru supported the three main objectives.

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[75]These actions led to a 397 percent inflation rate for the month of August 1990 (when the first, and most drastic, set of economic measures was instituted); and to an annual inflation of 12,378 percent for 1990. Both figures were records (EIU, 1992d: 9).

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Venezuela, between 1987 and 1989 (the phase of stagnation),[76] was guided by its seventh Development Plan (1986-1989). Some of its objectives were to stimulate private domestic and foreign investment, to continue government participation in production, and to further a more efficient import substitution industrialization.

Soon after he took office for the second time in February 1989, President Carlos Andrés Pérez launched a comprehensive and drastic program of structural change. He decided to shift from inward- to outward-oriented economic development, giving substantial room to non-traditional exports, private enterprise and market forces (de Janvry et at., 1994: 123). The program

> included ... elimination of all import restrictions, and reduction of tariffs to a narrow band; elimination of all exchange controls and adoption of a free floating rate... compatible with the development of non traditional exports; price liberalization; the restructuring of the public sector ... and privatization of parastatal [sic] enterprises; a comprehensive tax reform; ... and the elimination of restrictions on foreign investment; ... (Rodríguez, 1994: 378).

In harmony with the new strategy of development, the eighth five-year plan, 1989-1994, mapped a switch to an outward, market oriented strategy for the 1990s (EIU, 1993e: 9). With regard to industrial development, the plan emphasized exports, a diminished role of the state and of public investment, and the privatization of non strategic public enterprises (JUNAC, 1991a: 77).

Political instability from early 1992 on, prevented implementation of these

[76]For analyses of the political economy of Venezuela see de Janvry, 1994; Naim, 1993; and Perry and Bailey, 1994.

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measures.[77] In 1994 and 1995, the new Venezuelan government found itself imposing exchange controls and other anti-free market measures reversing the liberalization process, and unsuccessfully applied nine economic programs (EIU, 1995e: 10; LAWR, WR-94-35, September 15, 1994: 418; Moffett, 1995: A10).

Between 1987 and 1989 Venezuela was supportive of a greater role of foreign investment, but was not supportive of export-oriented industrialization or the primacy of the market. During the phase of progress (1989-1995), the administration supported the three aims of the Andean Pact. This support lasted until 1994, when dictated by the circumstances, controls were placed on market mechanisms, while support of the other two objectives continued.

In conclusion, Peru and Venezuela were not supportive of market mechanisms and export-oriented industrialization during the phase of stagnation (1987-1989). In this phase, Peru was also not supportive of a greater role for foreign investment, while Venezuela supported it. In the next phase, both countries supported all three aims, except for Venezuela which did not support market mechanisms.

c) Bolivia and Ecuador

From 1987 to 1990 the stabilization programs, tax reform and economic

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[77]In February and November 1992 there were two attempts to overthrow the president. In May 1993 Congress voted to strip President Carlos Andrés Pérez of his judicial immunity after the Supreme Court found grounds to charge him with corruption in connection with government secret funds used to pay security guards of the President of Nicaragua, Violeta Chamorro. He was replaced by the President of the Senate, Octavio Lepage, until June 1993 when Congress elected the independent senator Ramón José Velásquez, as interim president. In September 1993 Congress suspended Carlos Andrés Pérez from the presidency indefinitely (EIU, 1995e: 4). In February 1994, independent Rafael Caldera, a former Christian Democrat president, took power.

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revitalization efforts in Bolivia,[78] introduced in August 1985, provided for an economic system in which prices were determined by market forces and private-sector participation in the economy was encouraged (IDB, 1990: 62).

At the beginning of 1990, the new Bolivian government issued four decrees ratifying its determination to continue the process of liberalizing the economy to promote private investment, to privatize public enterprises, and to decentralize the state administrative system. Between 1990 and 1992, Bolivia continued to apply measures aimed at its economic stability and reform of institutional framework in order to promote private sector development (IDB, 1991: 43; 1993: 45).

The present government (1993-1997) headed by president Gonzalo Sánchez de Lozada (Minister of Planning in charge of the liberalization of the Bolivian economy during the Paz Estenssoro administration), continued the same neo-liberal strategy of development. Special emphasis has been given to the capitalization of public enterprises through investment of private capital, or their transfer to the private sector under a conventional privatization arrangement (IDB, 1994: 46; Hendrix, 1995: A15).

In short, since 1985, when Bolivia adopted a neo-liberal development strategy, this country has supported the three new aims of the Andean Group.

The Ecuadorean development plan of 1985-1988 proposed the reduction of state participation in the economy, and to limit its role to provide clear and stable rules; it also aimed at increasing the participation of the private economic actors in the development

[78]For an analysis of the reforms see Morales, 1992.

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process (JUNAC, 1991a: 75).[79]

The collapse of the price of oil in 1986 from $25 to $12 a barrel, the March 1987 earthquake, which cut Ecuador's oil production and exports for six months, and political instability brought, "[b]y early 1988, large budget deficits, and growing inflation [which] forced the reimplantation [sic] of import restrictions and a multi-tiered exchange rate..." (de Janvry et at., 1994: 73).[80]

Within days of taking office in August 1988, the administration of Rodrigo Borja announced stern measures to stabilize the economy. By the end of 1989 the government began to shift from stabilization to a growth-oriented program based on the encouragement of non-oil exports, private sector initiative and investment, and a market oriented approach. Some of the goals were trade liberalization, and increased competitiveness (EIU, 1993c: 9; de Janvry et at., 1994: 79; IDB, 1991: 81).

> The new [Ecuadorean] administration, headed by the pro-market Sixto Durán- Ballén [1992-1996], moved as quickly as its predecessor in instituting reform when it came to power in August 1992. Sweeping fiscal reforms were announced including a major privatisation programme, the country's long-delayed entry into the Andean Pact free trade area was implemented and, in January 1993, a new foreign investment code was announced (EIU, 1993c: 9).

The aims of the program were to improve economic efficiency through trade liberalization, market competition and foreign investment; through a substantial

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[79]For details of the political economy of Ecuador see de Janvry et al, 1994.

[80]Political problems made President Febres Cordero weaker. In January 1987 he was abducted by air force paratroopers who successfully demanded the release of the leader of the March 1986 Air Force revolt. Later Congress voted to demand his resignation, and forced the resignation of several of his ministers. Another factor which eroded public support for Febres Cordero's program of free competition was the increasing political opposition from the political parties, from the opposition controlled Congress, and from private entrepreneurial groups. "The positive results of the liberalisation programme were ultimately undermined not only by external conditions but also by the president's attempts to bolster political support and salvage his image through large public works investment" (de Janvry et at., 1994: 73).

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restructuring of the public sector, and the dismantling of the interventionist state (IDB, 1993: 85; LAWR, WR-93-32, August 19, 1993: 375).

In summary, Ecuador during the phase of stagnation (1987-1989), was not supportive of market mechanisms or export-oriented industrialization. A greater role for foreign investment, however, was supported by the Ecuadorean government. In the phase of progress, 1989-1995 Ecuador supported the three aims of the Cartagena Agreement.

Bolivia and Ecuador supported a greater role of foreign investment during the phase of stagnation (1987-1989). Bolivia supported the other two objectives but Ecuador did not. In the other phase both countries supported all the aims.

In brief, the five countries were almost equally divided in supporting and not supporting the new aims of the Cartagena Agreement during the phase of stagnation. The primacy of the market and export-oriented industrialization were not supported by three of the five countries; while the greater role of foreign investment was supported by four of them. In the next phase, governments supported the three Andean objectives, except for Venezuela which did not support the primacy of the market (see table VII.13).

4.6.- The economic policies of the Andean countries

After the changes brought by the Quito Protocol and the presidential accords, the most important mechanisms became: tariff reduction program, common external tariff, and policy harmonization. The similarities or dissimilarities between these mechanisms and the economic policies of the member countries, as in the other chapters, will provide evidence to substantiate the claim of this study that these similarities or the lack of them

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TABLE VII.13
RELATIONSHIP BETWEEN ANDEAN AIMS AND
NATIONAL OBJECTIVES 1987-1995

ANDEAN AIMS	CO	PE	VE	BO	EC	TOTALS
STAGNATION (1987-1989)						
Primacy of market mechanisms	S	N	N	S	N	2S 3N
Export-oriented industrialization	S	N	N	S	N	2S 3N
Greater role of foreign investment	S	N	S	S	S	4S 1N
						8S 7N
PROGRESS (1990-1995)						
Primacy of market mechanisms	S	S	N	S	S	4S 1N
Export-oriented industrialization	S	S	S	S	S	5S
Greater role of foreign investment	S	S	S	S	S	5S
						14S 1N

S = Supportive N = Not supportive

explain progress or stagnation, respectively, of the Andean process.

a) The case of policy harmonization

Trade policies (especially tariff reductions) as well as trade figures constitute the main elements to contrast the governments' policies with the Andean mechanisms of the tariff reduction program and CET. In the case of policy harmonization, many policies are involved, such as monetary, fiscal, financial, and exchange policies, as well as policies directly affecting trade, i.e. subsidies to exports, drawbacks, special regimes for

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exports and imports, dumping, etc. As is clear from the discussion of policy harmonization at the Andean level (section 2.6 of this chapter), little progress was made regarding policies directly related to trade, and practically no progress was made in harmonizing other policies. This reflects the difficulty of handling the implementation of this mechanism, the lack of enthusiasm by the member countries to support it, and their unwillingness to limit their sovereignty and their national interests.

It is possible, however, to distinguish different attitudes of the governments during the last two phases the Andean process. During the phase of stagnation (1987-1989), the member countries were quite comfortable with the relaxed provisions on policy harmonization introduced by the Quito Protocol.[81] Governments were still grappling with stabilization measures and finding ways to reestablish growth. In this situation, they were interested in having the greatest control over the economic tools. Suffice is to say that even intra-Andean trade restrictions were maintained in these years. In this phase all the governments were indifferent to policy harmonization.

In the first years of the phase of progress (1989-1992), the Andean presidents supported the pursuit of some policy harmonization. This limited support was based on the need to eliminate distortions in the intra-Andean trade.[82] It was at this time that

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[81]"... until 1988, economic policy harmonization had a limited development" (JUNAC, 1992d: 1).

[82]The need to have some policy harmonization is the direct result of the aim of the governments to pursue an efficient international integration, in which subregional integration is the stepping stone. In order for the Andean Group, then, to be an experimental area, the member countries have to create free trade conditions within the subregion (as if trade was conducted within each country). To accomplish it, they need to eliminate intra-trade barriers, to have a common external tariff, and to eliminate distortions in trade due to the pursuit of different economic policies. In other words, ideally, to have free trade, an economic union has to be created. This would include the harmonization of economic policies. This is far beyond what any government is willing to accept as shown by the European Union. It is not a surprise that policy harmonization is so difficult to pursue, even at its initial stage, when the immediate aim is to neutralize the most glaring distorting effects its absence produces in the intra-Andean trade.

