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Intereconomics

*Suggested Citation:* Koopmann, Georg (1979) : Ten years andean pact: A reexamination, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 14, Iss. 3, pp. 116-122, <https://doi.org/10.1007/BF02924551>

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# Ten Years Andean Pact: A Reexamination

Georg Koopmann, Hamburg \*

On May 26 the heads of state of five Andean countries — Bolivia, Colombia, Ecuador, Peru and Venezuela<sup>1</sup> — celebrated in Cartagena (Colombia) the tenth anniversary of the so-called Cartagena Agreement which forms the legal base of economic integration within this Latin American subregion. Has the Andean approach to integration proved to be feasible in the first decade of its application? What have been the main achievements and failures, and what are the future perspectives of cooperation within the subregion?

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The Andean approach to integration goes far beyond the typical integration scheme applied by developing countries. This is true with regard to both objectives and mechanisms of integration. Integration is understood by the Andean countries as a main vehicle to facilitate self-sustaining development and strengthen the bargaining position vis-à-vis third countries. What is more, special emphasis is laid on a balanced distribution among the member states of the benefits to be derived from integration.

## Short-comings of Lafta

As far as mechanisms are concerned, the Andean countries learnt from the experiences with the Latin American Free Trade Association (Lafta)<sup>2</sup> that mere trade liberalization tends to accentuate inter-country polarization tendencies. The main winner of trade liberalization within Lafta has been Brazil, whose share in intra-regional exports increased from 16 % in 1962–64 to 26 % in 1976, whereas the corresponding import share declined from 35 % to 27 %. In contrast to this the Andean countries (including Chile) participated by 40 % in Lafta exports in 1976 as against 43 % in 1962–64, and the subregion's share in intrazonal imports rose from 33 % to 45 %<sup>3</sup>.

A second criticism raised against Lafta concerns the role of transnational corporations (TNCs) in Latin American integration, which in many cases

have affiliates with largely identical production programs in various Lafta countries<sup>4</sup>. As a consequence the Lafta meetings on tariff reductions were often dominated by representatives of foreign subsidiaries, which in many cases belonged to the same parent company<sup>5</sup>. This may be regarded as a main contributing factor to the slow progress of trade liberalization within Lafta since the mid-sixties, because *established* foreign companies are showing little propensity to reallocate production the more so as integration between politically unstable countries is associated with high risks. Foreign newcomers on Lafta markets, on the other hand, have a strong preference for the larger-market and more advanced countries in the region, in this way aggravating the polarization tendencies referred to above<sup>6</sup>.

## Andean Response

In response to the short-comings of Lafta the Andean Countries agreed upon a far more ambitious scheme of economic integration:

<sup>3</sup> Cf. INTER-AMERICAN DEVELOPMENT BANK, Economic and Social Progress in Latin America, 1977 report, Washington 1978, p. 102.

<sup>4</sup> When the Andean Pact was established of 513 subsidiaries of US-TNCs 362 had affiliates in at least one other member country and 258 in at least two. Cf. J. L. Angel, Directory of American Firms Operating in Foreign Countries, 7th edition, New York 1969, cited by C. Vaitsos, Crisis in Regional Economic Cooperation (Integration) among Developing Countries: A Survey, in: World Development, Vol. 6, 1978, p. 732 (subsequently quoted as: Vaitsos, Crisis).

<sup>5</sup> During the first eleven years of Lafta 194 tariff concession meetings were held. More than 50 % of the participants were representatives of foreign subsidiaries, with foreign participation reaching 80 % and more in electrical and electronic products, office equipment, and chemical-pharmaceutical industries. Cf. J. Campos, La participación empresarial en el proceso de integración: las reuniones sectoriales de la Alalc, in: Revista de Integración, 1974, p. 166, cited by Vaitsos, Crisis, op. cit., p. 731.

<sup>6</sup> OECD figures indicate that about 60 % of direct foreign investment in the Lafta area are accounted for by Brazil. Cf. H. Krägenau, Internationale Direktinvestitionen (International direct investment), Hamburg 1979, p. 285.

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<sup>1</sup> As of October 30, 1976 Chile had withdrawn from the Andean Pact while Venezuela has been full member of the group only since January 1, 1974.

<sup>2</sup> Apart from the five Andean Pact countries, which are special status members, Lafta comprises Argentina, Brazil, Chile, Mexico, Paraguay and Uruguay.

