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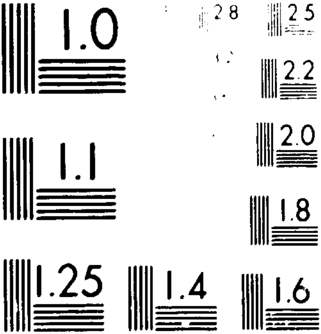
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ECONOMIC AND INDUSTRIALIZATION POLICIES IN THE ANDEAN GROUP OF COUNTRIES, 1970 - 1980*

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INTRODUCTION

The Association for Regional Cooperation between South-East Asian Countries (ASEAN), the United Nations Industrial Development Organization (UNIDO) and the Board of the Cartagena Agreement are developing a horizontal cooperation program, the objective of which is to spread knowledge of the subregional integration process amongst member countries of this Association.

To this end informative documents relating to the Andean Group of countries (GRAN) have been prepared, consisting of this report and a General Overview of the Andean Group, prepared by the Board.

Economic and industrialization policies in the Andean Group of countries (GRAN) during the decade 1970-1980 are summarized in this document. We have sought to combine the institutional nature of these policies in the member couutries with representative figures for industrial trends during the decade.

This document consists, to a large extent, of a summary of papers on the subject "Industrial Policy of Member Countries during the Seventies" produced by the following UNIDO consultants:

Bolivia:	Rolando Morales
Colombia:	Rodrigo Manrique
Ecuador:	Galo Salvador
Peru:	Javier Iguiñiz
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The criteria contained in this document are therefore those presented in its direct and indirect authors and do not imply the expression of the official findings of UNIDO and the Board.

I. BASIC FEATURES OF THE ANDEAN ECONOMY

1. Introduction

The population of the Andean Group of countries (GRAN) is fairly small. In 1980, Colombia had the largest number of inhabitants, totalling 25.8 million. Peru and Venezuela followed with 17.6 million and 15.6 million inhabitants respectively. Ecuador and Bolivia complete the GRAN countries with populations of 8.0 and 5.6 million inhabitants respectively. The rates of population growth are high (see Table 1).

A high proportion of the population is concentrated in the towns, the favoured sphere of industry. Some relevant data are listed in Table 1, which indicate that the major city in each country has a population varying between 9.7% (Caracas) and 21.7% (Lima) of the total population of the particular country. Towns with more than 100,000 inhabitants account for 20.9% of the Bolivian population and 40.4% of the population of Venezuela.

In 1980 the Real Gross Domestic Product (US$ for 1970) was highest in Colombia and Venezuela, totalling $21,435 and $20,487 million respectively. Peru produced $11,742 million. The lowest figures were recorded for Ecuador ($5,112 million) and Bolivia ($2,106 million).

The physical output level per inhabitant varies considerably. In 1980 the Real Gross Domestic Product (GDP) per inhabitant for Venezuela was US$1,312 as at 1970 values, followed by Colombia with US$831 (1970). Peru and Ecuador came next with US$666 and 640 (1970), and finally Bolivia with US$378 (1970). The population of Venezuela is 2.79 times greater than that of Bolivia, and its per capita product is 3.47 times higher than that for Bolivia.

TABLE 1

GRAN*: SELECTED DEMOGRAPHIC DATA, BY COUNTRY

Country	Bolivia	Colombia	Ecuador	Peru	Venezuela
Total population (millions inhabitants) (1980)	5.6	25.8	8.0	17.6	15.6
Population growth (annual rates 1975-1980)	2.6	2.4	3.1	2.8	3.3
Capital city (percentage of total popn., 1970)	14.5	12.8	12.6	21.7	9.7
Two main cities (percentage of total popn., 1970)	18.0	17.9	21.8	24.0	15.7
Growth of two main cities (annual rates 1960-70)	4.0	4.5	4.3	6.2	3.2
Towns of over 100,000 (percentage of total popn., 1970)	20.9	35.7	23.4	30.0	40.4

SOURCE: NNUU, CEPAL, Statistical Yearbook for Latin America, 1979 Santiago, Dec. 1980 and Statistical Summary for Latin America 1960-1980, Santiago, April 1981.

