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SOME IMPRESSIONS OF SUB-REGIONAL ECONOMIC CO-OPERATION
IN THE ANDIAN GROUP

Report of a group of representatives of ASEAN member countries who visited Lima, Peru, and Caracas, Venezuela, from 16 to 26 September, 1972 to study the operation and experience of the Junta del Acuerdo de Cartagena and the Corporación Andina de Fomento.

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TABLE OF CONTENTS

	<u>Pages</u>
INTRODUCTION	1 and 2
I IMPRESSIONS OF THE ASEAN STUDY TOUR GROUP AND SUGGESTIONS FOR FOLLOW-UP ACTION	3 - 5
II PRINCIPAL FEATURES OF SUB-REGIONAL ECONOMIC CO-OPERATION IN THE ANDEAN GROUP	7
- Historical background	7
- Relationship with LAFTA	7
- Principal features of the Andean Group's approach	8 and 9
<u>Institutions</u>	
A. The Commission and the Junta	10
B. Timetable of implementation	11
C. Corporación Andina de Fomento	11
D. The Advisory Councils	12
E. Technical meetings convened by the Junta	12
F. Councils on planning and economic policy	12
G. National integration institutions	12
<u>Methods and techniques</u>	
H. The Trade Policy Framework	12 - 14
I. Industrial programming	14 - 17
J. Special measures to benefit Bolivia and Ecuador	18
K. Common treatment of foreign capital, trademarks, patents, licensing agreements and royalties	18 and 19
L. Development planning, agriculture and infrastructure	19 and 20
M. Harmonising foreign exchange, marketing and fiscal policy	21
N. Negotiating power of the sub-region	21
A final note	21
 TABLE 1 Some economic data on member countries of the Andean Group	 6
 ANNEX A Timetable of the Study Tour	
ANNEX B Background documents for the Study Tour	
ANNEX C Timetable of implementation of the process of economic integration including certain major Decisions of the Commission	
ANNEX D Allocation of manufacturing units in the first programme for the metal-working industry	

INTRODUCTION

The purpose of our visit was to study the experience of five countries in Latin America known as the Andean Group - Bolivia, Chile, Colombia, Ecuador and Peru - whose governments initiated a process of closer economic co-operation when they signed the Acuerdo de Cartagena in 1969.

The visit was arranged by UNIDO at the request of all five member countries of ASEAN (the Association of South East Asian Nations). The idea of exchanging experience between sub-regional groups came from an Expert Group Meeting on Regional Industrial Co-operation held at UNIDO Headquarters in December 1971. The opportunity to visit the Andean Group was subsequently discussed by the Secretary-Generals for ASEAN of member countries on the recommendation of the United Nations Team on ASEAN Economic Co-operation.

The representatives of the ASEAN countries were:

INDONESIA	Mr. Baskaria Gandasuria Inspector of Financial and Economic Affairs Department of Industry
MALAYSIA	Mr. Kamaruddin Nordin Deputy Director Industries Division Ministry of Trade and Industry
PHILIPPINES	Mr. Angel Limjoco Jr. Governor Board of Investments
THAILAND	Mr. Sammao Chulkaratana Assistant Director Industrial Economics and Planning Division Ministry of Industry

The group did not unfortunately include a representative of the fifth member country of ASEAN, Singapore. Mr. R. Line of the Industrial Programming Section of UNIDO accompanied the group and acted as co-ordinator and secretary.

This joint report has been prepared for the Governments of the ASEAN member countries to provide a record of the impressions of the members of the Mission. It is not a detailed report since our visit was a very short one (see Annex A for timetable).

Chapter I provides a brief summary of the Mission's impressions of the principal features of the Andean Group's institutional framework, the techniques and methods of economic integration used, and their applicability to the ASEAN situation; we have also made some suggestions to our Governments for immediate follow-up to this Mission. Chapter II provides a factual and more detailed description of the Andean Group's organization and approach to economic integration. In this part of the report we have recorded information drawn from the notes taken at our meetings using simultaneous translation. Speed in producing a report has taken precedence over further research; complete accuracy is not guaranteed.

Since the report will also be read by officials of the Andean Group Secretariat and CAF, we would like to record here our sincere thanks and appreciation for their warm welcome and frank, open and comprehensive explanation of their experience. Both we and they found the inter-change of views rewarding. Officials of the Junta and CAF felt that this visit should be followed up by more frequent and closer contacts between the Governments of our countries in Latin America and Asia, particularly in the field of industry and trade. We make specific suggestions to implement this idea in Chapter I.

Finally, we would like to thank the Resident Representatives of UNDP (Mr. Balinski in Lima and Mr. Eboli in Caracas) and UNIDO's Senior Industrial Development Field Adviser based in Lima (Mr. Aselmann) for their hospitality and the help which their offices provided.

As far as the study tour itself is concerned, we are very grateful to UNIDO and UNDP for arranging this opportunity to study and discuss the experience of the Junta and CAF. We hope this report will serve to bring the knowledge we gained to the attention of a wider audience in ASEAN countries.

Although simultaneous translation in Lima permitted us to get a good understanding of the Andean Group's experience, many of the important documents were available only in Spanish. It would be useful both for ASEAN and other sub-regional groups if some of the principal documents were translated into English.

29 September 1972
UNIDO Headquarters
Vienna

Signed:



Mr. Baskaria GONDASURIA



Mr. Kamaruddin NORDIN



Mr. Angel LINJOCO Jr.



Mr. Samnao CHULAKRATANA

CHAPTER I

IMPRESSIONS OF THE ASEAN STUDY TOUR GROUP
AND SUGGESTIONS FOR FOLLOW-UP ACTION

INTRODUCTION

We are impressed with the progress and relative success of the Andean Group in the field of economic integration so far achieved since the signing of the Cartagena Agreement in 1969. This achievement reflects closely the seriousness and enthusiasm of the people in the region and the need to cooperate among themselves for economic integration. We note that there is a policy of give and take among these nations especially the concession given by the larger countries to the lesser developed countries of this group. This attitude contributes substantially to the present success of the Andean countries.

PRINCIPAL FEATURES OF THE ANDEAN ORGANIZATION

The following are the important features of the Cartagena Agreement which are of interest to the ASEAN countries:

1. Institutional Framework

The Andean Group has devised a unique organizational set-up whereby individual national representation is maintained while at the same time ensuring that plans and actions taken will be for the benefit of the entire region. This is attained by the creation of a Commission composed of five members, each one representing his own respective country; and the creation of a Junta or Board, comprised of three members elected unanimously by the Commission, none of whom is supposed to represent an individual country. The members of the Junta are selected on the basis of their high technical qualifications. The Junta makes detailed studies and formulates proposals to be submitted to the Commission for consideration and approval. Every proposal emanating from the Junta has been studied thoroughly in all aspects by highly technical experts. Because of this fact, the Commission can usually arrive at a fast decision or come to an agreement more easily on a proposal made to it by the Junta.

The voting system established by the Commission is generally on the basis of a two-thirds majority but in special cases each member of the Commission is given the power to veto a proposal only once, thus making it possible for the Junta to get its proposal adopted over the objections of any individual country. This indicates the great power and influence of the Junta.

2. The Techniques and Methods of Economic Integration of the Cartagena Agreement

(1) Trade Liberalization

The members of the Study Tour are impressed by the fact that the Andean Group countries have agreed on the principle of trade liberalization and have actually begun to implement it. We also noticed that the Andean countries have agreed to grant special concessions

to the lesser developed members of the Group, namely Bolivia and Ecuador.

(ii) Industrial Programming

The ASEAN members are also impressed by the fact that the Andean Group countries have agreed upon the Industrial Programming for metal-working industries in the region. This is in fact the first such programming achieved by the said countries. However, industrial programming for automobile, pharmaceutical, petrochemicals, pulp and paper, etc. are presently being studied for eventual submission to the Commission. The metal-working industry so far has been agreed upon in principle and its implementation will be effected in the next two years. The ASEAN Group should follow closely the progress of this implementation as it will certainly have relevance when implementing its own car manufacturing completion and its many other industrial projects.