☐ trade liberalization is conceived as automatic, irreversible and extensive, in sharp contrast to the product-by-product negotiations within Lafta;

☐ a common external tariff (CET) is to be implemented, whereas Lafta is designed as a mere free trade area;

☐ a substantial share of total tradeable merchandise is earmarked for so-called Sectoral Programs for Industrial Development (SPID), by which the decision of where to invest within the subregion is taken away from the market mechanism;

☐ policies regarding foreign capital, trade-marks, patents and licenses are to be harmonized among the member states;

☐ a coordination of planning, rural development, infrastructural, fiscal, financial and monetary policies is envisaged, though the Cartagena Agreement remains vague on these issues;

☐ the least developed countries of the subregion, Bolivia and Ecuador, are awarded preferential treatment;

☐ an independent community institution with the power of proposal, the Junta, and an inter-governmental supranational institution with the power of approval, the Commission, are established.

In terms of integration theory, the Andean Pact may thus be characterized as a customs union with some degree of policy harmonization and an LDC-specific element of developmental nationalism<sup>7</sup>. The following analysis examines the constitutive elements of the Andean integration scheme, i.e. trade liberalization, industrial programming and common treatment of foreign direct investment.

### Trade Liberalization

The economic rationale underlying trade liberalization within the Andean Group is simple and evident. The domestic markets of the member countries are too small to permit plants of an efficient size to be built. In 1977 population and gross domestic product in the five Andean states were on an average only 10% of the corresponding figures for Brazil<sup>8</sup>. The combined Andean eco-

nomic potential, on the other hand, as measured by population and GDP, is as strong as that of Mexico, the second largest Latin American market (cf. table 1).

**Table 1**  
**Selected indicators of Andean and other Latin American economies**

	Population		Gross domestic product		GDP per capita		Share of manufacturing in GDP (%)	
	1000 pers. 1977	(a) 1973/77	Mill. \$ 1977	(a) 1973/77	\$ 1977	(a) 1973/77	1960	1976
Bolivia	4 788	2.5	2 321	5.9	485	3.4	12.7	14.8
Colombia	24 762	2.7	15 136	5.0	611	2.3	17.4	19.5
Ecuador	7 088	2.9	4 383	8.4	618	5.5	15.6	17.1
Peru	16 358	2.8	14 548	4.0	889	1.2	20.0	26.0
Venezuela	12 737	3.1	26 532	6.7	2 083	3.6	14.2	17.4
Andean Group	65 733	2.8	69 920	5.7	957	2.9	16.5	19.9
Argentina	26 056	1.8	44 841	1.6	1 721	-0.2	31.1	36.7
Brazil	113 208	2.8	123 431	7.3	1 090	4.5	24.9	28.9
Mexico	64 404	3.5	63 851	3.7	991	0.2	22.6	28.2
Latin America	319 229	2.8	340 239	4.9	1 066	2.1	22.6	26.6

(a) - Average annual growth rate.

Source: Inter-American Development Bank, Economic and Social Progress in Latin America, 1977 report, Washington 1978; author's calculations.

Trade liberalization is also expected to favour a reallocation of existing industrial activities according to comparative cost advantages, the more so as a considerable scope for intra-industry specialisation among the Andean economies is said to exist, prevented from materializing only by high tariff and non-tariff barriers to subregional trade<sup>9</sup>. This appears, however, to be a rather optimistic view given the striking similarities of industrial structures resulting from import-substitution policies, to which the Andean countries devoted themselves in the post-war area. The conditions for trade liberalization to stimulate industrial growth are, therefore, less favourable in the Andean area than, for example, in the EEC or Efta region.

The Cartagena Agreement provides that all intra-zonal trade restrictions are abolished by December 31, 1980, at the latest (Article 45). By the same date the CET would be implemented. This schedule proved, however, to be too tight. It has therefore been extended in various protocols modifying the Cartagena Agreement, the last being the Protocol of Arequipa, signed on 21st April 1978, which postponed the deadline for completing the customs union to December 31, 1989.