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policy harmonization made some progress, reflecting the rapid economic liberalization of Colombia, Peru and Venezuela.

From the last quarter of 1992 to 1995, however, no important decisions were approved to harmonize policies. Most member countries became again indifferent to it since they were not ready to reduce further their control of these instruments. The exception was Peru, which not only supported but demanded a radical harmonization of foreign trade instruments along the lines of its national policies. Because Peru did not succeed, it refused to support the other two mechanisms during this later part of phase of progress. This situation is shown in table VII.19. The phase of progress is therefore divided in Progress (1990-1992) and Slow Progress (1993-1995).

Given the above discussion, the analysis of policy harmonization will not be treated separately below. Suffice it to say that all the governments, except for Peru, kept an array of incentives to promote their exports to both the other Andean members, and to third countries.[83] All Andean countries also applied other economic policies quite

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[83]The 1991 Colombian new foreign trade law created the Council of Foreign Trade in charge of designing the policies, and the Ministry of Foreign Trade in charge of the implementation. The Exports Promotion Institution *(PROEXPO)* was replaced by the Colombian International Trade Bank *(BANCOLDEX)* in charge of financing and promoting exports, and offering other financial services (EIU, 1992b: 39; Fleischer and Lora, 1994: 17; Lora, 1992: 174-175).

In August 1990, Venezuelan incentive payments in the form of fiscal credits for non-traditional exports were lowered from 30 percent to 5 percent of fob value for manufactures and to 6 percent to agricultural products. In 1991 the export subsidy was replaced by an import drawback system (EIU, 1995e: 47; IDB, 1991: 172).

"In March 1991 a new [Bolivian] export code, *Régimen Nacional de Exportaciones*, came into effect. It introduced ... a "drawback" mechanism (to devolve import dues on goods to be re-exported) effectively reducing further the remaining modest export incentives" (EIU, 1993a: 32). In April 1992, "a single window" to facilitate and centralize export procedures in a single office was established. On July 1992 the Ministry of Exports and External Competitiveness was created (IDB, 1993: 45).

In September 1990, the CERTEX and FENT (the most important exports subsidies in Peru) were eliminated (Paredes, 1994: 232; Escobal, 1992: 252).

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differently.[84] The bottom line was that Andean governments, except Peru's, had chosen not to pursue policy harmonization earnestly because it would limit their sovereignty in economic policies.[85]

b) Colombia

b.1) The tariff reduction program.- Colombian exports to the other Andean countries, after increasing by 44 percent in 1987, decreased for the next two years by 12 and 14 percent (see table VII.14). Except for 1994, exports increased in each of the years of the phase of progress, 1991 being the year in which it increased by an outstanding 109 percent, followed by an impressive 30 percent increase in 1992.

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[84]For example, member countries had quite different and changing exchange policies and exchange systems. The exchange system in Colombia became less and less regulated by the Central Bank from 1990 on. By the end of 1990 a new law on foreign exchange replaced the one existing since 1967. The aims were to liberalize exchange operations, and increase market influence. It allowed holdings abroad by nationals, and abolished the Central Bank monopoly on currency transactions (EIU, 1991f: 10; Lora, 1992: 168). The Central Bank, however fixed the exchange rate in daily basis until January 1994, when it was replaced by a free market system (EIU, 1995b: 8).

From 1978 to 1985 a system of minidevaluations was applied in Peru. From 1985 to 1990 a multiple tier exchange rate (which had up to ten different rates in a given period) was applied. In August 1990, the new government returned to a free market determined exchange rate.

The adjustment package introduced in Venezuela by the Pérez administration in early 1989 included a single, freely floating rate and the removal of all restrictions of access to foreign exchange (EIU, 1990e: 9). By May 1994, this system was replaced by rationed auctions of foreign exchange to stem the massive loss of reserves but it created many exchange rates. From June on a comprehensive exchange control was imposed with a single fixed rate, and parallel market transactions were forbidden (LAWR, WR-94-18, May 19, 1994: 205; WR-94-25, July 7, 1994: 289; WR-94-26, July 14, 1994: 301; WR-94-27, July 21, 1994: 314; WR-95-24, 1995: 287, EIU, 1995e: 9).

In Bolivia, since August 1985 the official rate has been allowed to float more or less freely (EIU, 1993a: 8).

From 1971 to 1992, Ecuador has had a multiple exchange rate system. It has gone from a two tier to a four-tier system, and since 1988 it is a three-tier system. Minidevaluations and periodical maxidevaluations have been the method to adjust the exchange rate. Since November 1992, the government allowed exporters and importers to trade their currencies in the free market, which in practice led to the floating of the sucre (EIU, 1993c: 7).

[85]This, of course, leads to the vicious circle of not pursuing policy harmonization because the Andean market is too small, and that the Andean market is too small because policy harmonization is not pursued.

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TABLE VII.14
COLOMBIA: ANDEAN TRADE 1987-1994

Phase->	STAGNATION			PROGRESS				
	1987	1988	1989	1990	1991	1992	1993	1994
EXPORTS (FOB) (Millions of dollars)								
GRAN	405.0	358.1	309.3	372.8	778.4	1.014.4	1,139.0	1,109.8
World	5,024.4	5,026.2	5,739.4	6,765.0	7,244.3	7,071.7	7,123.5	8,407.9
IMPORTS (FOB) (Millions of dollars)								
GRAN	227.9	328.2	383.4	473.6	475.8	647.7	1,297.6	1,541.8
World	4,228.0	5,005.3	5,010.5	5,588.5	4,967.0	6,513.0	9,841.0	11,855.7
TRADE BALANCE (Millions of dollars)								
GRAN	177.1	29.9	(74.1)	(100.8)	302.6	366.7	(159.0)	(432.0)
World	796.5	21.0	729.0	1,176.5	2,277.3	558.7	(2,717.6)	(3,447.7)
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE								
Exports	8.06	7.12	5.39	5.51	10.75	14.34	15.98	13.20
Imports	5.39	6.56	7.65	8.47	9.58	9.95	13.19	13.01
RATE OF GROWTH OF EXPORTS								
GRAN	43.95	-11.59	-13.60	20.50	108.82	30.31	12.51	-2.53
World	-1.63	0.04	14.19	17.87	7.08	-2.38	0.73	18.03
RATE OF GROWTH OF IMPORTS								
GRAN	-8.39	44.03	16.83	23.51	0.47	36.13	100.33	18.82
World	9.76	18.38	0.10	11.54	-11.12	31.12	51.10	20.47

SOURCES: 1987-1991: JUNAC, 1994; 1993-1994: JUNAC, 1995b: 20; 1995c: 21; 1995f: 24, 26, 28, 30, 40 and author's calculations.

The share of Andean exports out of the total Colombian exports, surpassed the 10 percent barrier in 1991, and since then has continue to increase. The share of imports, also increased, but below that of exports. For Colombia the Andean market was growing in importance. Therefore the government supported the tariff reduction program during

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this period (1987-1995). This support was more intense during the phase of progress (1989-1995), since it coincided with the liberalization of Colombia's international trade. Support for this mechanism also stemmed from the Colombian long-term policy of promoting its exports.

b.2) Common external tariff.- Between 1987 and 1989, the Colombian government increased its trade restrictions to third countries. The percentage of dutiable items under import control increased from 55 percent in 1987 to 60 percent in 1989 (Urrutia, 1994: 291). These restrictions increased Colombia's indifference to the approval of a CET, since it would have resulted in a drastic and rapid reduction in the protection of domestic production via elimination of import controls.

From February 1990 to 1992, the government implemented a program of tariff reduction. By May 1993 there were concentrated in four tariff levels: 5, 10, 15 and 20 percent. Agricultural products were protected by a system of variable tariffs. During 1991, the government eliminated non-tariffs barriers to imports, and the import surcharge was brought down to 8 percent. The average tariff went down to 11.8 percent, in May 1992 from 44.5 percent in December of 1989 (see table VII.5). The 75 percent tariff applied to automobiles was reduced to 35 percent after accords with Ecuador and Venezuela in November 1993. Since 1992, tariffs have remained without major variations (EIU, 1990b: 36; 1992b: 38; JUNAC, 1991: 8; IDB, 1991: 63-64; Fleischer and Lora, 1994: 16; Urrutia, 1994: 291, 296).

The acceleration of the opening of the Colombian market to foreign competition,

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and the acceleration of the Andean trade liberalization process from 1990 on, established an increasing willingness by Colombia to adopt a CET. This support was conditional on the adoption of a CET quite similar to the Colombian tariff structure. This was the case, since the CET discussed in 1991 and 1992, had "tariffs slightly lower than those adopted by Colombia in August 1991" (Ocampo, 1994: 146). The CET finally adopted in November 1994, included criteria which reflected Colombia's interests. In brief, Colombia was supportive of the adoption of the CET during the phase of progress.

Summarizing, Colombia, during the phase of stagnation (1987-1989) was supportive only of the tariff reduction program, and indifferent to the CET and to policy harmonization. During the subsequent phase, Colombia supported the tree principles, but it became indifferent to policy harmonization from 1993 on.

c) Peru and Venezuela

c.1) The tariff reduction program.- Although Peruvian exports to the Andean countries grew during most of the years from 1987 to 1994, imports grew faster. This resulted in a growing trade deficit with its Andean partners (see table VII.15). The government of Peru, therefore, did not support the tariff reduction program during the phase of stagnation (1987-1989), and from 1992 to 1995.