* GRAN = GRupo ANdino - Andean Group of countries

The distribution of income is somewhat uneven among the GRAN Group, but is even more variable within each country. On the basis of a subsistence income for 1968 of US$400 per annum and an income of US$1,500 in the industrialized economies, 71% of the Andean population has earnings below the subsistence level (Table 2) whilst only 7% have incomes of more than US$1,500. Of the subregional income 27% is distributed among the poorest section of the population (71%), whilst the wealthiest group (7%) receives 35.9% of this income. This 7% represents a total of 4 million inhabitants. The group with an income of between US$400 and US$1,500 comprises 12 million inhabitants.

A breakdown of the situation by country indicates that 95% of the population of Bolivia, 80% of that of Colombia and Peru and 40% of that of Venezuela fall within the lowest category.

Living conditions are also somewhat different in the countries concerned. The extremes for each category generally apply to Venezuela and Bolivia. Infant mortality decreases from South to North. The same applies to life expectancy figures, availability of drinking water, drainage and illiteracy, for similar reasons. Demographic dependence is similar for all countries and is fairly high. The level of school attendance is relatively higher in Peru and Ecuador.

Finally, from the racial, linguistic and religious aspects, it can be seen that the proportion of the native population increases and the proportion of the black population falls from North to South. A very high proportion of both ethnic groups are engaged in non-productive or poorly paid occupations, whilst the opposite applies in the case of the white population. Inter-breeding of the races is widespread, and is the predominant characteristics of the region.

The main language is Castilian (Spanish), although in Bolivia and Peru the native population speaks Quechuan or Aymaran.

TABLE 2

GRAN: DISTRIBUTION OF INCOME, 1968*

(Percentage of population per income category)

Category (Dollars per annum)	Large towns	Remaining urban and rural areas	GRAN
0 - 400	13	58	71
401 - 1500	13	9	22
1501 and above	3	4	7
Total	29	71	100

* Including Chile and excluding Ecuador

SOURCE: César Peñaranda "Integration of Andean countries: Evaluation of subregional market and distribution of income". Series of Working Papers No. 29, February 1976, CISEPA, Catholic University of Peru.

TABLE 3

GRAN: LIVING CONDITIONS

Country	Bolivia	Colombia	Ecuador	Peru	Venezuela
Life expectancy 1975 - 80 (years)	48.6	62.2	60.0	57.1	66.2
Demographic dependence* 1980	85.1	95.9	92.2	92.2	94.9
Illiteracy 1970 (percentage, 1980)	37.3	19.1	25.8	27.2	23.5
School attendance 1980** (percentage)	53.0	55.0	64.0	70.0	58.0
Infant mortality 1975-80*** (per thousand)	142.0	59.0	83.0	109.0	45.0
Availability of drinking water, 1977 (percentage)	38.0	64.0		45.0	81.0
Provision of sewerage, 1977 (percentage)	42.2	65.0	63.0	50.0	52.0

* Population under 15 and over 64 on population aged between 15 and 64 years

** Register of students aged between 6 and 23 years on population aged between 6 and 23 years.

*** Deaths of children aged between 0 and 1 year per 1,000 live births.

SOURCE: NNUU, CEPAL, Statistical Summary for Latin America 1960 - 1980, Santiago, April 1981.

Castilian is also often spoken in the latter cases. The population of the forests is extremely small.

Catholicism is the predominant religion. The region also shares a basically common history, all countries having obtained indepeudence from Spain over a period of a few years at the beginning of the last century.

2. Current State and Characteristics of Industrialization in the Andean Group

Industrialization of the member countries of GRAN began with the replacement of imports and non-durable consumer goods. Colombia was the first country to have begun this process in the forties, and the one with the most complex industrial structure. However, the relative importance of industry within the national economy as a whole also depends on the characteristics of the primary sector. In Colombia agriculture and cattle-raising has the highest productive capacity. In Bolivia and Peru it is mining, in Venezuela oil; the industrial structure of Ecuador, on the other hand, approximates to the mean for the Andean Group (see Table 4).

Relative prices of products for each economic activity, as well as fluctuations in these prices, also clearly affect their percentage of the national total. For example the proportion of total output represented by the extraction of oil in Ecuador during 1979 was 10.0% in terms of current values and only 3.7% in terms of 1973 values. Figures for manufactured articles, however, were 26.8% and 14.5% respectively.