In spite of the delays the progress made until now in trade liberalization is considerable. According to information by the Andean Pact Junta non-tariff

<sup>7</sup> In addition to a customs union, which is a free trade area with a common external tariff, the Andean integration scheme contains elements of a common market, where restrictions on factor movements are abolished, and an economic union, where a considerable degree of policy harmonization is achieved. Cf. D. Moravetz, *The Andean Group: A Case Study in Economic Integration among Developing Countries*, Cambridge (Mass.) and London, 1974, p. 3. - The term "developmental nationalism" has been suggested by E. Milenky. Cf. E. Milenky, *Developmental Nationalism in Practice: The Problems and Progress of the Andean Group*, in: *Inter-American Economic Affairs*, Vol. 26, No. 4, 1974, pp. 49 to 68.

<sup>8</sup> If oil-rich Venezuela is excluded the GDP percentage declines to 7.

<sup>9</sup> Intra-industry specialisation is considered to be less disruptive than inter-industry specialisation. Cf. Moravetz, op. cit., pp. 98-99.

barriers have already been eliminated by Colombia, Peru and Venezuela for products actually traded within the subregion and not included in SPIDs, i.e. 65 % of intrazonal trade. For 70 % of these commodities tariff barriers to trade between the three countries have been reduced to between 1 and 20 %, the highest tariff rate for the remaining 30 % being 38 %<sup>10</sup>.

The reduction of trade barriers gave rise to the strong performance of subregional trade as evidenced in table 2. In 1968 internal exports amounted to only \$ 75 mn, i.e. less than 2 % of the Andean Group's exports to third countries. Until 1977 internal exports increased to more than \$ 800 mn thus exceeding by one-fourth the deliveries to the rest of Lafta and reaching nearly 6 % of total exports to third countries.

**Table 2**  
**Intratrade within the Andean Group 1968-1977**  
(mn \$; %)

	Mill. \$	Intratrade as % of:	
		total exports to third countries	exports to third countries within Lafta
1968	75	1.6	37.7
1969	94	1.9	42.9
1970	119	2.2	54.6
1971	142	2.8	62.8
1972	156	3.0	55.9
1973	223	2.9	54.4
1974	459	3.0	55.5
1975	440	3.5	59.5
1976	647	4.9	90.1
1977	803	5.5	125.9

Source: UN, Yearbook of International Trade Statistics, various issues (figures for 1968 to 1975), Deutsch-Südamerikanische Bank, Kurzbericht 1979, No. 1; 1978, No. 2 (figures for 1976 and 1977), author's calculations.

The increase in subregional trade is predominantly accounted for by manufactured products, whereas primary commodities remain directed towards traditional markets in advanced industrial countries. Between 1969 and 1974 the growth rate of intra-Andean trade in manufactures has been about three times as high as that in raw materials<sup>11</sup>.

A dynamic intratrade pattern in manufactures does, however, not automatically enhance self-sustaining industrial growth. Firstly, the signifi-

cance of reciprocal trade in total industrial activities remains low. In Colombia, for example, which is most important in intra-Andean trade, the share of manufactured exports to the remaining Andean countries is less than 5 % of the country's industrial value-added. Secondly, much will depend on the level and structure of the CET. If the latter would turn out protectionistic in such a way, that inefficient capital intensive industries are promoted, the short-comings of pre-integration national import-substitution policies might be repeated on a regional level. Moreover, the countries to suffer most from trade diversion would presumably be Bolivia and Ecuador, which do not have substantial intermediate and capital-goods industries and would thus be forced to redirect the corresponding imports from suppliers outside the subregion to more expensive intra-Andean sources.

In recent years the criteria have been redefined, according to which the CET is to be structured. Labour intensive activities and activities contributing to technological development are to receive preferential protection<sup>12</sup>. If these criteria prevail in the final draft of the CET to be adopted until December 31, 1979, conditions may improve considerably for developing industrial activities in the Andean region, which are both less dependent on foreign inputs and competitive on international markets.