(iii) Corporación Andina de Fomento

The ASEAN member countries were also given the opportunity to observe the operation and to talk with the top officials of the Corporación Andina de Fomento (CAF) in Caracas, Venezuela. This organization, although not part and parcel of the Cartagena Agreement, is highly instrumental in the integration process of the Andean countries. It serves not only as a financing arm but also as a promotional agency for the integration process of the Andean countries. It functions side by side with the Junta in making studies and plans of projects and also promotes some projects until their final operation. In doing so, it co-ordinates and complements the activities of the Junta. This is a feature in the Andean Group which is worthwhile for the ASEAN countries to make a detailed study of for its possible adoption.

APPLICABILITY TO THE ASEAN SITUATION

The success of the Andean economic co-operation springs primarily from the attitude of goodwill and mutual trust among the participating countries. In order to strengthen the same basic attitude of mutual trust and confidence among the ASEAN nations, the following factors should be taken into account:

1. The still existing strong feelings of nationalism among the ASEAN countries;
2. The basic structural difference of the ASEAN countries.

We have also observed that the Andean countries have found it necessary to integrate as a measure of protection against the more developed and affluent countries of the Latin American Free Trade Association (LAFTA) region. The ASEAN countries should come to realize that there is a similar compelling need to integrate in order to protect themselves against the growing influence and economic power of their neighbouring developed countries.

SUGGESTIONS

In view of the vital information gained and the contact already established from this Study Tour, we suggest that an immediate follow-up be made in order to get the best results from this tour. In this respect it is essential to set up a technical and working group among ASEAN countries that will go into a more intensive study of the Andean group and their economic progress for the purpose of formulating and taking the necessary steps towards the possible establishment of a framework for a treaty or agreement among the ASEAN countries similar to the Cartagena Agreement.

This is probably the first significant contact between the two economic groups of South East Asia and South America. In view of this, it is also recommended that missions similar to ours be organized among the Andean and other South American groups to visit ASEAN countries for more exchanges of views and experience. In this way, both sections of the world will benefit and this may lead to a profitable economic relationship between these two parts of the world.

Our brief visit to Andean countries has led us to realize once again the importance and the relevance of more detailed and extensive studies which are required for significant progress in any industrial co-operation. On this occasion we would like to point out that if such extensive studies are to be carried out by ASEAN countries, it might be advisable to think of an appropriate amount of international expertise as has been done by the Andean Group. In our discussions with Mr. Quijano-Caballero and Mr. Siddiqui of the Technical Co-operation Division of UNIDO, we were informed of UNIDO's interest and willingness in responding to the continuing needs that ASEAN countries may identify in the future.

TABLE I

SOME ECONOMIC DATA ON MEMBER COUNTRIES OF THE ANDEAN GROUP *

	<u>Population</u> (millions)		<u>GNP</u> (\$'000 millions)		<u>Income per</u> <u>capita \$</u>	
	<u>1970</u>	<u>1985</u>	<u>1970</u>	<u>1985</u>	<u>1970</u>	<u>1985</u>
Colombia	22.2	37.0	8.0			
Peru	13.6	21.6	5.2			
Chile	9.8	13.6	6.0			
Ecuador	6.0	10.0	1.8			
Bolivia	4.7	6.8	0.9			
Andean Group	56.2	89.0	22.0	60.0	393	674

	<u>Manufacturing output</u> \$'000 millions		<u>GNP</u> \$'000 millions		<u>Contribution to GNP of manu-</u> <u>facturing sector (per cent)</u>	
	<u>1960</u>	<u>1970</u>	<u>1960</u>	<u>1970</u>	<u>1960</u>	<u>1970</u>
Colombia	0.85	1.49	4.93	8.06	17.0	18.5
Peru	0.56	1.15	3.14	5.14	17.7	22.4
Chile	0.89	1.58	3.83	6.03	23.2	26.2
Ecuador	0.18	0.30	1.13	1.75	15.7	17.2
Bolivia	0.06	0.12	0.54	0.91	10.5	13.4
Andean Group	2.54	4.64	13.57	21.88	18.7	21.2

Structure of gross value manufacturing production (per cent)

	<u>Consumer</u> <u>goods</u>	<u>Intermediate</u> <u>goods</u>	<u>Capital</u> <u>goods</u>	<u>Total</u>
Colombia)				
Peru } 1970	59	29	12	100
Chile }				
Ecuador) 1970	75	20	5	100
Bolivia }				
Argentina 1970	45	27	28	100
Brazil 1970	46	33	20	100
Mexico 1970	47	38	15	100

Forecast structure of demand for manufactured goods (per cent)

	<u>Consumer</u> <u>goods</u>	<u>Intermediate</u> <u>goods</u>	<u>Capital</u> <u>goods</u>
Andean Group 1960	50	29	21
Andean Group 1970	49	30	21
Andean Group 1985	41	33	26

Source: Grupo Andino, Separata No. 11, Mayo 1972, Cuadro 1, 2, 3, 6, 9, 12
Bases Generales para una estrategia subregional de desarrollo.

* Value expressed in 1960 prices

CHAPTER II

PRINCIPAL FEATURES OF SUB-REGIONAL ECONOMIC CO-OPERATION IN THE ANDEAN GROUP

The Andean Group comprises three larger countries - Chile, Colombia and Peru - and two smaller countries - Bolivia and Ecuador. Together they have a population of about 56 million in 1970, a combined GNP of about \$ 22 billion, and an average per capita income of about \$ 400. Further basic economic data are provided in Table I.

Historical background

Serious discussion of the formation of the Andean Group began in Bogota in August 1966 when Colombia's President Carlos Lleras Restrepo called a meeting which was attended by President Eduardo Frei of Chile and President Raul Leoni of Venezuela; the Presidents of Peru and Ecuador sent personal representatives. At a meeting in Caracas in August 1967, Bolivia signed the Bogota Declaration; the basic outlines of a common market treaty as well as the creation of the Corporación Andina de Fomento were also agreed. Detailed drafting of the Treaty followed, and in May 1969 the Cartagena Agreement was signed.

The Cartagena Agreement left unsettled the location of the seat of the Junta. Eventually it was given to Peru and the Government has donated a magnificent building in Lima for the secretariat. Nationals of Chile, Colombia and Ecuador were initially elected as the three-man independent Junta and the first President of the Corporación Andina de Fomento came from Bolivia. Our impression is that the Junta and CAF have been successful in developing a strong sub-regional approach to their activities completely independent of their national origins.

Although Venezuela participated in negotiation of the Cartagena Agreement, she did not sign the Treaty. Venezuela has shown interest in joining the Andean Group and negotiations are in progress. Before the Treaty was signed, Venezuela joined the other five countries in establishing the Corporación Andina de Fomento (CAF) and its offices are located in Caracas.

Relationship with LAFTA

The Cartagena Agreement was drafted within the framework of the Montevideo Treaty aimed at establishing a Latin American Free Trade Association (LAFTA) which was signed in 1960. The LAFTA agreement called for the gradual creation by about 1973 of a free trade area of all Latin American countries through annual rounds of tariff negotiations. Although liberalization of trade of about 8 per cent of the list of products was readily agreed in each of the early years and some complementarity agreements were negotiated, the initial momentum of progress was not maintained in the late 1960s.

The Andean Group of countries saw a need to combine their markets if they were to develop a broader and more efficient industrial sector capable of competing not only with the larger and industrially more advanced countries of Latin America - Argentina, Brazil and Mexico - but also in world export markets outside the sub-region. The Andean Group's intention to create

an economic union among themselves before 1985 is felt by the member countries to be consistent with the eventual liberalization of trade on the continental basis envisaged in the Montevideo Treaty.