Between 1989 and 1992, Peru, however, was supportive of the tariff reduction program. Support in 1989 was due to the fact that President García's party had an

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TABLE VII.15
PERU: ANDEAN TRADE 1987-1994

Phase->	STAGNATION			PROGRESS				
	1987	1988	1989	1990	1991	1992	1993	1994
EXPORTS (FOB) (Millions of dollars)								
Gran	157.0	188.6	196.2	214.0	269.4	269.6	269.1	310.1
World	2,476.9	2,645.9	3,437.8	3,312.7	3,329.0	3,484.4	3,341.0	4,361.4
IMPORTS (FOB) (Millions of dollars)								
Gran	242.2	302.4	240.9	340.6	546.3	567.8	522.2	645.8
World	3,247.3	2,736.9	2,121.4	2,634.0	3,291.3	3,647.8	4,191.1	5,628.5
TRADE BALANCE (Millions of dollars)								
Gran	(85.1)	(113.8)	(44.7)	(126.6)	(276.8)	(298.2)	(253.1)	(335.6)
World	(770.4)	(91.0)	1,316.4	678.8	37.7	(163.4)	(846.7)	(1,267.2)
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE								
Exports	6.34	7.13	5.71	6.46	8.09	7.74	8.05	7.11
Imports	7.46	11.05	11.35	12.93	16.60	15.57	12.46	11.47
RATE OF GROWTH OF EXPORTS								
Gran	7.71	20.11	4.02	9.09	25.89	0.06	-0.19	15.26
World	4.99	6.82	29.93	-3.64	0.49	4.67	-4.02	30.41
RATE OF GROWTH OF IMPORTS								
Gran	45.45	24.87	-20.35	41.40	60.39	3.94	-8.03	23.67
World	33.58	-15.72	-22.49	24.16	24.96	10.83	14.89	34.30

SOURCES: 1987-1991: JUNAC, 1994; 1993-1994: JUNAC, 1995b: 20; 1995c: 21; 1995f: 24, 26, 28, 30, 40 and author's calculations.

ideology which backed Latin American political and economic union,[86] and that the

[86]García's party (APRA, American Popular Revolutionary Alliance) was founded by Víctor Raúl Haya de la Torre in Mexico, in May 1924 as a Latin American movement. The "APRA movement ... stressed the political union of Latin America and the solidarity with all the peoples and oppressed classes of the world (Chang-Rodríguez, 1988: 4), as well as concerted actions against Yankee imperialism, land and industry nationalization, and the internationalization of the Panama Canal (Haddox, 1989: 61-62).

"In our platform of Latin American economic and political unity, we have synthesized Bolívar's immortal phase: 'Union, union adored America, or else Anarchy will devour you'" (Haya de la Torre, 1931 [1995]: 241).

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implementation of the acceleration of tariff reductions would occur only after he had left office. In 1990, the drastic program of opening the Peruvian market to international competition went beyond the Andean trade liberalization accords of 1989 and 1990, creating no objections for Peru in supporting them. By 1991, Peru showed its dissatisfaction with the lack of progress in policy harmonization by delaying the finalization of its tariff reduction process until July 1992. In August of 1992, Peru obtained its temporary withdrawal from the Andean Group, which signaled, among other things, its lack of support of this mechanism.

Venezuelan trade with Andean countries increased during most years from 1987 to 1994 (see table VII.16). Exceptions were the reduction of exports of only 3 percent in 1991, and imports by 40 percent in 1989 and by 7 percent in 1993. Its Andean trade balance showed surpluses in all years, except for 1988, when it was $55 million deficit. With these trade results Venezuela was supportive of the tariff reduction program in these phases. Moreover, tariff reductions and the opening of the domestic market in Venezuela were accelerated from 1989 on, providing increased support to Andean trade liberalization.[87]

c.2) Common external tariff.- From 1983 until mid-1990 Peruvian import duties increased. By December 1989 tariffs averaged 45.2 percent. Surcharges raised to 72 percent. Exemptions and rebates, however, were widespread. Moreover, many items

[87]Between 1987 and 1993 Venezuelan oil exports to the Andean countries went from as low as $15 million in 1989, to as high as $106 million in 1991. These figures constituted 5 percent and 22 percent of the Venezuelan exports to its Andean partners (JUNAC, 1994b: 1, 5).

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TABLE VII.16
VENEZUELA: ANDEAN TRADE 1987-1994

Phase->	STAGNATION			PROGRESS				
	1987	1988	1989	1990	1991	1992	1993	1994
EXPORTS (FOB) (Millions of dollars)								
Gran	215.1	220.7	300.1	493.7	478.8	665.8	1,045.3	1,426.4
World	10,538.7	9,957.7	12,913.8	17,692.1	15,219.3	14,184.3	15,459.0	16,717.5
IMPORTS (FOB) (Millions of dollars)								
Gran	199.9	275.6	166.9	234.6	428.2	617.6	573.1	495.3
World	9,765.3	12,864.8	7,732,5	7,268.6	11,046.1	13,154.4	11,639.9	8,400.8
TRADE BALANCE (Millions of dollars)								
Gran	15.2	(54.9)	133.2	259.1	50.6	48.2	472.2	931.1
World	773.4	(2,907.2)	5,181.2	10,423.5	4,173.2	1,029.9	3,819.0	8,316.7
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE								
Exports	2.04	2.22	2.32	2.79	3.15	4.69	6.76	8.53
Imports	2.05	2.14	2.16	3.23	3.88	4.70	4.93	5.90
RATE OF GROWTH OF EXPORTS								
Gran	33.63	2.62	35.98	64.50	-3.02	39.07	56.99	36.46
World	21.64	-5.51	29.69	37.00	-13.98	-6.80	8.99	8.14
RATE OF GROWTH OF IMPORTS								
Gran	27.11	37.90	-39.44	40.54	82.54	44.25	-7.21	-13.56
World	13.62	31.74	-39.89	-6.00	51.97	19.09	-11.51	-27.83

SOURCES: 1987-1991: JUNAC, 1994; 1993-1994: JUNAC, 1995b: 20; 1995c: 21; 1995f: 24, 26, 28, 30, 40 and author's calculations.

were prohibited from importation. By 1990 there were 661 such items including most locally produced consumer goods (EIU, 1990d: 36-37).[88]

[88]"By the end of the García Administration [July 1990] the most important feature of the tariff structure was the multiplicity of rates and their wide dispersion. [There were] 56 different gross tariff rates ranging from 10 to 110 percent. ... A second important feature was the multiplicity of exemptions about—fifty types of special customs regimes existed ... In addition an overvalued currency disproportionately [sic] increased the competitiveness of foreign goods, ..." (Paredes, 1994: 227-228).

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In September 1990 the recently elected government of Alberto Fujimori launched a sweeping overhaul of the foreign trade system. The majority of the quantitative restrictions were removed, the number of tariff rates was reduced from 56 to 3 (15, 25, and 50 percent), and most tariff exemptions were eliminated. In March 1991 the number of tariff rates was reduced to two: 15 and 25 percent, and it will eventually be only one, of 15 percent (EIU, 1991d: 37; Paredes, 1994: 230, 250; Márquez: E1). The average tariff of Peru dropped to 16 percent in mid-1993, when all subsidies and non-tariff barriers were eliminated (LAWR, WR-94-06, February 17, 1994: 64). In 1994 almost 98 percent of imports had a 15 percent rate. The only exception was the flexible surcharge on certain basic foods to temporarily protect local farmers (EIU, 1995d: 39).

Between 1987 and 1989 (the phase of stagnation), Peru was indifferent to the approval of the CET because Peru had a multiplicity of tariff rates, exemptions, and import controls in its tariff schedule. From 1989 to 1992, the Peruvian government was supportive of a CET with three levels (instead of the two levels of its domestic tariff), and very few exceptions to the general rule; in exchange Peru wanted a quick and full harmonization of some economic policies. From 1992 on, Peru did not support the CET because the aforementioned demands were not met by its partners.

From 1987 to 1989, Venezuela continued with its existing import system protecting domestic production with high tariffs and an array of non-tariff barriers. This system was not conducive to the support of the CET.

An import liberalization program was announced in mid-1989 by the Venezuelan government, under which protective tariffs were to be lowered progressively, and tariff

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exemptions eliminated over a four-year period. The final tariff structure included four rates: 5, 10, 15 and 20 percent. The negotiations within the Andean Pact accelerated the original timetable, finishing the process by early 1992. The average rate fell from 31 percent in 1988 to less than 12 percent in 1992 (see table VII.5). By the beginning of 1992 quantitative restrictions were practically eliminated (EIU, 1990e: 40; 1993e: 43; ECLA, 1994: 446). The exception was the automobile sector which in September 1991 its tariff rate was cut from 40% to 25%. The tariff, was increased in November 1993 to 35 percent as part of the accord with Colombia and Ecuador (EIU, 1993e: 27; JUNAC, 1995: 3).

During the phase of stagnation (1987-1989), Venezuela was indifferent to the adoption of the CET but from 1989 on it supported its approval. The tariff structure aimed at by the Venezuelan reform was quite similar to that of the CET proposed by the *Junta*. These similarities were: four basic rates, and special treatment of automobiles. Support by Venezuela of the CET, was, thus, established.

To recapitulate, during the phase of stagnation (1987-1989), Peru and Venezuela were indifferent to the approval of the CET and of policy harmonization. Peru was not supportive of the tariff reduction program and Venezuela was. Between 1989 and 1992, the two countries were supportive of the three mechanisms. Between 1992 and 1995 (slow progress), Peru supported only policy harmonization and Venezuela supported the tariff reduction program and the CET, and was indifferent to policy harmonization.

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d) Bolivia and Ecuador

d.1) The tariff reduction program.- Bolivian trade increased during the years of 1987 to 1994 except for 1988 when exports decreased by 10 percent, and 1987 when imports decreased by 12 percent (see table VII.17). Its trade balance with the rest of the Andean subregion was positive in all years. These results compare favorably with Bolivia's performance with the rest of the world. Rates of growth of both Andean exports and imports were higher than the rates for total exports and imports in most years. Bolivia benefitted from intra-Andean trade and because of this, the country was supportive of the tariff reduction mechanism. Support of the tariff reduction program was reinforced by the tariff reduction policy pursued by the government from 1985 on, which allowed Bolivia to quickly eliminate trade barriers to Andean products.

Exports from Ecuador to the rest of the subregion increased in all the years between 1987 and 1994, except for 1992; while imports decreased in 1988, 1992 and 1993 (see table VII.18). Its trade balance was negative in 1987, 1991 and 1994. It is also important to point out, that this country enjoyed incredible rates of increase in its Andean exports in 1987 (190 percent) and in 1993 (65 percent). In the case of Andean imports, there was a 240 percent increase in 1987, and a 171 percent in 1994. The Andean Group as a market for Ecuador's exports increased quickly from 1992 on, and by 1994 it represented more than 10 percent of its exports; while imports from the Andean Group were 14 percent of the total imports.