### Industrial Programming

To establish efficient industries showing strong linkages with the domestic economies on a viable technological base is also a central objective of industrial programming within the Andean Group. Above this, and even more important, industrial programming is the chief instrument to secure an equitable sharing of industrialization benefits between the member states. In the first five years of the Andean Pact, when trade liberalization was already under way while industrial programming was only on paper and in negotiation, the main beneficiary of intra-trade expansion had been Colombia which belongs to the more advanced countries in the subregion<sup>13</sup>. Since 1973, however, Colombia's share in intrazonal exports has been stagnating, whereas especially Ecuador experienced a strong upward trend. The latter is to a certain degree probably due to overproportionate oil price increases and a preferential treatment of

<sup>10</sup> Cf. Bundesstelle für Außenhandelsinformation, Struktur und Entwicklung des Andenpaktes, (Structure and Development of the Andean Pact), Köln 1979, p. 2. When trade liberalization started in December 1971 the unweighted arithmetic average of sectoral tariff rates amounted to 70 % in Colombia and 90 % in Peru, with highest tariff rates reached by the sector clothing and shoes (183 % in Colombia and 210 % in Peru). Cf. Moravetz, op. cit., p. 66.

<sup>11</sup> Cf. R. Ffrench-Davis, The Andean Pact: A Model of Economic Integration for Developing Countries, in: J. Grunwald (ed.), Latin America and World Economy, Beverly Hills (Calif.), 1978, p. 173.

<sup>12</sup> Cf. R. Ffrench-Davis, op. cit., p. 175; E. García d'Acuña, J. Mezzera, The Common External Tariff and Job Creation in the Andean Group, in: International Labour Review, Vol. 117, No. 2, March-April 1978, pp. 211-223.

<sup>13</sup> In 1974 Colombia accounted for more than 50 % of intra-Andean exports of manufactures (including Chile), whereas Bolivia participated by only 0.21 % and Ecuador by 8 %. For a detailed breakdown of intra-Andean exports by countries and trade regimes applicable in the Andean Pact in 1973/74 cf. Vaitos, Crisis, op. cit., p. 761.

Ecuador in trade liberalization, but may also be explained by the program for industrial development in metalworking, which is in force since August 1972.

In its final stage industrial programming is to cover nine key industrial sectors<sup>14</sup> and assume an overall significance amounting to 11 % of sub-regional industrial value-added as projected by 1990<sup>15</sup>.

Of the three SPIDs adopted so far the metalworking and automobile programs appear to be more adequate from a developmental point of view than the one relating to the petrochemical industry, since the latter is highly capital intensive, provides only little scope for subregional intra-industry division of labour, and does not give rise to substantial technological spillovers to other sectors.

The metalworking and car industry program, on the other hand, may contribute significantly to job creation and the development of skills and know-

how, the use of which can spread throughout the rest of the economy<sup>16</sup>. In addition to this, the technical nature of production and the wide range of sub-products and sub-activities in these industries, e.g. foundering, forging, machining and tooling, permit an exchange of parts and components, in which all member countries, including the small and backward ones can participate. Bolivia and Ecuador may thus, at least in theory, enjoy substantial benefits from the metalworking and automotive agreements, while in the absence of planning mechanisms these countries would possibly get nothing.

In reality, however, dissatisfaction prevails. One of two firms in Bolivia, which took up production within the metalworking program, has closed down operations in the meantime, and in both countries the assignments made in the car industry have come under heavy attack. In Ecuador, for example,

<sup>14</sup> Metalworking, automobiles, petrochemicals, chemicals, fertilizers, pharmaceuticals, electronics, shipbuilding, and steel.

<sup>15</sup> In the case of metalworking, automotive, electrical and related non-process industries allocated production is calculated to account for 43 % of the Andean Pact's value-added in these sectors in 1990. For Bolivia and Ecuador the corresponding figure is above 90 %. Cf. Vaitos, Crisis, op. cit., p. 762.

<sup>16</sup> Cf. French-Davis, op. cit., p. 178.

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V E R L A G W E L T A R C H I V G M B H - H A M B U R G

the anti-motor industry groups argue, that Ecuador does not have the capacity to train the skilled labour force needed by the motor industry in the short term, that no real study of investment alternatives has been made nor any analysis of who stands to gain, and that the money (\$ 250 mn) would better be invested elsewhere, e.g. in the agricultural sector <sup>17</sup>.

As far as the outstanding SPIDs are concerned, the approval of the chemicals, pharmaceuticals, fertilizers and electronics programs has been delayed until December 1979, whereas the ship-building and steel plans are to be adopted only in the eighties. It may, however, be doubted that even the revised schedule can be met, if it is called to mind, that the Junta as early as 1973 submitted an automotive industry program to the Commission. The agreement was finally signed in September 1977, but the struggle for models as well as parts and components continued <sup>18</sup>.