The principal features of the Andean Group's approach

The more important aspects of the institutional framework and approach adopted by the Junta that we noted with particular interest were:

- (A) the Commission of one national plenipotentiary of each member country is the highest authority; however, the major role in formulating detailed decisions to implement the process of integration has been entrusted to a technical secretariat headed by a three-man board - the Junta; the extensive technical preparation and consultations carried out by the Junta before it submits a proposal for decision by the political body, the Commission, has virtually eliminated the need for inter-governmental negotiations over decisions; so far all decisions of the Commission have been unanimously adopted;
- (B) an order of priorities for implementing the process of integration has been agreed; an ambitious timetable for both the completion of the Junta's proposals and subsequent agreement by the Commission has been established; so far decisions have been made on schedule or ahead of the agreed deadlines;
- (C) a regional development institution, the Corporación Andina de Fomento (CAF), has been established to aggressively promote and help finance multi-national projects; the five countries have agreed to act jointly to secure financial assistance for the priority establishment of industrial plants in Bolivia and Ecuador;
- (D) the Treaty provides for the establishment of a Consultative Council and an Economic and Social Advisory Council to provide a forum for consultations with representatives of industry, both managers and labour;
- (E) the Junta makes extensive use of meetings of technical specialists from the five countries to define an agreed approach to its activities in specific fields;
- (F) councils have been established to provide a sub-regional forum to discuss development planning, foreign exchange, financial, monetary and fiscal policy;
- (G) each member country has established its own national institution for integration affairs; in some countries, it is headed by a Minister of Cabinet rank.

The main objectives of the Cartagena Agreement, the techniques and methods of economic integration adopted, and the progress made so far are as follows:

- (H) to create a common market by an automatic but flexible process of liberalizing trade between member countries and the gradual adoption of a common external tariff; the main steps towards this goal should be completed over the period 1970 to 1980, but the smaller countries (Bolivia and Ecuador) will make their adjustment over the period 1976-1986;
- (I) to achieve a greater expansion, specialization and diversification of industrial production, the five countries are committed to undertake joint programming of the process of industrial development; a major part of the industrial sector containing one-third of the 6,000 products listed in the tariff nomenclature has been reserved for programming; the first sectorial agreement covering selected products in the metal-working industry was signed in August 1972;
- (J) to achieve an equitable distribution of the benefits as the integration process advances and in particular to ensure that the small countries (Bolivia and Ecuador) derive a fair share of the benefits; independent periodic reviews of progress, safeguard clauses and a set of special measures favouring Bolivia and Ecuador have been provided; there is already some evidence that Bolivia and Ecuador are receiving measurable benefits; the first overall review of progress is being prepared by the Junta;
- (K) to reserve for Andean nationals the main benefits created for industry by the enlarged common market; common guidelines for national policy on foreign investment were adopted at the end of 1970; similar guidelines for policy on the transfer and development of technology are being prepared by the Junta;
- (L) to co-ordinate development plans in the field of agriculture and physical infrastructure as well as industrial development; the Junta has made studies and arranged consultations in these two fields;
- (M) to harmonize foreign exchange, monetary, financial and fiscal policies; the Junta has begun studies and sponsored inter-governmental consultations;
- (N) to strengthen the negotiating position of the five countries both with foreign investors and third countries; the Treaty permits other Latin American countries to join the group; recently, both Argentina and Mexico have asked for some form of special relationship with the Andean Group.

These aspects of the Andean Group's approach are described in more detail in the remaining pages of this Chapter.

A. The role played by the Commission and the Junta

The highest authority of the Andean Group is the Commission, composed of one representative of each national government. The Commission meets three times a year (more if required) to take major decisions.

The voting rules for the Commission are set out in Article 11 of the Cartagena Agreement. A two-thirds majority is required for most decisions; the exceptions to this procedure are listed in Annexes 1 and 2 to the Agreement. Annex 1 lists issues which would involve decisions that go beyond the decisions undertaken in signing the Cartagena Agreement; on those issues any single country can exercise a veto. On a second list of six items (Annex 2) a member can veto actions proposed by the Junta only once if the proposal is approved by two-thirds majority; the Junta will then review the matter and resubmit the proposal with such modifications as it considers opportune; on the second vote a repeated veto by the same country will not be counted. This procedure prevents a country from obstructing action indefinitely in such key areas as approving the industrial sectorial development programmes, establishing the common external tariff, etc.

The Commission acts on proposals put forward by the Junta (a three-man Board) which is elected for a term of three years on the unanimous vote of the Commission. Each member of the three-man Junta serves as co-ordinator for one year in rotation. It so happened that at the outset the members of the Junta were nationals of Chile, Colombia and Ecuador although nationals of any Latin American country are eligible for these posts; one is a lawyer, one is an engineer, and one is an economist. All three were members of their respective country's teams which negotiated the Cartagena Agreement. Members of the Junta and their staff are required to act in accordance with the common interests of the Andean Group and not to solicit nor accept instructions from any government, national or international entity. The Junta is empowered to recruit staff in accordance with its budget approved by the Commission.

Our impression is that the Junta is sufficiently strong to push forward the sub-regional spirit of co-operation ahead of national interests. The Junta has been able to lead governments to reach agreement on a wide range of decisions. The procedure adopted is for the Junta to prepare a detailed proposal (propuesta) for consideration by the Commission; this proposal provides the text of a decision and an explanation of the technical approach adopted and other background material. The Commission may adopt this proposal with or without amendment; in this case, it becomes a decision of the Commission. So far the Commission has approved 57 decisions. A few of the most important of these are included in Annex C. We were told that all decisions have been adopted unanimously so far. Only minor amendments have been made to the proposals put forward. We were told of one proposal (the proposed sectorial programme for the petrochemical industry) which was referred back to the Junta without a vote being taken; in this case, all countries have thereby preserved their right to use their veto on the modified proposal when it is put forward at a later date.

B. Timetable of implementation

The timetable for implementation of the process of integration was to a major extent already agreed and laid down in the Cartagena Agreement. Subsequent decisions of the Commission have laid down deadlines for reaching agreement on other specific issues. The timetable adopted is described in detail in Annex C.

We were informed that so far the Commission has been able to reach agreement on all major decisions on schedule. We note that the drafting and approval of all sectorial agreements for the industrial sector should be completed by the end of 1973 or at the very latest by the end of 1975; this is an ambitious task.

C. Corporación Andina de Fomento

The Corporación Andina de Fomento (CAF) was established by a separate, and special treaty which gives CAF and its investments special treatment in every member country guaranteed by the law of each country. Its initial authorized capital is US\$ 100 million, divided into three classes. Each of the countries has subscribed US\$ 1 million of the Class A capital; of the Class B capital the four large countries have subscribed US\$ 4.5 million and the two smaller countries US\$ 0.5 million. Of this total subscribed capital of US\$ 25 million, US\$ 15 million had been paid up as of September 1972. With the income from those initial funds, CAF began to build up its organization in 1970; it already has a staff of 25 professionals.

We were informed by the management of CAF that they are asking the countries to arrange for all of the US\$ 100 million capital to be subscribed with the expectation that it would become fully paid up by the mid-1970s. Furthermore, they are considering asking member countries to subscribe additional capital which would be callable but in practice not be paid up. This additional authorized capital would act as a joint five-country guarantee for borrowing by CAF from international agencies and on world capital markets. The figure that CAF has in mind is about US\$ 700 million. Loans from a wide range of bilateral and multilateral sources are already being discussed.

The main functions of CAF are:

- a) to make pre-investment studies to identify investment opportunities;
- b) to inform countries of the results of these studies;
- c) to arrange technical and financial assistance for the implementation of projects; and
- d) to mobilize domestic and external financing.

CAF intends to be an aggressive promoter of projects and to provide some financing for their implementation as a catalyst to supplement financing available from other sources. CAF has already financed a wide range of projects and pre-investment studies. CAF is concentrating on the industrial sector because it believes that other agencies such as the IBRD and Inter-American Development Bank are capable of financing infrastructure

Projects benefitting the sub-region. Special emphasis is given to identifying investment opportunities in Bolivia and Ecuador where CAF is prepared to promote projects serving mainly the national market now if they are expected to be able to export to the sub-regional market later on.