Ecuador was indifferent to the tariff reduction program between 1989 and 1992, not only because of its trade results but also because the government was still hesitant

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TABLE VII.17
BOLIVIA: ANDEAN TRADE 1987-1994

Phase->	STAGNATION			PROGRESS				
	1987	1988	1989	1990	1991	1992	1993	1994
EXPORTS (FOB) (Millions of dollars)								
Gran	30.7	27.5	50.0	60.0	82.3	99.6	120.0	196.0
World	569.8	597.4	819.2	922.9	850.8	765.5	751.3	1,040.6
IMPORTS (FOB) (Millions of dollars)								
Gran	15.4	17.7	21.7	29.9	33.3	40.0	77.5	102.9
World	766.3	590.5	619.9	702.7	992.4	1,115.0	1,177.0	1,196.4
TRADE BALANCE (Millions of dollars)								
Gran	15.4	9.8	28.3	30.1	49.1	59.6	42.5	93.0
World	(196.5)	6.9	199.3	220.3	(141.7)	(349.5)	(425.6)	(155.8)
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE								
Exports	5.39	4.60	6.10	6.50	9.68	13.00	15.97	18.83
Imports	2.00	3.00	3.50	4.25	3.35	3.59	6.58	8.60
RATE OF GROWTH OF EXPORTS								
Gran	26.64	-10.46	81.81	19.90	37.32	20.93	20.51	63.35
World	-11.02	4.85	37.12	12.67	-7.82	-10.02	-1.85	38.50
RATE OF GROWTH OF IMPORTS								
Gran	-11.70	15.32	22.39	37.79	11.44	20.21	93.67	32.88
World	13.69	-22.94	4.99	13.35	41.23	12.35	5.55	1.65

SOURCES: 1987-1991: JUNAC, 1994; 1993-1994: JUNAC, 1995b: 20; 1995c: 21; 1995f: 24, 26, 28, 30, 40 and author's calculations.

to quickly open its market to Andean competition. It became supportive of it from 1992 on. Ecuadorean indifference towards this Andean mechanism is corroborated by the abstention of Ecuador in accelerating the tariff reduction program in both the La Paz summit in November 1990, and in Cartagena in December 1991. Its support from 1992 on is, on the other hand, reconfirmed by its quick embrace of the tariff reduction

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TABLE VII.18
ECUADOR: ANDEAN TRADE 1987-1994

Phase->	STAGNATION			PROGRESS				
	1987	1988	1989	1990	1991	1992	1993	1994
EXPORTS (FOB) (Millions of dollars)								
Gran	125.1	177.1	183.0	188.5	203.7	178.2	294.8	385.7
World	1,927.7	2,192.9	2,353.9	2,714.3	2,851.4	3,056.9	3,061.9	3,725.1
IMPORTS (FOB) (Millions of dollars)								
Gran	309.7	78.1	92.9	181.7	233.3	172.6	182.7	494.4
World	2,158.1	1,713.5	1,854.8	1,861.7	2,398.6	2,430.4	2,562.2	3,649.7
TRADE BALANCE (Millions of dollars)								
Gran	(184.6)	99.0	90.1	6.9	(29.6)	5.5	112.1	(108.7)
World	(230.4)	479.4	499.1	852.6	452.8	626.5	499.7	75.4
INTRASUBREGIONAL TRADE AS PERCENTAGE OF TOTAL TRADE								
Exports	6.49	8.08	7.77	6.95	7.14	5.83	9.63	10.35
Imports	14.35	4.56	5.01	9.76	9.73	7.10	7.13	13.55
RATE OF GROWTH OF EXPORTS								
Gran	191.32	41.64	3.30	3.02	8.06	-2.55	65.49	30.82
World	-11.81	13.76	7.34	15.31	5.05	7.21	0.16	21.66
RATE OF GROWTH OF IMPORTS								
Gran	239.86	-74.77	18.88	95.55	28.43	-26.01	-5.83	170.62
World	19.22	-20.60	8.24	0.38	28.84	1.33	5.42	42.44

SOURCES: 1987-1991: JUNAC, 1994; 1993-1994: JUNAC, 1995b: 20; 1995c: 21; 1995f: 24, 26, 28, 30, 40 and author's calculations.

program which was part of Ecuador's newly-adopted neo-liberal strategy of development.

d.2) Common external tariff.- In 1988 the Bolivian authorities continued to eliminate obstacles to external trade aimed at establishing a regime of free trade (ECLA, 1989b:

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151; IDB, 1990: 63). Tariffs were reduced by Bolivia in 1989 and 1991. Capital goods levies went from 10 to 5 percent, and for other products from 20 to 10 percent, and they have remained so (JUNAC, 1991k: 8; Márquez, 1995: E1). Because of this policy, and the fact that other Andean countries from the very beginning accepted that Bolivia would maintain its own tariffs as part of the CET, this country supported this mechanism during the last phase of the Andean process. During the phase of stagnation (1987-1989), however, Bolivia was indifferent to the approval of the CET since it was clear that the other countries were not ready for it, and that their higher tariffs than those of Bolivia's favored this country's exports.

From 1987 to 1989, the phase of stagnation, Ecuador maintained its foreign trade under tight control. Import restrictions were reinstalled in 1988, due to balance of payments problems (de Janvry et al., 1994: 73). This situation made Ecuador indifferent to the approval of the CET.

Between 1990 and 1992, the Ecuadorean government implemented a program to liberalize foreign trade. By 1992, the maximum tariff was down to 20 percent, from 290 percent in 1990. Duties on capital goods and certain foods were reduced to 2%; tariffs on intermediate goods fell to 7-12%; and tariffs on finished goods to 17%.[89] The number of items subject to import controls in 1991 fell from 2,300 to 903 in 1992 (IDB, 1992: 87; 1993: 85; EIU, 1993c: 38-39).

Tariff reductions and trade liberalization brought Ecuador's tariff system closer to the CET proposed by the *Junta*. Ecuador, therefore supported the CET from 1990 on.

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[89]Data in table VII.6 reflect tariff levels before these changes.

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This support became stronger when, in February 1992, Ecuador presented a list of products for special tariff treatment which was accepted for negotiation.

The position of Bolivia and Ecuador with regard to the three mechanisms of the Cartagena Agreement between 1987 and 1989 (the phase of stagnation) was as follows: Both countries were indifferent to the CET and to policy harmonization. Bolivia supported the tariff reduction program while Ecuador was indifferent. From 1990 to 1992, Bolivia supported all three mechanisms, but Ecuador supported only the CET and policy harmonization, and continued to be indifferent to the tariff reduction program. Finally, between 1992 and 1995 (slow progress), the tariff reduction program and the CET were supported by the two countries while they were indifferent to policy harmonization.

e) Conclusion

As anticipated by the hypothesis which guides this dissertation, during the phase of stagnation (1987-1989), governments were mostly indifferent to the main mechanisms of the Cartagena Agreement. Likewise, in the phase of progress (1989-1992), they were supportive more between 1990 and 1992 (termed here as progress) than between 1992 and 1995 (slow progress) (see table VII.19).

During the phase of stagnation (1987-1989), all the member countries were indifferent to the approval of the CET and of policy harmonization. In the phase of progress (1989-1992), the governments were highly supportive of all the mechanisms. From 1992 on (slow progress) four member countries were supportive of the tariff

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TABLE VII.19
RELATIONSHIP BETWEEN ANDEAN MECHANISMS AND
NATIONAL POLICIES 1987-1995

ANDEAN MECHANISMS	CO	PE	VE	BO	EC	TOTALS
STAGNATION (1987-1989)						
The tariff reduction program	S	N	S	S	I	3S 1I 1N
Common external tariff	I	I	I	I	I	5I
Policy harmonization	I	I	I	I	I	5I
						3S 11I 1N
PROGRESS (1989-1992)						
The tariff reduction program	S	S	S	S	I	4S 1I
Common external tariff	S	S	S	S	S	5S
Policy harmonization	S	S	S	S	S	5S
						14S 1I
SLOW PROGRESS (1993-1995)						
The tariff reduction program	S	N	S	S	S	4S 1N
Common external tariff	S	N	S	S	S	4S 1N
Policy harmonization	I	S	I	I	I	1S 4I
						9S 4I 2N

S = Supportive I = Indifferent N = Not supportive

reduction program and the approval of the CET, but they were indifferent to policy harmonization while Peru did not support any mechanism, except policy harmonization.

The outcomes for the phase of progress (1989-1995) show a majority support for the Andean mechanisms. There are, however, significant differences. As compared to

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the years 1990 to 1992, between 1992 and 1995, countries were more indifferent.

The slow down of the process (1992-1995) was the result of: (a) the unwillingness of the countries, except for Peru, to pursue economic policy harmonization. (b) The demand of Peru to have a CET with minimum exceptions to the general rules, and the unwillingness of the others to follow suit. (c) Peru's revocation of the tariff reduction program, while Bolivia, Colombia, Ecuador and Venezuela went ahead to create a customs union among themselves. And (d) the pursuit of Colombia and Venezuela to integrate with other countries and areas.

All these reasons point to the fact that the slow down of the Andean process was not the result of the member countries disagreeing with the usefulness of the mechanisms for furthering their interests (as was the case in the phase of stagnation), but was result of disagreement about the pace and the depth of the implementation of these mechanisms. Peru, having gone the farthest, pressed others, but they were reluctant to speed up and deepen the process.[90]

This situation clearly corroborates the main aspect of the hypothesis of this dissertation, namely, that governments consider the Andean Group a tool to further their national interests. Each government tries to make the implementation of the mechanisms reflect as much as possible its domestic policies and interests. The outcome depends on the negotiating skills and the relative power of the country. Peru tried to make its interests prevail. Being a medium-size country, Peru was not successful and was unable

[90]It is also possible to consider that Peru does not really want to remain in the Andean Group, and the obstacles this country is posing to the process is just a preamble for a departure. In this case, this fact would prove the contention of this research project that governments might decide to leave the process if the pursue of its objectives are hampered by GRAN.

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to prevent other countries, from going in the direction they wanted. The progress of the Andean process, however, slowed down.

Support for the mechanisms is shown, and progress of the Andean process is recorded, even though Peru opposed them. The progress reflects, as expected by the hypothesis, the interests of the countries, especially of the most powerful ones. This makes the present progress of the Andean process doubtful in the future, since it is highly probable that some decisions already approved (e.g., the CET) will have to be renegotiated to include Peru's interests, and policy harmonization should be resumed if this country is going to rejoin the Andean Group.

The first political step towards rejoining was taken during the presidential meeting in September 1995 (the first since December 1991) in Quito, Ecuador (six months after the latest border skirmish between Ecuador and Peru).[91] Peru agreed, by Decision 377, to participate only in the Andean free trade zone by January 1996, but only if the harmonization of the norms of origin, export subsidies, and duty free zones were pursued (El Comercio, 1995a: E1). Nevertheless, President Fujimori reiterated the existence "of profound differences among the member countries" related to "subsidies, tariffs, and especially the different speed with which each country has been reducing its customs duties" (Gestión, 1995: 3).

Since no substantial progress was made in policy harmonization, in December

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[91]The presidents signed the Quito Act (*Acta de Quito*) creating the Andean Integration System (*Sistema Andino de Integración*) in which all the Andean institutions, including the Andean Presidential Council and the Andean Council of Ministers of Foreign Affairs, become part of it. The *Junta* is transformed into a General Secretary. The Quito Act restates that "the Andean subregional integration is one of the principal means to accelerate economic and social progress of the Latin American countries," and also that there is a need "to gradually reduce distortions in competition" (JUNAC, 1995e: 1-6; El Comercio, 1995: E8).