In negotiating and implementing the SPIDs the Andean planning authorities are facing a complex set of difficult choices and severe constraints. Not only is a workable balance between market and non-market elements to be established so as not to run into too costly economic inefficiencies <sup>19</sup>, but opposition by powerful private interest groups must be overcome, which have been for a long time established in one or more of the member countries <sup>20</sup>. Furthermore, technological and financial bottlenecks must be widened. If the industrial programming is to get ahead according to the schedules \$ 33 bn are needed <sup>21</sup>.

Apparently, this sum cannot be raised on the domestic capital markets nor is the basic technological infrastructure in the subregion developed sufficiently to carry out 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.

It is, however, not intended to maximize foreign factor inflows, but to attract them under conditions, which in general secure a more balanced distribution of benefits between investors and host

countries than has been experienced in the past in many cases, and in particular guarantee that the gains of integration are not enjoyed over-proportionately by foreign-based firms.

To a good deal, the unsatisfactory developmental performance of direct foreign investment observed in the fifties and sixties <sup>22</sup> may be attributed to a weak bargaining position vis-à-vis foreign companies. The Andean countries had to offer only limited markets and were facing inter-country competition in attracting foreign capital. Moreover investment policies were subject to frequent and substantial modifications in connection with general political reorientations. As a result foreign companies predominantly engaged themselves in investment projects with short payback periods.

The above considerations suggest, that foreign capital flows might be stimulated and at the same time directed in accordance with the receiving countries interests and priorities, if inter-country competition were abolished, integrated markets created and international rules established, which are less sensitive to national political changes.

Based on this reasoning, the Andean states agreed upon a common code on foreign capital and technology, whose implementation started in June 1971.

### Common Treatment of Foreign Investment

The Andean Code goes far beyond regulations applied in most other LDCs in that it pertains not only to balance-of-payments transactions, but touches upon almost the whole range of foreign-investment aspects relevant to economic development.

The main rules are contained in Decision 24, which was adopted by the Andean Pact Commission on December 31, 1970 and subsequently modified several times though its basic nature did not change <sup>23</sup>. With regard to economic integration among the member states the most im-

<sup>17</sup> The reservations are made in spite of impressive figures presented by the Ecuadorean Ministry of Industry, according to which 40 000 cars and 16 000 light trucks will be assembled by 1985 apart from engines, gear boxes, fuel pumps and other parts, the country will save \$ 50 mn in vehicle imports and earn \$ 250 mn in exports, and 50 000 new jobs will be created in plants located away from the urban centers. Cf. *Latin America Economic Report*, Vol. 7, No. 1, 1979, pp. 100, 101.

<sup>18</sup> Cf. *Bank of London and South America*, Review, Vol. 12, No. 12, 1978, pp. 670, 671.

<sup>19</sup> The Andean Pact chose a pragmatic approach to achieve a balance between market and planning: the decision of where to invest is taken away from the market, but it is accompanied by a more decentralized decision of how much, when, and how to produce. Cf. *French-Davis*, op. cit., p. 177.

<sup>20</sup> For the role played by Chrysler in shaping the Andean automotive agreement cf. C. Vaitos, *The Role of Transnational Enterprises in Latin American Economic Integration Efforts: Who integrates with whom, how and for whose benefit* (Report prepared for the UNCTAD Secretariat), Geneva 1978, pp. 154 to 161 (subsequently quoted as Vaitos, TNE).

<sup>21</sup> Cf. *Bank of London and South America*, Review, Vol. 12, No. 12, 1978, p. 671.

<sup>22</sup> Cf. C. Vaitos, *Inter-country income distribution and transnational enterprises*, London 1974.

<sup>23</sup> For a detailed description of Decision 24 and other regulations touching upon foreign investment activities in the Andean region cf. H. Oswald, *Die ausländischen Direktinvestitionen in der Industrialisierungspolitik des Andenpaktes* (Foreign direct investment in the industrialization policy of the Andean Pact), Diessenhofen 1977. The main modifications of Decision 24 resulted from the negotiations in connection with Chile's withdrawal from the Andean Pact which was chiefly motivated by the remaining members' opposition against a radical change of Decision 24. For an account cf. *Bank of London and South America*, Review, Vol 10, No. 11, 1976, pp. 611 to 614.