Since January 1971, CAF has loaned US\$ 16 million to over 20 projects; the total investment involved in these projects is about US\$ 90 million. But this is no measure of CAF's dynamic activities. Some very large projects have been under investigation for some time and CAF has financed a detailed study of the pharminochemical industry which identified opportunities for 10 plants producing intermediate chemicals for human and veterinary pharmaceuticals; this study will be used by the Junta in drafting a sectorial programme for this branch of industry. CAF is also studying the industrial products which were assigned at the outset to Bolivia and Ecuador as one of the special measures to accelerate their development.

D. The Advisory Councils

We did not learn much about the work of these committees and the way in which the private sector expresses its views on the integration process. However, ways of involving management and labour in discussions will be an aspect of great importance in the ASEAN region.

E. Technical meetings convened by the Junta

The Junta involves technicians and specialists drawn from the five countries in its activities; its staff make frequent visits to the countries to discuss its approach. The very rapid progress made so far has been made possible by actively involving the technical specialists from each of the member countries in its work.

F. Councils on planning and economic policy

We were not informed of any tangible results of the development planning and economic policy committees listed above. Their very existence demonstrates a willingness to develop co-ordination in these fields; progress in these areas may take some time to emerge.

G. National integration institutions

The seriousness with which each member country is approaching the integration process is demonstrated by the establishment of a new national institution with technical staff to deal with Andean Group Affairs. Unfortunately, time did not permit us to have consultations with these national institutions.

H. The trade policy framework

One objective of the Cartagena Agreement is to create an Andean Common Market before the mid-1980s. The two aspects of this process are: (1) the internal liberalization of trade between the five countries, and (2) the adoption of a common external tariff against third countries outside the sub-region.

The three large countries have agreed to eliminate all import duties and restrictions on trade within the sub-region by 31 December 1980; the two small countries by 1986. The whole range of 6,000 products, classified according to a modified Andean version of the tariff classification used in LAFTA negotiations, has been divided into three groups:

- a) a list of about 400 products (8 per cent) in which trade was liberalized completely at the beginning of 1971;
- b) a list of about 3,600 products (59 per cent) subject to automatic reductions in tariffs at the rate of 10% a year starting in 1971 for the three large countries and in 1976 for the two small countries;
- c) a list of about 2,000 products (33 per cent) reserved for industrial programming in which trade is liberalized completely as soon as agreement is reached on an allocation of the production units involved.

Member countries have prepared lists of products which they would like to be exempted from the automatic tariff reductions. These exemption lists included products of industries which the respective Governments felt were too weak to immediately stand up to competition from other countries in the group. There is an incentive to reduce the size of the list as soon as possible, since exempted products naturally do not benefit from the tariff reductions granted by other countries through the automatic liberalization process. The exemption lists, then, permit a postponement of the time when tariffs will be reduced, if necessary up to 1980 in the case of large countries and up to 1985 in the case of Bolivia and Ecuador.

The lists were limited to 250 products for Chile and Colombia; Peru was allowed 450 products on condition the list was reduced to 250 by 1976. Bolivia and Ecuador were allowed larger lists. In practice, when the lists were approved (a once-and-for-all decision, since countries cannot subsequently add new products to their list), these limits were not fully utilized. The effect of the exemptions is quite significant; for example, exemption on 12 products is sufficient to exempt the whole textile industry. The main result has been to spur these weak industries to reorganize and modernize as soon as possible; the Government in some cases is supporting this process.

The Cartagena Agreement foresees the adoption of a common external tariff on imports from third countries by the three large countries before 1981. Bolivia and Ecuador are expected to adopt it gradually between 1976 and 1985. The first step in implementing this goal was the adoption of a minimum common external tariff in October 1970. The Junta is required to recommend revised and final levels for the common external tariff by the end of 1973 for approval by the Commission and implementation in 1975. In the meantime, the following adjustments are being made:

- 1) products in which internal trade was liberalized in 1971 must immediately adopt the minimum external tariff;
- 2) products in which trade is automatically liberalized at 10 per cent a year must move towards the minimum external tariff in five annual adjustments starting on 31 December 1975;

1/ The minimum common external tariff was based not on an average of existing tariff levels but on specific criteria adopted by the Junta (see Decision No. 15 of the Commission).

- 3) products set aside for industrial programming will be assigned a common external tariff directly when the programme for each industrial sector is adopted.

At present all mineral, agricultural and livestock production has begun to benefit from these trade liberalization measures and over 70% of industrial production. Trade within the sub-region increased from about \$ 60 million in 1960 to about \$ 160 million in 1971; the diversification has been particularly strong in industrial products; exports of Bolivia and Ecuador have grown from a negligible share to a significant share of this sub-regional trade.

In 1960, 24 per cent of the sub-region's demand for manufactured goods was supplied by imports with only 0.2 per cent accounted for by imports originating in the sub-region. The Junta estimates that by 1985, 27.5 per cent of demand for manufactured goods will be supplied by imports, but of this total, one half (13.8 per cent) will originate within the sub-region and only 13.7 per cent will be purchased from third countries. To be more specific, trade in manufactures within the region is expected to grow from \$ 20 million in 1960 to \$ 2,400 million by 1985, whilst imports from third countries grew from \$ 2,500 million in 1960 to \$ 5,940 million in 1985. ^{2/}

The sub-region will also aim to become more self-sufficient in agricultural production. Instead of imports from third countries increasing from \$ 400 million in 1970 to \$ 800 million in 1985 (as they would if there were no reduction in the proportion currently imported), the aim is to reduce imports from third countries to \$ 200 million.

I. Industrial programming

The Cartagena Agreement makes joint industrial programming a key instrument of the integration process; Junta officials explained that experience in other integration schemes such as LAFTA and Central America had shown that a simple trade liberalization programme without industrial programming would not produce a fair distribution of benefits. Industrial programming is drafted as a flexible instrument leaving it to the Junta to exercise both technical and political judgement in arriving at an acceptable sub-regional approach. Junta officials recognize it is the most ambitious part of their programme because nowhere in the world is there a precedent for such joint industrial programming.

Before describing the procedures, one must understand the basic strategy of the Andean Group's approach. Estimates made for the Junta suggest that the value of industrial production in the Andean Group will grow from \$ 10 billion in 1970 to \$ 41 billion in 1985. ^{3/} A major part of the expansion will be in production of intermediate and capital goods as shown in the following table:

^{2/} Bases Generales para una estrategia subregional de desarrollo, Grupo Andino, Mayo 1972, page 36.

^{3/} See Andean Group publication cited in reference 2, page 26, Table 11.

	<u>1960</u> \$ billion	<u>1970</u> \$ billion	<u>1985</u> \$ billion
Consumer goods	2.7	5.1	17.5
Intermediate goods	1.5	3.1	14.5
Capital goods	1.1	2.2	11.5
	-----	-----	-----
	5.3	10.4	43.5
	=====	=====	=====

The Commission in its Decision No. 25 of December 1971 reserved a list of about 2,000 items for industrial programming. Most of these items are products that will be manufactured in the region for the first time; demand for manufactured goods in these 2,000 product groups is expected to grow from \$ 4 billion in 1960 to \$ 16 billion in 1985. The countries have agreed, therefore, to joint industrial programming for 40 per cent of the expected increase in industrial output between 1970 and 1985.

According to Junta officials, it is this broad vision of the whole range of new manufacturing opportunities opened up by the integrated Andean market that has made each of the five countries realize that they will be allocated industries that will substantially broaden and deepen their industrial structure with efficient manufacturing units. This has helped the spirit of sub-regional co-operation override the national (essentially negative) view that an industry allocated to another country is an investment opportunity lost.