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1995, by Decision 387, the Commission eliminated the deadline of January 1996; and allowed Peru to maintain its tariff policy. Peru, however, agreed to expand its bilateral trade agreements, especially with Ecuador, even though the other countries could keep their export subsidies (El Comercio, 1995b: A1; 1995c: E1; 1995d: E2; 1995e: E1; 1995f: E1; Rey-Sánchez, 1995: E1; La República, 1995: 9; Lauer, 1995: 6). The situation which led to the slow down of the process, thus, continues.

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CHAPTER VIII

CONCLUSION:

THE LONG MARCH OF THE ANDEAN INTEGRATION PROCESS

1.- INTRODUCTION

In this final chapter the research findings are considered and discussed. The various phases of the economic integration process will be compared among themselves, and against the different aspects of the hypothesis guiding this endeavor.

The main contention, using the evolution of the Andean Group as a case study, is that economic integration processes do not evolve smoothly into supranationalism.[1] On the contrary, the Andean case proves that economic integration processes do evolve through non-sequential phases of progress, stagnation and regression. These phases, moreover, do not show a tendency toward the disappearance of the nation-state, but reaffirm the supremacy of the individual governments.

The indicators used in this study to show whether a given phase is one of

[1] "... the experiences of the 1960s suggest that it may be unfounded to take a linear view of integration commitments as leading to greater and greater levels of interdependence" (Rosenthal, 1993: 16).

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progress, stagnation or regression are: (1) the implementation of the Andean mechanisms will be quick during progress, will be slow and delayed during stagnation, and will reverse or be abandoned during regression; (2) intra-Andean trade will increase every year during a phase of progress, will decrease in one or two years during stagnation, and will decrease over several years in a phase of regression; (3) during progress, stagnation, and regression violations to the commitments will, respectively, be few, will increase, and will be widespread; (4) decisions adopted by the Commission, the political unit of the Andean process, will deal mainly with new issues during a phase of progress; will deal mainly with unimportant issues, and with modifying existing decisions in a phase of stagnation; and will deal mainly with unimportant decisions during regression.

Indicators (1) and (2), implementation of the mechanisms and trade flows, have been analyzed in sections 2 of chapters IV, V, VI, and VII for each one of the five phases the Andean Group has undergone. Indicators (3) and (4), violations to accords and decisions of the Commission, have been examined in section 3 and parts of section 4 of the same chapters. The inquiry has shown, as expected, that from 1969 to 1973 the Andean Group was in a phase of progress; from 1974 to 1978 in a phase of stagnation; from 1979 to 1986 in a phase of regression; between 1987 and 1989 in a phase of stagnation; and between 1990 and 1995 in a phase of progress.

Why has the Andean process gone through these phases? According to data assembled in this research project the evolution of the Andean process is the product of the relations among the governments of the member countries. The individual governments attempt to achieve some of their national goals by using the Andean Pact

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as one of several tools available to them. This establishes that governments are the most important actors in the process, and that they determine its evolution by negotiating among themselves. The outcome of these negotiations depends on the power relations existing among the member countries over time, or at a specific moment or moments of the negotiations.

The Andean process progresses when all the countries find the Andean Group a useful tool for their respective national interests. The integration process stagnates when a minority of the member countries disagree with the aims and/or mechanisms of the agreement. Finally, integration regresses when the majority of the governments do not find the aims and/or the mechanisms useful and reverse prior decisions.[2]

This dissertation tests the above mentioned assertions in the last two parts of section 4 of chapters IV, V, VI, and VII. The first compares the long-term objectives of the governments of the member countries with the principles of the Cartagena Agreement. The second compares the relevant economic policies pursued by the government with the main mechanisms of the agreement. Other parts of section 4 analyze external and domestic influences affecting governments' behavior.

2.- PROGRESS, STAGNATION AND REGRESSION IN THE ANDEAN PROCESS: A COMPARISON OF THE INDICATORS

This section will compare the indicators of progress, stagnation and regression.

[2]Logically, the integration process would be terminated if none of the countries, or a majority of the members including all the most important units, finds the process not useful to them.

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Here we will look at the way these indicators show if a given period can be termed as one of progress, stagnation, or regression.

2.1.- Implementation of the mechanisms

a) Optimism and progress (1969-1973), progress (1990-1995)

The favorable conditions of the international environment in the 1960s, that is, the continuing growth of most of the economies, especially of the industrialized nations, helped the Andean countries to accelerate their economic growth, and to decrease their economic and political dependency on the international system. The Andean integration process was one tool used to achieve these aims. The creation of the Andean Group, and its progress between 1969 and 1973, was also possible thanks to the common import substitution industrialization strategy pursued by the member countries.

The deadlines established by the Cartagena Agreement to implement the mechanisms by the Commission were met during this phase. Approved were the different lists contemplated by the trade liberalization mechanism, the common minimum external tariff, the first Sectoral Program of Industrial Development (the Metalworking Program), and the common treatment of foreign investment.

Mechanisms not subject to deadlines, however, advanced little or not all, i.e.; planning coordination, and policy harmonization. It was not by chance that these mechanisms were from the beginning, the most difficult to implement.

The second phase of progress began in 1989, when the governments of Colombia, Peru, and Venezuela (the three most important members) rapidly converged on a new

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strategy of development: export-oriented industrialization. Once this happened, progress was achieved (1990-1995) based on the new aims given to the Cartagena Agreement, and on the reordering of the importance of the Andean mechanisms. The Andean Group became a tool to reverse international economic marginalization, and to increase production efficiency. Progress was also due to the direct support of the Andean presidents as evidenced in their summit meetings held between 1989 and 1991.

At the international level the phase of progress of the Andean Group was positively influenced by the end of the Cold War, the process of creating continental trade blocs; a revival of integration processes in Europe, Latin America, and other regions; and the creation of market economies in most of the world accompanied by the opening of the economies of Eastern Europe, Asia, and Latin America.

Trade liberalization was completed by the Andean nations by early 1993, and the CET was implemented in February 1994. Economic policy, especially of those instruments directly affecting trade (e.g., export subsidies, dumping, technical rules, etc.), began to be harmonized mostly between 1990 and 1992.

From 1992 to the present (1995), however, the process slowed down due not to discrepancies over the aims, but over the speed, and the depth to which the mechanisms were to be implemented. The divergences led to the temporary and "partial" withdrawal of Peru (a supporter, with Bolivia, of an ample and quick progress). Peru's limbo continues. The Andean customs union is not yet a reality. The common treatment of foreign investment, in practice, disappeared. Finally, Industrial Programming was, for all practical purposes, abolished in March 1993.

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The two phases of progress of the Andean Group have in common, as expected by the hypothesis of this project, that they happened when governments of the member countries had similar strategies of development and economic policies. In the first phase of progress, they had just launched the Andean project and there was high hope that it would be a useful tool to help the countries' development. In the second phase of progress, the governments changed the aims and reordered the importance of the mechanisms of the Cartagena Agreement, thereby giving GRAN new basis for usefulness.

b) Doubts and stagnation (1974-1978) and stagnation (1987-1989)

Between 1974 and 1978, the Andean process went through a phase of stagnation. In 1974 Venezuela became the sixth member and Chile exited in 1976. Negotiations with these countries absorbed much of the time of the Commission and of the *Junta*. Negotiations also allowed Colombia to voice the need for greater flexibility of the Sectoral Programs of Industrial Development and of the common treatment of foreign investment. Deadlines were not met. The Protocols of Lima (1976) and of Arequipa (1978) postponed deadlines, and introduced changes to the agreement.

At the international level, the collapse of the Bretton Woods system in 1971, and the oil price increase of 1973 affected the economies of the Andean nations differently. This created a divergence of interests among the member countries, and began to put into doubt the usefulness of the import substitution strategy for the domestic and regional levels.

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The implementation of the mechanisms was delayed. The common external tariff, to be adopted by December 1975, was not acted on. The approval of all the Sectoral Programs of Industrial Development, by December 1975, was not achieved. After a five-year extension of Industrial Programming by the Protocols of Lima and of Arequipa, only 2 more programs were approved: the Petrochemical in 1975, and the Automobile in 1977. Decision 24, on the common treatment of foreign investment, was modified seven times. The process of tariff reduction for intra-Andean trade, however, continued, albeit with increasing delays in their implementation (see table VIII.3, column 4).

The second phase of stagnation of the process lasted between 1987 and 1989. The Quito Protocol, signed in May 1987, made the Andean obligations less stringent. It did provide the impetus to push the Andean process not from its phase of regression to a phase of progress, but to a phase of stagnation. The governments were still dealing with their debt problems, and restructuring their economies but without clear guidelines. During these years, they became more and more convinced that the import substitution strategy of development must be replaced by an export-oriented strategy.

The international system was going through important changes during these years. The Soviet Union was collapsing, and its Eastern European sphere of influence was disintegrating. The Western industrialized world, and the international economic institutions, especially the International Monetary Fund and the World Bank, were pressing the debtor countries to adopt economic policies in line with a free market economy as a condition to deal with the debt problem.

Contrary to what was expected, after the signing of the Quito Protocol, May

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1987, the Andean countries, involved with their domestic troubles, did not make any attempt to revitalize the Andean process. Violations did not substantially diminish (see table VIII.3). Trade began to increase, but it was mostly due to the necessity of obtaining essential goods not locally produced. Trade flows, moreover, continued to be restricted by non-tariff barriers applied indiscriminately to Andean and non-Andean imports, and by the existing Andean bilateral trade accords. The Sectoral Programs of Industrial Development were forgotten, and the governments again modified their common treatment of foreign investment.

c) Pessimism and regression (1979-1986)

The "lost decade" caused by the international debt crisis forced the Andean countries to rethink their import substitution development strategy. The economic crisis of the 1980s also brought the military back to the barracks in Peru, Bolivia and Ecuador. All the members had elected civilian governments for the first time in the history of the Andean process. These factors, especially the first, strongly influenced the evolution of the Andean process: it went into a phase of regression. This phase ended with the adoption of the Quito Protocol in May 1987, which profoundly modified the Cartagena Agreement. The protocol made the agreement more flexible, and more in tune with the still evolving interests of the member countries.

The regression of the Andean process is clearly shown in the way the mechanisms were applied. The tariff reduction program was reversed by restricting (in the form of non-tariff barriers) the exchange of goods among the Andean countries. The Commission

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failed to adopt the CET by the deadline of December 1979, and after some efforts to do it, in 1981 abandoned that hope. By December 1980, the 5 additional years to approve all the Sectoral Programs of Industrial Development ended, and from 1978 no industrial program, as mandated by the Cartagena Agreement, was approved. In addition, the three existing industrial programs were repeatedly modified, their deadlines postponed, and their regulations made more lax. Finally, the common treatment of foreign investment was again modified, making it more flexible, and less common.