**Table 3**  
**Stock of US direct investment and capital expenditures by US subsidiaries in Colombia, Peru and Venezuela 1966 to 1977**  
(mn \$)

	Colombia		Peru		Venezuela	
	Stock	Capital expend.	Stock	Capital expend.	Stock	Capital expend.
1966	193	20	128	28	281	37
1967	200	24	140	42	288	44
1968	212	22	146	31	347	45
1969	240	25	154	15	378	62
1970	250	34	156	7	416	55
1971	302	39	156	8	461	59
1972	299	49	155	6	487	56
1973	326	49	161	5	517	90
1974	376	49	156	6	604	81
1975	381	81	166	20	668	136
1976	388	78	168	16	740	179
1977	436	70 <sup>a</sup>	157	8 <sup>a</sup>	917	261 <sup>a</sup>

<sup>a</sup> — Plan figure.

Source: US Department of Commerce, Survey of Current Business, various issues.

portant provision concerns the transformation of foreign subsidiaries into mixed companies and national firms according to a fixed timetable<sup>24</sup>. Until December 31, 1988 (in the case of Bolivia and Ecuador December 31, 1993) all foreign investors, existing ones as well as newcomers, which want to enjoy the advantages of trade liberalization within the Andean Group, must give Andean investors an equity share of at least 51 % and a corresponding participation in the company's management<sup>25</sup>.

Decision 24 aroused harsh criticism and pressure, especially from North American Business circles where it was qualified as an "accident of history" and from foreign subsidiaries already established in the subregion. West European and Japanese

investors, on the other hand, as well as newcomers showed a more flexible attitude<sup>26</sup>. As a matter of fact, investment applications decreased in "critical" years, as has been demonstrated for Colombia, which was considered the "weak link in the nationalistic stance of the Andean Pact"<sup>27</sup>. In subsequent years, however, the decrease has been more than compensated for by additional applications. To a certain degree this may be explained by apprehensions on the part of US-investors to lose market shares against West-European and Japanese competitors. Inter-company rivalry and the prospects of growing markets appear thus to be stronger than objections against stricter rules of the game.

Table 3 shows that average annual additions to the stock of US direct manufacturing investment in the three Andean countries, for which data are available (Colombia, Peru, Venezuela), increased from \$ 57 mn between 1967 and 1972 to 114 mn in the subsequent five-year period. Only in Peru US-investments have been stagnating<sup>28</sup>, whereas especially Venezuela, where the Andean Code has been implemented since 1974, has experienced a strong upward trend.

An even more dynamic pattern is registered for annual capital expenditures, i.e. expenditures made by majority-owned manufacturing affiliates of US investors in Colombia, Peru and Venezuela in order "to acquire, add to, or improve property,

**Table 4**  
**Net capital inflows associated with foreign direct investments in the Andean Group 1957 to 1976**  
(mn \$)

	Bolivia	Colombia	Ecuador	Peru	Venezuela	Andean Group
1957	6	-20	-14	55	-10	17
1958	17	-48	-14	74	-525	-496
1959	21	-18	-14	28	-469	-452
1960	17	-24	-13	-41	-518	-579
1961	11	-35	-12	-62	-561	-659
1962	10	-35	-13	-55	-624	-717
1963	6	-38	-7	-66	-611	-716
1964	2	50	-9	-61	-683	-701
1965	13	-15	-18	-24	-717	-761
1966	2	10	-9	-78	-621	-686
1967	-11	3	-9	-67	-632	-716
1968	-12	1	9	-96	-610	-708
1969	-10	-23	19	-107	-453	-574
1970	-93	-51	70	-143	-588	-805
1971	-6	-30	137	-108	-460	-467
1972	5	-54	25	-23	-852	-899
1973	-1	-49	-73	-10	-934	-1067
1974	10	-17	-126	16	-1238	-1355
1975	37	-34	39	301	-195	148
1976	-5	-20	16	n.a.	-1107	-1116 <sup>a</sup>

<sup>a</sup> — Excluding Peru.

Source: International Monetary Fund, Balance of Payments Yearbook, various issues; author's calculations.