The Junta is expected to complete industrial programming by the end of 1973 or by 1975 at the very latest. It started by dividing the 2,000 products reserved for industrial programming into industrial sectors. We were told that preparation of the following sector programmes have been started so far:

- Metal-working I (Proposal 26 of May 1972; adapted as Decision 57, August 1972);
- Metal-working II (Planned for end 1973);
- Iron and steel (Planned for end 1973);
- Automobile industry (Planned for end 1973);
- Petrochemicals (Proposal 13 of July 1971; modified proposal to be considered late 1972);
- Fertilizers and pesticides
- Basic chemicals and dyes
- Fine chemicals and pharmaceuticals
- Pulp and paper
- Glass

The staff of the Junta have examined the structure of the industry producing electric domestic appliances and found it unsuitable for industrial programming. Assembly can take place in each country; many components are already manufactured in two or three countries of the region. The electronics industry is still being studied, but the same considerations appear likely to apply.

The Junta's initial proposal for petrochemicals faced two constraints: (1) that a LAFTA complementarity agreement had already been signed by four of the five countries, and (2) that each country wanted to have at least one plant or complex. The programme proposed in May 1971 was not acceptable to several countries because some production units were too small and other reasons; no vote was taken by the Commission; a modified proposal is due to be considered later in 1972.

The second proposal made by the Junta (this time of its own choice) was the metal-working industry. It was submitted in May 1972 and approved at the Commission's ninth session held from 10-14 July and 17-20 August 1972. The proposal was approved with only minor changes, a remarkable achievement considering that some 70 production units were involved.

Both the Junta and the Andean countries are very proud of reaching this agreement. It is considered to be an important milestone in the Andean Group's short history. It has given new momentum to the integration process and the spirit of co-operation. It is therefore worth examining in detail how the Junta elaborated its proposal.

The steps which the Junta took to prepare its proposal are as follows:

- (1) Define the list of products to be included in the programme;
- (2) Prepare a forecast of demand in 1980 for the products being considered;
- (3) Identify existing production facilities in the sub-region and expansion plans of existing enterprises;
- (4) Prepare studies on technical feasibility of production in the sub-region with advice of UNIDO experts, other international and bilateral consultants;
- (5) Submit working documents to member states to ensure agreement on the above and the approach to be adopted by the Junta;
- (6) Decide how to divide the products into manufacturing units which could be allocated to member countries;
- (7) Define criteria to be used in the allocation process;
- (8) Prepare a proposal to the Commission containing (a) a programme allocating specific manufacturing units, and (b) the text of an agreement to implement the programme.

Officials of the Junta believe that this approach has several advantages. It avoids the tensions of bargaining between countries because governments are only consulted in the early stages; work on the allocation process itself is kept confidential to the Junta, even though Junta staff may have further discussions with governments individually.

The criteria used by the Junta to make the allocation were as follows:

- (a) to establish in each member country an industrial infrastructure and to create or strengthen a technological base which would permit an adequate development of the metal-working sector in accordance with the objectives of the programme;

- (b) to establish and consolidate in each country possible areas of specialization which are based on technologically homogenous production and, in many cases, on similar commercial characteristics as well;
- (c) to consolidate existing industrial production in the respective country and to raise its efficiency on the basis of the larger Andean market;
- (d) to pay attention to national aspirations;
- (e) to complement important existing activities (in the industrial, mining and other fields);
- (f) to complement allocations of production already made to a country; (for example, the list of products specially assigned to Bolivia and Ecuador at the outset);
- (g) to make use of the existence of favourable local conditions to accomplish production in a more efficient way (application of the principal of comparative advantage);
- (h) to reach a fair distribution of the benefits of the programme.

For some manufacturing units, the Junta proposed that the allocation be shared between two countries, either because production of some importance already existed in these countries, or because the sub-regional market would be large enough to support at least two efficient production units.

We were informed that acceptance of the allocation depended largely on the countries agreeing to the technological logic of the approach and satisfaction that the first two criteria had been adequately met. The proposal showed that each country would have the opportunity to develop the capability to use, adapt and develop 13 different major types of technology used in the metal-working (or engineering) industry. ^{4/} Secondly, it showed that each country would by 1980 have the opportunity to share in the sub-regional production of the six major product groups of the engineering industry: specific types of machinery, general machinery, machine tools, electrical equipment, instruments and precision engineering products.

The proposal also showed that the manufacturing units allocated would permit output in the engineering industry with value added of about 70 million in the three large countries in 1980 and of about 35 million in the smaller countries. This was apparently acceptable to all five countries too. The allocation of manufacturing units is described in detail in Annex D.

The Decision on the Metal-working Agreement and the Proposal on which it is based will be of great interest to other regional groups. The classification of families of products into assignable manufacturing units (a technical task) could readily be adopted elsewhere. We therefore suggest that UNIDO arrange for all or part of these documents to be translated into English.

^{4/} See pages 21-25 of the Junta's Propuesta No. 26 of 18 May 1972.

J. Special measures to benefit Bolivia and Ecuador

The Cartagena Agreement provides preferential treatment for Bolivia and Ecuador in the fields of both trade and industry. The **founders** of the Andean Group recognized that other sub-regional groups have faltered because inadequate provision was made to ensure that the smaller, less-developed countries derive a fair share of the benefits of integration. In the view of one member of the Junta, the preferential treatment goes beyond what was needed to make Bolivia's and Ecuador's participation possible; it shows the world what the Andean countries mean by fairness in international relations; the treatment given to the smaller countries is the type of treatment the Andean Group would like to see industrialized countries give to the developing countries.

In the field of trade, substantial preferences have been granted. The three large countries agreed to open their markets to all products produced in Bolivia and Ecuador between 1971 and 1974 ahead of the automatic tariff reduction process. In addition (as explained under the section 'The Trade Policy Framework' above), Bolivia and Ecuador were allowed to delay by five years the process of automatic trade liberalization and their adjustment to the common external tariff.

In the field of industry, Bolivia and Ecuador were assigned a list of about 25 new industries each at the outset; the other countries agreed not to promote competing plants. The compilation of this list followed the political need and it was completed and agreed before much progress had been made by the Junta on industrial programming. Both CAF and the Junta are actively helping these two countries examine the feasibility of establishing the assigned industries; in addition, CAF is clearly giving top priority to promoting projects in Bolivia and Ecuador. In the metal-working agreement, Bolivia and Ecuador each received a substantial allocation and care was taken to ensure that this included industries requiring an advanced technology.

Preferential treatment is one of the novel features of the agreement. The spirit with which it is being implemented appears to be very strong. Officials recognize that every country must find itself deriving recognizable benefits at an early stage of the integration process; the large countries are prepared to make sacrifices to ensure this.

The results of the preferential treatment will be subject to periodic reviews by the Junta; the Treaty provides for a major review after ten years. By then, Ecuador (which has recently begun to exploit rich deposits of oil) may be in a relatively stronger position.

K. Common treatment of foreign capital, trade marks, patents, licensing agreements and royalties

Article 27 of the Cartagena Agreement committed the Commission to approve a common regime for the treatment of foreign capital, trademarks, patents, licenses and royalties before the end of 1970. Decision 24 implementing this resolution was adopted on time. Member countries were given six months to put the regime into practice. A review of its implementation will be made at the end of 1972 when the Junta calls national agencies regulating foreign investment to exchange experience.

This article of the Treaty reflected the countries' recognition that little had been done in the past to register and regulate the inflow and servicing of foreign investment and the terms of the purchase of technology. About one-third of the inflow of foreign investment in the 1960s had been to purchase existing enterprises and there was evidence that in one way or another the servicing of foreign investments represented an unduly heavy burden on the balance of payments in some countries.

It was felt that the creation of the larger Andean market would be attractive for foreign investors and permit the countries to adopt a tougher negotiating position. To do this, it was necessary for all of the countries to adopt a common position. Decision 24 lays down guidelines for this negotiating position.