One bright spot in the Andean evolution in this phase of regression was the establishment of the Andean Court of Justice, of the Andean Parliament, and of the Andean Council of Foreign Ministers. They were heralded as signs that the Andean process was spreading into the political arena. A second bright spot, but short lived, was the adoption of common foreign economic policies. It was considered a harbinger of the establishment of political cooperation in the international arena. In both instances hopes proved to be premature. They only were attempts of the governments to pursue integration in new areas in order to show some progress of the process, since the main mechanisms were in regression.

d) The output of the Commission as a reflection of the phases of the Andean integration process.

Progress, stagnation and regression of the Andean Group is also correlated to the dynamism of the Commission or its lack of it. As proposed by this research project, decisions of the Commission were found to be greater in number during a phase of

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progress than in a phase of stagnation, or in a phase of regression. Decisions dealt more with new issues during the phases of progress. During the phases of stagnation they dealt with modifying existing decisions, and with unimportant issues. During the phase of regression they dealt more with watering down existing decisions.

Table VIII.1 shows data which confirm that, in the main, the Commission was more dynamic, and its performance more effective in furthering integration during progress than during stagnation or regression. The average number of decisions, more than three per session, approved by the Commission, was the highest during the phases of progress, 1969-1973 and 1990-1995 (see table VIII.1, line 5.1). The lowest average corresponds to the phase of regression with less than two decisions per session.

The result is similar if the data are calculated as decisions per year (see table VIII.1, line 5.2). The average number of decisions approved by the Commission per year was the highest during the phases of progress, 16 in 1969-1973, and 23 in 1990-1994. The phases of stagnation, 1974-1978 and 1987-1989, show on average 11 and 14 decisions per year being respectively approved by the Commission, while during the phase of regression, 1979-1986, only an average of 10 decisions per year were taken.

The hypothesis is also validated by analyzing the percentages of important and unimportant new issues approved by the Commission during the five phases of the Andean integration process. Important new issues constituted 40 percent and 28 percent of all the decisions made by the Commission in the two phases of progress, while they were 15 and 19 percent in the two phases of stagnation, and only 9 percent in the phase of regression. Similarly, unimportant decisions were 32 percent and 31 percent in each

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TABLE VIII.1
DECISIONS APPROVED DURING 1969-1994

(1)	69-73 Prog. (2)	74-78 Stag. (3)	79-86 Regr. (4)	87-89 Stag. (5)	90-94 Prog. (6)	Totals 69-94 (8)
1 Decisions (2 + 3)	81	55	85	42	114	377
2. New Issues (2.1+2.2)	58	36	63	29	79	265
2.1 Important 1/	32	8	8	8	32	88
2.2 Unimportant	26	28	55	21	47	177
3.- Modifying decisions (3.1 + 3.2)	23	19	22	13	35	112
3.1 Important 1/ (A+B)	1	7	16	10	22	56
A. Strengthening		3	4	6	10	23
B. Weakening	1	4	12	4	12	34
3.2 Unimportant	22	12	6	3	13	56
4 Number of sessions	25	19	42	15	29	130
5.- Averages						
5.1 Decisions per session	3.24	2.89	1.81	2.80	3.93	2.90
5.2 Decisions per year	16.20	11.00	10.60	14.00	22.80	14.50
6.- Percentages						
TOTAL (6.1 + 6.2)	100.00	100.00	100.00	100.00	100.00	100.00
6.1 New Issues (A+B)	71.61	65.46	74.12	69.05	69.30	70.29
A. Important 1/	39.51	14.55	9.41	19.05	28.07	23.34
B. Unimportant	32.10	50.91	64.71	50.00	41.23	46.95
6.2 Modifying decisions (A + B)	28.40	34.55	25.89	30.95	30.70	29.71
A. Important (a + b)	1.23	12.73	18.82	23.81	19.30	14.85
a.- Strengthening		5.46	4.71	14.29	8.77	6.10
b.- Weakening	1.23	7.27	14.11	9.52	10.53	8.75
B. Unimportant	27.16	21.82	7.06	7.14	11.40	14.85

1/ Important is defined as decisions that have direct impact in the progress of the principal mechanisms of the Andean process.
SOURCES: See tables IV.6; V.9; VI.8: VII.12; JUNAC, n.d.: 1-33; JUNAC, 1982c; Vinces and Kuljevan, 1974; Actas de la Comisión.

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of the phases of progress, while they constituted around 50 percent in the phases of stagnation, and 65 percent in the phase of regression (see table VIII.1, lines 6.1.A and B).

The highest percentage of decisions that modified important decisions in ways that weakened the Andean process occurred during the phase of regression (14 percent of all the decisions approved in this phase), while the lowest corresponded to the first phase of progress, 1969-1973, with one percent of the decisions (see table VIII.1, line 6.2). The two phases of stagnation showed higher percentages of modifying decisions weakening the integration process (between 7 and 10 percent) than in the first phase of progress. The exception to this is the second phase of progress, 1990-1992, in which almost 11 percent of all the decisions approved by the Commission weakened existing decisions. This result reflected the rapid process of weakening existing decisions related to import substitution (e.g., Industrial Programming and Common Treatment for Foreign Investments). Finally, the decisions strengthening the process were 9 percent of the total during the second phase of progress (see table VIII.1, line 6.2.a),[3] this figure is the highest with the exception of the 14 percent recorded in the second phase of stagnation highly influenced by the 11 decisions approved in May 1987 concurrently with the Quito Protocol.

[3]During the first phase of progress, 1969-1973 no decision was approved strengthening an existing decision.

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2.2.- Trade among the Andean countries

According to the methodology, it was anticipated that during a phase of progress, trade would increase every year, that in a phase of stagnation trade would decrease in at least one year, and in a phase of regression trade would lessen in two or more years.

The rates of growth of exports and imports among the member countries support the aforementioned part of the working hypothesis. During the two phases of progress (1969-1973 and 1990-1992) both the rate of growth of intra-Andean exports and of imports increased in every year (see table VIII.2). It is also noteworthy that in this phase intra-Andean trade grew almost always faster than total trade. In the two phases of stagnation (1974-1978, 1987-1989) the rate of growth of exports and of imports decreased at least in one year. In the first phase of stagnation both the rate of growth of exports and of imports decreased in 1978. In the second phase of stagnation, the rate of growth of imports diminished in 1989. During the phase of regression, 1979-1986, the rates of exports and of imports decreased in four years. Exports lowered in 1982, 1983, 1984 and 1986, while imports reduced their value continuously between 1983 and 1986.

2.3.- Violations of the Cartagena Agreement and of the decisions of the Commission

Violations, according to this study should be minimal in a phase of progress, should be more numerous during a phase of stagnation, and should be widespread in a phase of regression. Data analyzed in previous chapters substantiate this assertion.

The clearest evidence comes from the number of decisions not incorporated by the member countries into their national legislation. The lowest range (minimum and

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TABLE VIII.2
ANDEAN TRADE GROWTH: 1969-1994 1/

		Rate of growth of exports		Rate of growth of imports	
PHASE	YEAR	GRAN	WORLD	GRAN	WORLD
PROGRESS	1970	17.43	9.56	23.67	10.50
	1971	31.02	-6.42	16.90	3.77
	1972	7.00	5.74	9.40	7.83
	1973	38.83	43.87	38.85	20.51
STAGNATION	1974	102.64	107.73	90.80	62.80
	1975	7.58	-16.67	47.98	30.48
	1976	29.73	7.86	15.45	4.25
	1977	34.45	10.38	31.72	38.41
	1978	-17.34	3.15	-22.71	10.76
REGRESSION	1979	56.41	46.17	17.90	-1.64
	1980	11.50	26.95	22.95	23.01
	1981	4.11	-3.93	29.97	12.79
	1982	-4.39	-12.25	0.28	-1.82
	1983	-36.41	-8.92	-26.12	-36.67
	1984	-0.42	10.07	-0.29	4.58
	1985	6.38	-3.79	-11.69	0.37
	1986	-17.81	-22.83	-16.32	3.85
STAG NATION	1987	42.37	8.34	46.11	16.15
	1988	4.19	-0.57	0.71	13.62
	1989	6.86	23.72	-9.61	-24.32
PROGRESS	1990	27.95	24.32	39.13	4.13
	1991	36.40	-6.09	36.23	25.70
	1992	22.89	-3.16	19.16	18.35
	1993	28.74	4.12	29.69	9.50
	1994	19.53	15.17	23.64	-4.49
YEARLY AVERAGE 1969-1994 2/		15.4	8.1	15.4	8.8
INDEX (1969 = 100) 1994 2/		3,613	698	3,611	828

1/ Includes Venezuela from 1974 on and excludes Chile from 1976
2/ Includes Venezuela but not Chile
SOURCES: See tables 4.3, 5.4, 6.3, and 7.7, JUNAC, 1995f: 26, 30, 46.

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maximum number) of decisions which governments did not make part of their legal systems corresponds to the two phases of progress. In the first phase of progress, 1969-1973, out of the 81 decisions adopted, a minimum of 5 and a maximum of 11 decisions did not become law in the members countries. In the second phase of progress, 1990-1995, of the 114 decisions approved by the end of 1994, a maximum of 8 and a minimum of zero decisions did not become law (see table VIII.3, column 3).

The "perfect" compliance by the governments during the second phase of progress 1990-1995, that is, all decisions were part of their national legislation, was due to two facts. (1) By 1993 the Commission had abrogated all the decisions the governments were not in compliance with, chief among them were the decisions dealing with the Sectoral Programs of Industrial Development. (2) Between 1990 and 1992, the Andean presidents committed themselves to further the Andean integration process beyond what the Quito Protocol stipulated. This meant that governments were formally observing all the obligations included in the existing Cartagena Agreement.

During the phase of regression, 1979-1986, both the minimum and maximum number of decisions not incorporated into the legal systems of the countries were the highest: 13 and 24 respectively. The Commission adopted in this phase 85 decisions. The number of decisions not made part of the legislation of the member countries was greater during the first two phases of stagnation than during the phases of progress. They ranged between 8 to 14 during the first phase of stagnation (1974-1978), out of 55 decisions approved; and between 6 and 9 during the second phase of stagnation (1987-1989), from a total of 42 decisions adopted by the Commission.