<sup>24</sup> For an evaluation of the impact of transformation requirements on the conduct of foreign investors in the Andean region cf. E. Tironi, Políticas frente al capital extranjero en la integración andina, in: El Trimestre Económico, Vol. 45, No. 180, 1978, pp. 965 to 996. An analysis of the relationship between transformation requirements and technological dependence within the Andean Group is provided by L. K. Mytelka, Licensing and Technology Dependence in the Andean Group, in: World Development, Vol. 6, 1978, pp. 447-459.

<sup>25</sup> Apart from Decision 24 and related provisions pertaining exclusively to foreign investment activities, foreign investors are more than national firms also affected by overall policies concerning industrial programming and trade liberalization. It is estimated that in 1974 about one-half of the intraregional exports were made by foreign-owned firms and most of the sectors selected for industrial programming are precisely those in which the foreign share in total output is highest. Cf. Vaitos, Crisis, op. cit., p. 730 and idem, TNE, op. cit., p. 107.

<sup>26</sup> For a review of reactions by foreign business groups to the Andean Code cf. Vaitos, TNE, op. cit., pp. 127 to 135.

<sup>27</sup> Cf. R. A. Diaz, The Andean Common Market: Challenge to Foreign Investors, in: Colombia Journal of World Business, Vol. 6, No. 4, 1971, p. 25. The critical years in Colombia were 1967, 1970, 1972 and 1976. For details cf. Vaitos, TNE, op. cit., pp. 136 to 143.

<sup>28</sup> This can, however, hardly be explained by the Andean code on foreign capital, it is presumably due to the general economic crisis facing this country in recent years.

plant and equipment"<sup>29</sup>. These expenditures, which in contrast to the additions to stock referred to above include funds originating from domestic capital markets, rose from \$ 100 mn p.a. between 1966 and 1971 to an annual average of \$ 207 mn during the following six years.

As far as other performance criteria are concerned, little conclusive evidence is available. A capital-inflow/profit-outflow comparison, derived from IMF statistics indicates that past patterns, i.e. profit outflows exceeding substantially capital inflows, did not change significantly in recent years (cf. table 4). The statistical data base is, however, subject to considerable potential errors, data are not disaggregated by sectors, and special influences, e.g. nationalization of oil investments in Venezuela, create severe distortions. As a consequence a causal relationship between enforcement of the Andean Code and balance-of-pay-

ments flows originating from foreign-owned companies cannot be established, the more so as general political and economic developments may have a stronger influence on foreign investment behaviour than regulations, which are specifically applied to foreign investors.

After almost eight years of implementation the Andean Code on foreign investment has at least proved to be fairly resistant against political changes in the member states. Moreover, the swift adoption of the modifications to Decision 24 following the withdrawal of Chile from the Andean Pact shows a remarkable ability to flexibly adapt provisions to changing circumstances and reveals a considerable extent of agreement on the issue. This contrasts positively to the lengthy negotiations about industrial programming and trade liberalization. The common treatment of foreign capital, therefore, turns out to be the most important contributing factor to the Andean Group's cohesiveness and the viability of the approach to integration chosen by these countries.

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<sup>29</sup> Cf. L. A. Lupo, Capital Expenditures by Majority-owned Foreign Affiliates of U.S. Companies 1977 and 1978, in: Survey of Current Business, Vol. 58, No. 3, p. 23.

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## INTERNATIONAL DIVISION OF LABOUR

# World Trade and Structural Adjustments

by Heinz Werner, Nuremberg \*

**The developing countries have to be involved more closely in the international division of labour if they are to be able to play their part in a New International Economic Order. Increased competition in semi-finished and finished products and internal substitution processes will pose new problems for the industrialized countries and force them to consider structural readjustments in their own economies.**

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**M**ore intensive international division of labour between industrialized and developing countries necessitates more active involvement of the less developed countries in international exchange relations. It poses a multitude of problems relating, for example, to international commodity agreements, development strategies in developing countries (import substitution or export diversification), technology transfer and input, protectionism, financial aid and debt redemption. Many of these questions require the taking of political

decisions with as yet unforeseeable characteristics, dimensions and consequences. The present article therefore attempts no more than to identify currently recognizable tendencies.

The past development of the world trade between industrialized and developing countries is used as a basis for discussion and the background for a consideration of the foreign commerce of the Federal Republic of Germany with the developing countries. This leads to an examination of the possible effects on employment of larger trade exchanges between the Federal Republic and the developing countries insofar as these can be ascertained at present.

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