The agreement reached on Decision 24 strengthened the Andean Group in the eyes of observers, but some of them felt that the tough position taken would frighten off foreign investment. We were informed that so far there is no evidence that this will be the case. The enlarged market is proving attractive. There has been an increase in Japanese and European interest to off-set the temporary hold-off attitude adopted by some American investors.

The basic aims of the common regime are to ensure that the five Governments:

- (1) register, approve and control the inflow of foreign investment and contracts for the purchase of foreign technology; the common regime and active participation by governments is intended to strengthen a local enterprise's bargaining power;
- (2) have data available to check and if necessary regulate the return on foreign investment in the form of profits, royalty fees, purchases of supplies from a foreign partner company, etc; annual remittances must not exceed 14 per cent of the investment;
- (3) to insist on a gradual increase in national participation in the ownership, management and control of Andean enterprises; the so-called 'fade-out principle' requires foreign investors to promise to reduce their share of ownership to 49 per cent within 15 years if they are to benefit from duty-free access to the Andean market resulting from the trade legislation programme;
- (4) to regulate the use of domestic and external sources of financing by foreign investors; access to domestic sources will be limited; interest payments on foreign loans must reflect borrowing charges in the lending country.

An unofficial translation into English of the text of Decision 24 was made available to the Mission. Therefore, no further details will be provided in this report.

L. Development planning, agriculture and infrastructure

The Cartagena Agreement (Articles 25 and 26) commits the five countries to take steps to co-ordinate their development plans. Planning officials of the five countries met in 1970 and Decision 22 made the regular meeting of planning experts an advisory body of the Junta. The Junta asked

each country to define (a) what it expects to obtain from the integration process, (b) where it sees opportunities for complementary economic development, and (c) where it sees a need for multi-national projects or action. The five countries' response to this approach depended on the effectiveness of planning at the national level. So far the main result has been the Junta's publication of a sub-regional development strategy (see above, reference 2, page 14).

In the field of agriculture, the Commission asked the Junta to examine ways of increasing sub-regional trade in agricultural and livestock products. The Junta's proposals were subsequently adopted as Decision No. 43. The Junta's analysis showed that agricultural production had been growing slowly in the sub-region and that imports from outside the sub-region had been increasing. The basic strategy is to reverse these trends and make the sub-region more self-sufficient.

Land resources are available, but only Chile's climate permits agricultural production which is really complementary with that of other countries in the sub-region. The main obstacles to increased trade are (a) the enormous difference in prices of agricultural products in different countries, and (b) the high margins prevailing in the import and retail trade. An interesting approach is CAF's idea of promoting a common purchasing organization for supermarket chains in the five countries that would aggressively tap local sources of supply within the sub-region.

In the field of infrastructure, both the Junta and CAF work closely with the Inter-American Development Bank. The staff of the Junta are examining the following areas: (1) communications; (2) transport; (3) supplies of power; and (4) integration in the area of national boundaries. So far attention has been focussed on transport. Road connections to Bolivia and maritime transport constitute the main elements of the transport system at present; besides examining ways of improving these, the Junta is considering other highway projects and establishing a set of priorities.

CAF is examining several interesting multinational projects. In the field of transport, it is considering ways of increasing Andean participation in maritime shipping; at present, 4 million tons of general cargo and 270 million tons of bulk cargo are involved, but only 10 million tons represent sub-regional trade. ^{6/} CAF is also proposing a sub-regional venture in leasing aircraft as a first step towards co-operation between the national airlines. CAF also sees scope for a multinational tuna fishing project because the seasons for national fleets along the Pacific Coast are complementary in timing. CAF has also taken steps to ensure that Colombia's rich resources of coking coal are developed with the interest of the sub-region's steel plants in mind.

^{6/} It was when explaining this project that Mr. Enrique Vial, Vice-President of CAF, suggested that further contacts between AS TAN and Andean countries could study the scope for developing direct shipping services across the Pacific and other measures needed to promote an exchange of industrial goods between our countries.

M. Harmonizing foreign exchange, marketing and fiscal policy

Chapter 3 of the Cartagena Agreement sets out the areas of economic policy in which co-ordination and harmonization should take place. The Junta recognizes that the degree of harmonization needed depends on the scope of integration which the countries are aiming at. The areas in which the Junta has worked so far reflect the importance of harmonization and the ease with which success can be achieved. The aim has been to ensure that all policy instruments act in the same direction and facilitate integration.

Advisory Councils have been established for foreign exchange, financial, monetary and fiscal policy; these Councils meet and send their recommendations to the Junta. But so far there has been little progress. One concrete exception is the agreement on arrangements to avoid double taxation (Decision No. 40); the agreement adopts the principle that income or profits should be taxed in the country in which it arises and indirect taxes should be collected at the point of sale.

The Commission has agreed the principles for the harmonization of industrial development legislation. Decision No. 46 approved a common regime for multinational enterprises and Decision No. 47 the rules for state participation in mixed enterprises. Tax incentives are being studied and an agreement on harmonization is scheduled for the end of 1973; however, preliminary studies suggest that in the Andean Group tax incentives have had less impact than is commonly supposed in determining the location of a project in one country vis-à-vis another.

Little immediate progress is anticipated in the field of foreign exchange and monetary policy. Some of the Andean Group countries experience substantial annual rates of inflation and no agreement has been reached on an acceptable rate of monetary stability. The possibility of establishing a Payments Union is being studied by the Junta.

II. Negotiating power of the sub-region

The recent requests by Argentina and Mexico to initiate negotiations on a form of special association agreement show that the Andean Group is now respected as an important power in Latin American trade. Details of these negotiations are still confidential, but they can perhaps be expected to include identification of some new industries which the larger combined markets would make it feasible to establish.

A final note

This brief survey shows that the Junta has made progress in most of the areas included in the Cartagena Agreement in the short period of less than three years since implementation began. We asked one member of the Junta whether, in retrospect, he would now change the priorities adopted in implementing the Agreement. His answer was that if the Junta looked back it would adopt the same priorities. If the schedule had been stretched out over a longer period, the results would now be weaker and political support would be correspondingly weaker as well. For the Andean Group, speed has been a good strategy in launching the process of integration.

TIMETABLE OF THE STUDY TOUR

MONDAY, 18 SEPTEMBER

- 10.00 Official welcome
Dr. Salvador Lluch, Co-ordinator of the Junta
- 10.30 Session I
The Cartagena Agreement I
- Main instruments and mechanisms
Dr. Javier Silva Ruete, Secretary General
- 16.00 Session II
The Cartagena Agreement II
- Brief review of progress and problems encountered
Dr. Javier Silva Ruete, Secretary General

TUESDAY, 19 SEPTEMBER

- 9.00 Session I
Transfer of technology in the Andean Group
Dr. Constantine Vaitsos
- 10.30 Programme of trade liberalization
Dr. Augusto Aninat
- 16.00 Session II
Industrial programming I
Ing. Galo Montano

WEDNESDAY, 20 SEPTEMBER

- 10.00 Industrial programming II
Ing. Galo Montano
Economista Marcelo Avila
- 16.00 Session II
Harmonization of economic policies I
- The Common External Tariff
- Agreement for the avoidance of double taxation
- Other areas
Dr. José Wurgaft
- 18.30 Informal cocktail party given by the Junta

THURSDAY, 21 SEPTEMBER

10.00

Session I

Harmonization of economic policies II

- Common regulations on foreign investment
(Decision No. 24)
 - Regime applicable to multinational enterprises
(Decision No. 46)
- Dr. Alfonso Vidales

16.00

Session II

Harmonization of national development plans
Economista Manuel Arena

Agriculture

Economista Tomás López

Physical infrastructure

Ing. Marco Antonio Mastiobuono

FRIDAY, 22 SEPTEMBER

10.00

Informal discussion

Dr. Germanico Salgado, Member of the Junta

SATURDAY, 23 SEPTEMBER

Arrival in Caracas

SUNDAY, 24 SEPTEMBER

Free day

MONDAY, 25 SEPTEMBER

10.00

Operations of the Corporación Andina de Fomento

Dr. Enrique Vial, Vice-President in charge of
Operating and Programming Division
Mr. Carlos Barbery, Director of Operations