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TABLE VIII.3
VIOLATIONS TO THE ANDEAN AGREEMENT AND ITS DECISIONS

		MINIMUM - MAXIMUM			
Phase (1)	Years (2)	Number of Decisions not incorporated in the domestic legislation (3)	Delays in implementing decisions (months) (4)	Number of items violating trade liberalization or common external tariff (5)	Number of claims made by the countries (6)
Progress	69-73	5 - 11	0 - 12	n.a.	n.a.
Stagnation	74-78	8 - 14	0 - 48	66 - 2,760	n.a.
Regression	79-86	13 - 24	n.a.	66 - 5,337	27 - 141
Stagnation	87-89	6 - 9	n.a.	829 - 6,303	n.a.
Progress	90-94	0 - 8	n.a.	251 - 6,692 1/	2 - 13 1/

1/ 1990-1992
SOURCES: See Tables IV.4; IV.5; V.6; V.7; V.8; VI.3; VI.4; VI.5; VII.8; VII.9; VII.10

With regard to the implementation of the "automatic" mechanisms (trade liberalization and the common minimum external tariff), the limited amount of information (only for the first phases of progress and stagnation), also shows that postponements increased during a phase of stagnation as compared to a phase of progress. Delays rose from a maximum of 12 months in the first phase of progress, 1969-1973, to a maximum of 48 months (due to Venezuela's reluctance to comply with them) in the first phase of stagnation, 1974-1978 (see table VIII.3, column 4).

The range (minimum and maximum number) of dutiable items the governments did not comply with in the tariff reduction program and/or the common tariff does not fit the anticipations of this dissertation. The maximum number of violations was at its highest during the second phase of progress (6,692 items), while during the phase of

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regression it was only the third highest of the four phases for which information is available, 5,337 items, (see table VIII.3, column 5). Similarly, the minimum number of items violated were the lowest during the first phase of stagnation, 1974-1978, and during the phase of regression, 1979-1986, with only 66 items for which countries did not observe the agreed tariffs levels. During the second phase of progress, 1990-1995, the minimum number of items violated was 251, which was the third highest of the four phases for which there is data.

The high number of items violated during the second phase of progress (supposedly a phase in which compliance should be the highest) can be attributed to the fact that, between 1990 and 1992, the member countries were both swiftly reducing their tariffs to third countries, and accelerating the Andean trade liberalization process. The reduction of tariffs to non-member countries violated the common tariff, the Andean trade liberalization was not implemented by the governments as quickly as was expected, so the *Junta's* reports showed a large number of items violating the tariff levels agreed.

The low level of violations during the phase of regression (when they are expected to be the highest) can be explained by the widespread existence of non-tariff barriers applied to Andean trade. Since trade flows were regulated basically through non-tariff barriers, violations of the trade reduction program, and to the common tariff were meaningless, and thus, they were low.

Finally, for the only two phases for which there is information about claims made by the *Junta* to and among the member countries themselves were, as expected, lower

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in a phase of progress than in a phase of regression. During the second phase of progress, 1990-1995, the minimum number of claims was two, and the maximum was 13; while during the phase of regression, 1979-1986, the minimum was 27 and the maximum 141 (see table VIII.3, column 6).

2.4.- Conclusion

The indicators used in this study to find out if a given period of years in the evolution of the Andean economic integration process corresponds to a phase of progress, stagnation, or regression are basically adequate. The main mechanisms of the Cartagena Agreement have been more thoroughly implemented during the phases of progress than during the other two phases. This is also corroborated by the activities of the Commission. It has been more dynamic and adopted more decisions furthering integration during the phases of progress than in the phases of stagnation or regression.

Trade increased in all the years of the phases of progress, while it decreased in one year during two of the three phases of stagnation, and diminished in half of the number of years of the phase of regression. Finally, violations of the decisions of the Commission were generally low during the phases of progress, increased in the phases of stagnation, and were widespread during the phase of regression.

3.- EXPLAINING PROGRESS, STAGNATION AND REGRESSION

This section presents a comparison of the support given by the governments of

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the member countries to first, the aims of the Cartagena Agreement, and second, to its main mechanisms. The objective of this section is to show that support for the aims and mechanisms of the Cartagena Agreement by the governments is directly correlated with progress in the Andean integration process; that indifference is related to the stagnation of the economic integration of the Andean subregion, and that the lack of support is linked to the regression of the Andean process. The expected results indicate that the governments are the main actors behind the evolution of the Andean economic integration process, and that their support for the Cartagena Agreement or lack of it explains the phases of progress, stagnation, and regression.

3.1.- The long-term aims of the governments and the principles of the Cartagena Agreement

As mentioned above, support by the governments for the principles of the Cartagena Agreement will be greater during a phase of progress than during phases of stagnation and regression. This greater support is the result of the perception of the member countries that their national objectives are better reflected by the aims of the Andean process during the phases of progress than during the other phases.

During the two phases of progress, governments' support for the Andean aims was the highest. Out of the 18 possible results in the first phase of progress (1969-1973),[4] 14 were supportive, while only 4 were indifference. In other words, 78 percent of the results were in support of the aims of the Cartagena Agreement (see table VIII.4).

[4]Six countries times three principles equals 18 outcomes.

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In the second phase of progress, 1990-1995, of the 15 possible results,[5] 14 were in support of the Andean aims (93 percent) and only one was not supportive.

During the phase of regression, 1979-1986, of the 15 possible outcomes, 8 were not supportive of the aims, while 5 were supportive. This meant that 53 percent of the results were not in support of the aims. In this phase, as anticipated by this research project, the lack of support for the Andean aims was at its highest. Since the lack of support was only a little over 50 percent of the possible outcomes, it is safe to say that the survival of the Andean Group was not in peril during this phase.

In the two phases of stagnation, 1974-1978 and 1987-1989, out of the 18 and the 15 possible outcomes respectively, the aims were supported by a little over half of them, 56 and 53 percent respectively, while indifferent was the highest, with 28 and 47 percent respectively.

As anticipated by the hypothesis of this dissertation, governments' support for the aims of the Cartagena Agreement was widespread in the phases of progress, 72 and 93 percent of the outcomes. During the phases of stagnation, support diminished but was slightly above 50 percent of the results. In the phase of regression support was at is lowest with only 33 percent of the possible outcomes.

3.2.- The economic policies and the mechanisms of the Agreement

As predicted by the hypothesis of this research project, support for the main mechanisms of the Cartagena Agreement was at its highest during the two phases of

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[5]Chile withdrew in 1976.

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TABLE VIII.4
SUPPORT FOR ANDEAN AIMS: 1969-1995

PHASE --->	Progress	Stagnation	Regression
ANDEAN AIMS (1969-1986)	1969-1973	1974-1978	1979-1986
Primacy of government	6S	4S 1I 1N	2S 2I 1N
Import substitution industrialization	5S 1I	4S 1I 1N	2S 3N
Subordination of foreign investment	3S 3I	2S 3I 1N	1S 4N
TOTALS	14S 4I	10S 5I 3N	5S 2I 8N
PERCENTAGES	72 22	56 28 16	33 13 53

PHASE --->	Stagnation	Progress
ANDEAN AIMS (1987-1995)	1987-1989	1990-1995
Primacy of market mechanisms	2S 3N	4S 1N
Export-oriented industrialization	2S 3N	5S
Greater role of foreign investment	4S 1N	5S
TOTALS	8S 7N	14S 1N
PERCENTAGES	53 47	93 7

S = Supportive I = Indifferent N = Not supportive

progress. In the first phase of progress, 1969-1973, all of the 24 possible outcomes were supportive (see table VIII.5). Within the second phase of progress, between 1990 to 1992, support was 93 percent of the 15 possible outcomes.[6] From 1993 to 1995 (slow progress) support diminished to 60 percent of the outcomes.

[6]By the second phase of progress the total possible outcomes were reduced to 15 because the Andean Pact had one country less, Chile, and there were only three rather than four main mechanisms.

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The lack of support for the main mechanisms was at its highest during the phase of regression, 1979-1986. Out of the 20 possible outcomes, 14 (70 percent) were not supportive of the mechanisms.

The two phases of stagnation show an intermediate degree of support. In the first phase of stagnation, 1974-1978, indifference was the result in 46 percent of the outcomes, followed by 38 percent of the outcomes being supportive. During the second phase of stagnation, 1987-1989, indifference was the outcome in 73 percent of the cases, and support happened in only 20 percent.

In short, support or lack of support for the main mechanisms of the Cartagena Agreement by the governments of the member countries correlates well with progress, stagnation and regression of the Andean integration process. There has always been higher level of support for the mechanisms during the phases of progress than during the phases of stagnation or regression.

4.- THE EVOLUTION OF THE ANDEAN INTEGRATION PROCESS IS A LONG MARCH AND NOT A GREAT LEAP FORWARD

Of all the economic integration processes attempted in the developing world, the Andean Group has been the most ambitious because of its aims, and its progress.[7]

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[7]"The Andean Group was born as the most ambitious integration process in Latin America" (Aninat, 1992: 69).

"Until the beginning of the 1980s the Andean Group was considered to be the most comprehensive ... [and] as the most successful example of regional cooperation among developing countries" (Axline,

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TABLE VIII.5
SUPPORT FOR ANDEAN MECHANISMS: 1969-1995

PHASE -->	Progress	Stagnation	Regression
MECHANISMS	1969-1973	1974-1978	1979- 1986
Trade Liberalization	6S	2S 3I 1N	1S 2I 2N
Common External Minimum Tariff	6S	1S 4I 1N	5N
Industrial Programming	6S	4S 1I 1N	1S 1I 3N
Foreign Investment	6S	2S 3I 1N	1S 4N
TOTALS	24S	9S 11I 4N	3S 3I 14N
PERCENTAGES	100	38 46 16	15 15 70

PHASE -->	Stagnation	Progress	Slow Progress
MECHANISMS	1987-1989	1990-1992	1992-1995
Trade liberalization	3S 1I 1N	4S 1I	4S 1N
Common external tariff	5I	5S	4S 1N
Policy harmonization	5I	5S	4I 1N
TOTALS	3S 11I 1N	14S 1I	9S 4I 2N
PERCENTAGES	20 73 7	93 7	60 27 13

S = Supportive I = Indifferent N = Not supportive

The evolution of the Andean process demonstrates that changing external and domestic circumstances heavily influence individual governments, and their long- and

1994b: 193, 196).

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short-term interests.[8] These influences have direct bearing on the changing usefulness of the Andean integration process for the governments in order to achieve their own goals. The changes in the perception of the member countries of the usefulness of economic integration, as another tool to be employed in their quest for national development, lead to phases of progress, stagnation, or regression of the Andean process.[9] Thus, the straightforward implementation of the Andean mechanisms and the fulfillment of its aims, as expected by the existing functionalist and neo-functionalist theories of economic integration proved practically impossible.[10]

The lack of recognition that economic integration is not only linked to the realm of economics, but it is also a process in which social, cultural, and above all, political factors play important roles has contributed to inadequate analysis of the process (Aftalion, 1990: 14). It is the political factor which in the end has the last word in the evolution of the integration process. As such, then, the governments are the most important players in this process. Bargaining to achieve their national interests defines what route the Andean process should take for the Cartagena Agreement to continue to

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[8]"Regional cooperation is the result of multilateral decisions taken by member countries as part of their individual national foreign policy processes ... which reflect their national interests, and which are determined by myriad political influences, both domestic and international" (Axline, 1994b: 186).