13.00

Informal luncheon offered by the Resident Representative of UNDP, Mr. Geraldo M. Eboli

15.00

Some projects of CAF

Cement plant project - Dr. Hugo Molina
Pharmaceutical project - Dr. Marió Balcázar
Metallurgical Coke - Dr. Enrique Vial
Leasing of aircrafts and bulk transport
project - Dr. Enrique Vial

TUESDAY, 26 SEPTEMBER

10.00 Questions on CAP answered by Dr. Enrique Vial
19.30 Departure to Vienna

WEDNESDAY, 27 SEPTEMBER

16.30 Arrival in Vienna

THURSDAY, 28 SEPTEMBER

9.00 - 12.00 Preparation of report
14.30 De-briefing session with Mr. Siddiqui
15.30 De-briefing session with Mr. Quijano-Caballero

FRIDAY, 29 SEPTEMBER

9.00 - 12.00 Preparation of report
14.00 - 17.00 Preparation of report

BACKGROUND DOCUMENTS FOR THE STUDY TOUR

1. The Andean Group (small pamphlet, blue cover)
Introduction in English, including list of major decisions numbers 1 to 51 up to March 1972.
2. The Cartagena Agreement
Unofficial translation into English of the text of the Sub-regional Integration Agreement.
3. Bases Generales para una estrategia subregional de desarrollo, Mayo 1972
Description of the approach to regional co-operation and the progress made to May 1972.
4. Grupo Andino: Carta Informativa
Issue for May, June and August 1972.
5. By-laws for Common Treatment of Foreign Capital, Trademarks, Patents, Licensing Agreements and Royalties
Unofficial translation into English of text of Decision 24.
6. Decisión No 40
Unofficial English translation of text of the agreement to avoid double taxation among Member Countries.
7. Policies of developing countries towards transnational enterprises and their relation with bargaining capacity.
Paper dated 26 July 1972 by Germánico Salgado, Member of the Junta
8. The process of commercialization of technology in the Andean Pact: A Synthesis
Paper dated October 1971 by Constantine V. Vaitsos
9. The sectorial programme for the metal-working industry
Propuesta No. 26 of the Junta, dated 18 May 1972
Decisión No. 57 of the Commission, dated 20 August 1972
(Available in Spanish only)
10. Cooperación Andina de Fomento
 - a) Constituent Agreement and Regulations of the Andean Development Corporation
 - b) Memoria y Balance 1971
 - c) First Financing Operations approved for its member countries
 - d) Carta de la CAF Nos. 1-7
 - e) Financiamiento de los procesos de integración desde el punto de vista de la CAF, un organismo financiero subregional (CAF Paper for UNCTAD; May 1972).

TIMETABLE FOR IMPLEMENTATION OF THE PROCESS OF ECONOMIC INTEGRATION
INCLUDING CERTAIN MAJOR DECISIONS OF THE COMMISSION

- 26 May, 1969 Acuerdo de Cartagena signed.
- 24 November, 1969 First meeting of the Commission
Members of three-man Junta appointed (Decision No. 3)
Administration authority of Junta defined (Decision No. 2)
- 13 March, 1970 Junta empowered to convene inter-governmental meetings
(Decision No. 7)
Rules of procedure of the Junta defined (Decision No. 9)
- 31 December, 1970 List of products reserved for industrial programming
approved (Decision No. 25)
List of products reserved for manufacture in Bolivia
and Ecuador approved (Decision No. 28)
List of products for immediate trade liberalization on
28 February 1971 approved (Decision No. 26)
List of products subject to automatic trade liberalisation
approved (Decision No. 27)
Level of minimum (temporary) common external tariff
agreed (Decision No. 30)
Common regime of treatment of foreign capital and tech-
nology transfer approved (Decision No. 24)
Countries' national list of products to be exempted from
automatic trade liberalization completed.
- 8 March, 1971 Working group established to consider Venezuela's
accession to the Andean Group (Decision No. 35)
- 8 November, 1971 Agreement to avoid double taxation approved (Decision No. 40)
- 9 December, 1971 Initial measure to increase trade in agricultural
products agreed (Decision No. 43)
Regime on multinational enterprises approved (Decision No. 46)
- 31 December, 1971 Chile, Colombia, Peru start annual automatic 10 per cent
reduction in import duties
Chile, Colombia, Peru make 40 per cent cut in duties on
imports from Bolivia and Ecuador
Guidelines for the harmonization of investment incen-
tives approved (Decision No. 49)
Rules applicable to investments of CAF approved (Decision
No. 48)
- 13 March, 1972 Andean Tariff Nomenclature approved (Decision No. 51)
- 20 August, 1972 Industrial programme for metal-working sector approved
(Decision No. 57)
Agreement on transport within sub-region approved
(Decision No. 56)
- 31 December, 1972 Chile, Colombia and Peru to make further 30 per cent
cut in duties on imports from Bolivia and Ecuador
Junta to complete initial proposals for joint infra-
structure development programme

- 31 December, 1973 All industrial sector programme proposals to be approved; deadline may be extended two years
Junta to complete proposals on level of common external tariff
Chile, Colombia and Peru complete elimination of duties on imports from Bolivia and Ecuador
- 31 December, 1975 Chile, Colombia and Peru complete adjustment to common minimum (temporary) external tariff
Common external tariff to be approved by Commission
- 31 December, 1985 All countries start annual adjustments to common external tariff; (Chile, Colombia and Peru over 5 years, Bolivia and Ecuador over 10 years)
Bolivia and Ecuador start automatic annual 10 per cent reduction in import duties
- 31 December, 1980 Chile, Colombia and Peru complete elimination of import duties on all products not included in their list of exempted products
Chile, Colombia and Peru complete adjustment to common external tariff
- 31 December, 1985 Bolivia and Ecuador complete elimination of import duties on all products not included in their lists of exempted products
Bolivia and Ecuador complete adjustments to common external tariff
Chile, Colombia and Peru submit to free trade products included in their list of exempted products (Junta may allow 4 years extra for up to 20 products)
- 31 December, 1990 Bolivia and Ecuador submit to free trade products included in their list of exempted products (Junta may allow selected extensions).

AIDEAN GROUP

ALLOCATION OF MANUFACTURING UNITS IN THE FIRST PROGRAMME
FOR THE METAL-WORKING INDUSTRY

No.	Description of product family	Tariff reference NABALALC	Bolivia	Ecuador	Chile	Colombia	Peru
1.1	Spraying units	84.24.1.02			x A	x A	x
1.2	Machinery for planting agricultural crops	84.24.2			x A	x	
1.3	Machinery for cultivating grass pasture	84.25.1 84.25.8.01			x A	x A	
1.4	Machinery for harvesting	84.25			x	A	
2.1	Compressors exceeding 40 H.P. and parts	84.11.1.02	A				
2.2	Pneumatic tools for screws, bolts and nuts	84.49	A			x	
3.1	Machinery for bottling	84.19.1				x	
3.2	Machinery for packaging	83.19.1.99					A
4	Machinery for mixing and moulding ceramics	84.56.1					A
5	Machinery for lifting (pulleys, winches, capstans)	84.22					x A
6	Machinery for milling cereals	84.29				A	
7	Machinery for the milk industry	84.18 84.26		A			
8.1	Electric generators and motors exceeding 10 H.P.	85.01			x A		x A
8.2	Rectifiers	85.01.03				A	A
8.3	Transformers exceeding 10,000 KVA	85.01.03			x A		x A

No. Description of product family Tariff reference TABAIALC Bolivia Ecuador Chile Colombia Peru