[9]"In virtually every case [of economic integration] it is possible to trace a pattern of establishment, some modest successes with respect to the original goals, but eventually failure to achieve the overall aims, and finally stagnation or collapse, only to emerge in a new form in the 1990s" (Axline, 1994: 5).

[10]"No integration process is without obstacles ... nor is their progress lineal" (Márquez, 1989: 23).

"In both economic and political terms, the Andean Group has so far not succeeded in yielding its long sought goal of closer regional integration. The reason for this outcome lies mainly in the fact that adherence to the Cartagena Agreement came into direct conflict with national ambitions" (OECD, 1993: 60).

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be a relevant instrument of the governments in their quest for development.[11]

The speed and depth of the implementation of the mechanisms cannot be linear not only because of the changing interests of the governments, but also because governments do not always have a clear idea how to utilize these mechanisms. Another practical reason, which makes implementation of the mechanisms quite difficult, is the fact that negotiations are pursued in a piecemeal fashion, making it impossible for governments to have a comprehensive view of give and take, and of the overall effects of the process for the country (Tironi, 1976: 100-101; Cohen and Rosenthal, 1977: 34). Nevertheless, the most important reason for the lack of smooth progress of the Andean integration process was the dissimilarities in the strategies of development, and in the economic policies of the governments.[12] The smooth progress of the Andean process requires the impossible goal of furthering more and more policy harmonization. This in turn means that governments should pursue more and more similar, and eventually identical policies with the corresponding decrease of their sovereignty.

Since the Andean process is primarily a tool for the member countries to achieve their national goals, governments will be interested in furthering integration only if it

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[11]"Regional cooperation is better understood as part of a development strategy, ... [and] it is apparent ... that [it] can only be understood from the perspective of the national interests of the individual member states, and that the politics of regional negotiations will involve accommodating these interests from all partners" (Axline, 1994b: 183, 217).

[12]"... insofar there are substantial differences in the economic policies of the member countries of the Andean process, the process will not be able to achieve the objectives for which it was created" (Tafur, 1982: 101).

"... the principal cause of the [Andean crises] was the existence of important discrepancies among the economic policies of the governments of the member countries ..." (Aninat, 1992: 69).

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serves them.[13] On the other hand, governments only reluctantly abdicate powers to the community organs.[14] The self-limitation of their sovereignty is accepted only when governments clearly find that, by doing so, important objectives can be achieved. In consequence, economic integration has little chance to become an important factor in the Andean economies. This in turn makes the governments unwilling to deepen and expand the integration process.

Therefore, the integration process has had, not by chance, a few years of progress, some of regression, and many of stagnation. This at the same time explains its survival. The few years during which the Andean Pact proved to be useful makes the governments reluctant to abandon the process. "Integration will always be an imperfect process whose objectives can only be achieved partially" (Peña-Parra, 1979: 38). Most of the time, there are incentives to keep the integration process, but most of the time there are not enough incentives to keep it making progress.

Is the Andean integration process still relevant? Why is the Cartagena Agreement seen as useful today by the governments of the member countries?

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[13]"Andean decisions will be adopted only if they coincide with some predefined policies" (Abusada, 1991: 14).

"Ultimately the outcome of regional cooperation (the form it takes, its success of failure) will depend on its ability to respond to the interests of its member states as determined by the individual economic, social and political characteristic of each member state" (Axline, 1994a: 29). "And the greater the congruence between regional policies and mechanisms and the national interests of member countries, the greater will be the support for regional cooperation" (Axline, 1994b: 191-192).

[14]"The Andean states have not been willing to tolerate ... a greater penetration by regional authorities into areas subject to national control" (Middlebrook, 1979: 80).

"It is evident that the Andean institutions and inter-governmental relations have been closely controlled by the states" (Frambes-Buxeda, 1990: 113).

"The fundamental political problem posed by economic integration is the loss of sovereignty ... At some point, each member state risks being forced to ignore national interests—political, economic, social, or cultural—as a consequence of maintaining its international obligations. This tension between national interest and international obligations ... poses a severe dilemma for states which tend to value security and autonomy above all else" (Balaam and Veseth, 1996: 222).

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Now, more than before, due to the globalization of the economy there are few problems that can be solved unilaterally. Economic integration, in a rapidly changing world, is useful to solve common problems and to reduce the insecurity and uncertainty of contemporary international relations. Economic integration now serves as a means to facilitate an efficient integration of the Andean countries with the international economy; and to pool resources to increase their diminished standing in the international system.[15]

At the domestic level, the new objectives assigned to the Andean Pact help domestic production to increase their efficiency and productivity. The Andean market offers to local producers an experimental and safer area where they can compete under free trade rules.

From a different perspective, integration processes, such as the Andean Group, are international treaties which contain a set of ideal objectives rather than achievable targets. The theories of economic integration assumed that the aims were possible to reach, and within the agreed upon timetable. The obvious way to analyze integration processes, such as the Andean Group, was, then, to investigate how successfully they met their objectives within the agreed upon timetable. The conclusions were similarly disappointing. Even under their extended timetables, no integration process has been able to reach its goals. The Andean Pact is no exception.

The expectation that the community institutions created by the integration accords

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[15]"Perhaps the main [conclusion] is that, just as economic integration played a functional role in the import-substitution model of decades past, it can also do so in the contemporary model for enhanced competitiveness in the international market" (Rosenthal, 1993: 18).

"The new generation of [regional trade] agreements [RTA] aims to reap the benefits of an expanded domestic market *in order* to increase exports to the world outside. ... [they] are now portrayed as an 'export platform' ... Tariff reductions within the RTAs are merely complementary to (and slightly greater than) the general tariff reductions taking place under structural adjustment" (Green, 1995: 142).

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would be the harbingers of a supranational organization, as predicted by the functionalist and neo-functionalist theories, was unwarranted. These community organs more resemble international governmental organizations (IGOs) than supranational organizations[16]. This is so because the decision-making process rests in the hands of the political body composed of government representatives. The political body will always put the national interests above the community interests and benefits. As any IGO, the Andean community institutions will only accomplish as much as its member countries want; and what these members want the communal organs to do is to be a tool of achieving their national objectives. The powers and capabilities of the Andean community institutions depend more on the wishes of the member governments than in whatever powers and capabilities the organization's charter might bestowed on them.[17]

We can see that the process of supranationalization through an integration process is prevented, and the stated goals of the agreements remain elusive. In practice, economic integration assures the supremacy of the governments and their leading role in determining the evolution of the process, since nations will not subordinate their national interests to the "common good." The process will progress, stagnate, or regress because of the changing interests of the governments, disregarding the common goals agreed upon

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[16]"We can conclude so far that IGOs will in the foreseeable future remain vehicles through which nations-states conduct their affairs, but they are not likely to become decision-imposing entities on their member states" (Feld et al., 1994: 77).

"In a world where international pressures penetrate deep into national economies, the effective harmonization of policies toward international transactions can be highly intrusive. Assigning extensive powers to an international organization would therefore create a structure that would be resisted by member states and rob the arrangement of credibility" (Eichengreen, 1995: 1076).

[17]"There is apparently some resistance to delegating authority to intergovernmental or supra-national agencies" (Rosenthal, 1993: 19).

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in the agreement.

Integration processes can also be seen as international regimes. The concept of international regimes, defined as set of "principles, norms, rules, decision-making procedures around which actor expectations converge in a given issue area" (Krasner, 1983: 1), goes well with integration accords. It can be said that while the rules, norms, and regulations can be changed over time by the members, reflecting their changing interests, the regime changes but it still is a regime. The conceptualization of integration processes as international regimes supports the guiding idea of this study, namely the supremacy of the governments in determining the evolution of the process, or in this case, of the regime.

Governments are the most important actors and determine the evolution of the Andean process, but they are also influenced by external factors (as shown in this dissertation) and by domestic factors (not explicitly taken into account in this study). It is also pertinent to point out the relevance of the role of the presidents. Progress between 1990 and 1992 happened in part due to the nine meetings through which the presidents effectively redefined the path and pace of the Andean process. This progress, however, was backed primarily by the similarities in the strategies of development and in the economic policies of the governments. This conclusion is supported by the fact that the presidents met eight times between August 1978 and December 1983, during the end of the stagnation and the first years of regression phases. Then, the presidential accords did not reinvigorate the process, because external and domestic factors were not supportive of the process.

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In both cases, nevertheless, presidential leadership shows that it could be useful for the Andean process to be furthered, provided that the circumstances are right. More importantly, the presidential meetings prove "that the Andean process is above all, a political project" (JUNAC, 1995g: 1).

What then can be expected from economic integration processes in general, and from the Andean Group in particular? The Andean Pact has shown over time it is a useful tool to further some national aims for some of the governments of the member countries for some time. As any other tool, the Andean Group will be employed when needed and left in limbo when not. The dynamism of the process and its progress principally depends on the convergence of objectives the governments want to reach through the integration process. Stagnation and regression of the process is a reflection of diminishing usefulness of the integration accord for the governments in achieving their national aims. Changes of the aims of the Andean Group and of the relative importance of the mechanisms (as well as the creation of new mechanisms), are the means by which governments re-tool the process and make it again useful. The survival of the Andean process is assured because either the governments find it useful, or the accord is modified by the member countries to suit their new purposes. There is little else that can be expected from integration besides being a tool, sometimes a very important tool, to help its members to achieve some of their shared goals.[18] A more peaceful international regional or subregional system, if reached, would be only an unintended consequence,

[18]"There are still many difficulties—political as well as economic—in advancing Latin American integration efforts; but such efforts *do* help (although still marginally) in Latin America's economic development and they *do* provide, albeit in small ways, a means to bring the Latin American Countries together" (Wiarda, 1995: 203).

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a by-product, and it would be more an intended objective of its member countries.

The Andean economic integration process, being a tool of the governments rather than an actor on its own, cannot evolve into a great leap forward towards supranationalism as predicted by economic integration theorists. Integration processes are most likely to evolve as a long march of non-sequential phases, as demonstrated by this research project on the Andean Pact. This long march leads not necessarily to officially stated objectives, and even less towards the disappearance of the nation-state, but in the directions set by the convergent interests of the member countries.

In short, economic integration processes have economic goals, and use economic mechanisms. They are, however, the result of political undertakings using economic means and goals. In these endeavors governments, and their behavior have a crucial role in the evolution of the integration processes, a role which has often been ignored and down played in the prevailing literature.

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