No.	Description of product family	Tariff reference	TABAIALC	Bolivia	Ecuador	Chile	Colombia	Peru
9.1	Machinery for the baking and confectionery industry	84.30.01				x	A	
9.2	Machinery for the essential oils and soap industry	84.59.7.01						
10	Foundry equipment	84.56						A
11	Scissors, knives, etc.	82.various				x	A	
12.1	Machinery for drawing, extruding and drilling metal	82.05.0			A			
12.2	Machinery for twisting	82.05.0		A				
12.3	Tool tips of metal alloy or plate	82.07		A				
13	Mechanical presses	84.45				x	A	
14	Hydraulic presses	84.47 etc.			A			x A
15	Milling machines	84.45					A	
16	Other machines for shaving metal	84.45.4			A			
17	Machinery for forging	84.45.4.01					A	
18	Machines for finishing fine surfaces	84.45.1					A	
19.1	Boring machines	84.45.5						A
19.2	Boring machines, radial and screw-type	84.45.03 84.45.04						
20	Sawing machines	84.45.7		A				
21.1A	Cutting bits for minerals	82.05.0.06						A
21.1B	Integral boring bits	82.05.0						A

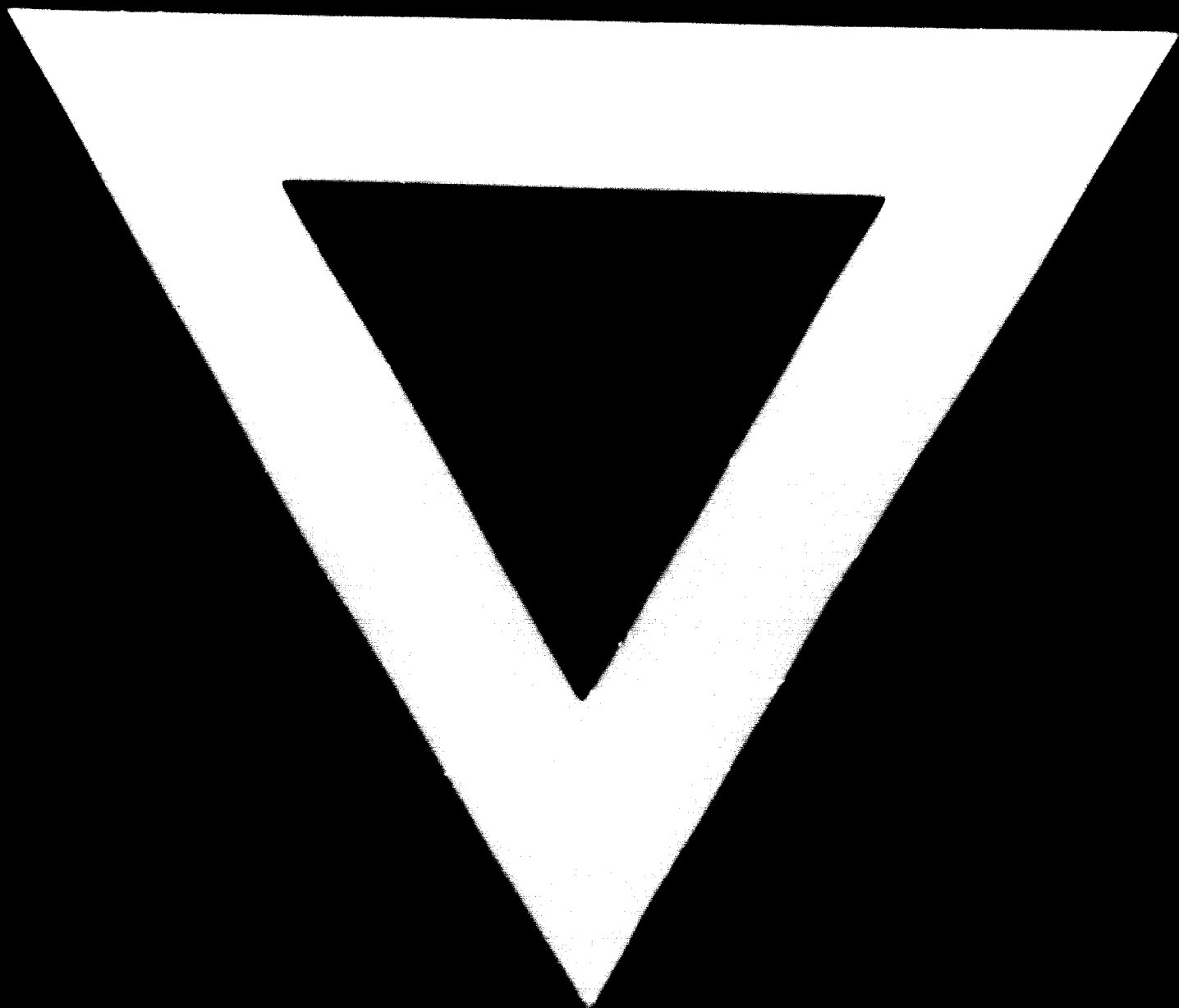
No. Description of product family Tariff reference NABALALC Bolivia Ecuador Chile Colombia Peru

No.	Description of product family	Tariff reference	NABALALC	Bolivia	Ecuador	Chile	Colombia	Peru
21.2A	Carbon metal drilling bits for mineral drilling	82.05.06				A		
21.2B	Carbon metal drilling bits for oil drilling	82.05.06		x	A			
21.3	Equipment for oil exploration	84.23.1 84.23.8						A
21.4	Equipment for stone-crushing and other machinery	84.56.1 84.56.8				x	A	x A
21.5	Cone-shaped stone crushers	84.56.1.01		A				
22.1	Machinery for the plastics industry	84.59.2.99					x	A
22.2	Hydraulic presses for moulding plastics	84.59.2.01			A			
23	Railway equipment	86.02				A		
24	Instruments for measurement and control (electrical and electronic)				A			
25.1	Centrifugal and turbo pumps	84.10			x	x	A	x A x A
25.2	Pumps for pumping oil and other combustible fuels	84.10						A
26	Centrifuges	84.18.1.02			A			
27	Valves for fluids	84.61.9						A
28.1	Apparatus for cutting and protecting electrical circuits less than 1,000 volts	85.19		A	A	x	x	
28.2	Ditto for circuits exceeding 1,000 volts	85.19					A	A

No.	Description of product family	Tariff reference NABALALC	Bolivia	Ecuador	Chile	Colombia	Peru	
29.1	Instruments for drawing and calculating	90.16					A	
29.2	Instruments for collaboration, measurement and control	90.16			A			
30	Small aeroplanes					x	A	
31.1	Dental equipment	90.17			A		A	
31.2	Medical and surgical instrument	90.17			A		A	
32	Clocks and watches	91.01 etc.		A				
33	Gears for small motors	84.63.1.03 85.01					A	
34	Hydraulic system for automobiles, etc.			A				
35.1	Cylinder to hold gas, etc.	73.24		A			A	
35.2	Compressors for refrigeration	84.11.1			x	A	x	A
35.3	Compressors (semi-hermetic) for refrigeration	84.11.1						A
35.4	Compressor (open) for refrigeration	84.11.1				x	A	
35.5	"Roll-based" evaporators for refrigeration							A
35.6	Sealed absorption units for refrigeration	84.15.9	A					
35.7	Machinery for dry-cleaning and ironing	84.40.1				x	A	
35.8	Cooking stoves	84.41.8			x	A	x	A
35.9	Manual hand-looms	84.37			x	A	x	A
35.10	Photographic equipment (fixed focus)	90.07			x	A		

No. Description of product family Tariff reference ABALALC Bolivia Ecuador Chile Colombia Peru

No.	Description of product family	Tariff reference	ABALALC	Bolivia	Ecuador	Chile	Colombia	Peru
35.11	Projection equipment (excluding micro films)	90.09						A
35.12	Manometers	90.24			A	X		A
35.13	Thermostats	90.28					X	A
35.14	Taximeters and parking meters	91.05				X		X A
35.15	Toys and models, electrical and mechanical	97.03					X	A
35.16	Machinery for making shoes and other leather goods							A



23.7.74