In view of this similar pattern of industrial development the internal structure of industry is, accordingly, fairly similar. The main emphasis is on non-durable consumer goods. Progress in the replacement of imports normally consists of the production of durable consumer goods. In general, GRAN countries have not made significant progress in the production of capital goods as such.

TABLE 4

GRAN: GROSS DOMESTIC PRODUCT AT FACTOR COST BY SECTOR AND COUNTRY, 1973

(Millions of Dollars, at 1973 exchange rates)

Sector	Bolivia	Colombia	Ecuador	Peru	Venezuela	GRAN
Agriculture, fishing.	20.2	29.4	21.4	14.9	6.5	17.8
Mining	8.1	0.5	0.3	6.5	1.2	2.4
Petroleum	2.2	1.0	7.4	0.6	20.7	7.7
Manufactured goods	14.0	19.5	18.0	22.6	15.4	18.6
Building	4.6	5.4	4.5	3.7	5.4	4.9
Basic services	8.9	7.6	7.7	6.8	11.7	8.8
Government	8.5	7.3	8.8	11.0	11.3	9.6
Other services	33.5	29.3	31.8	33.7	27.8	30.2
Total	100	100	100	100	100	100

SOURCE: JUNAC, "Consolidated accounts for the Andean countries", Jun/Dec, 9-7-1981.

Another line of industrial advancement is that arising from the processing of exported raw materials. Thus an industrial structure based on the replacement of imports also expresses the link with natural resources. Percentages for foodstuffs and textiles (ISTC 31, 32) for Colombia are higher than the average for the Andean countries and indicate the importance of its agriculture rather than regression in the development of other production sectors (see Table 5). In the case of Ecuador, the very high proportion of output under ISTC 31 and 32 reflects the country's relative regression in the intermediate branches and production of metals. This also applies to Bolivia, where figures for both ISTC product groups are higher than the average for the Andean countries. Percentages for Venezuela and Peru are lower than the average for both ISTC groups. This partly reflects more complex processes than in Ecuador and Bolivia, but also the much greater relative importance of industries directed towards the refining of metals in the case of Peru and derivatives of oil in the case of Venezuela.

These findings also relate to the fundamental origin of the raw materials used. Practically all domestic raw materials used by Colombia fall within ISTC headings 31 (foodstuffs, beverages and Tobacco), 32 (textiles, clothing and leather products) and 33 (wood products) (89%, 91% and 95% of the total used in 1976), whilst it imports a high proportion of the raw materials used in the basic metal industries (38%). Peru, on the other hand, utilizes a very high proportion of domestic raw materials in basic metal industries (89% in 1977), and the case of Bolivia is similar (99%). Venezuela uses the highest percentage of domestic raw materials in ISTC group 35 (chemicals, derivatives of oil, etc.). The pattern of industrialization has also reflected the type of natural resources existing in the country and not the type of demand. In Colombia, with its natural wealth of products from agriculture and cattle raising, mass production of non-durable consumer goods has been more extensive than in other countries.

In general, it can be said that the Andean countries cover practically all their domestic needs for non-durable consumer goods, a good proportion

TABLE 5

GRAN: STRUCTURE OF GROSS DOMESTIC PRODUCT AT MARKET PRICES FOR MANUFACTURING INDUSTRIES BY COUNTRY, ACCORDING TO ISTC, 1973

(Millions of Dollars at 1973 exchange rates)

ISTC heading	Bolivia	Colombia	Ecuador	Peru	Venezuela	GRAN
31	35.0	31.2	45.6	30.7	25.5	30.7
32	27.3	23.7	20.3	17.1	9.3	17.9
33	5.3	1.7	5.7	2.7	2.2	2.6
34	1.8	5.8	5.4	5.4	5.7	5.5
35	16.9	18.1	8.7	16.2	36.0	21.5
36	4.5	4.7	7.0	4.1	4.8	4.6
37	3.6	2.9	2.4	8.4	5.7	5.3
38	3.0	10.8	4.5	13.9	10.1	10.9
39	2.7	1.1	0.7	1.4	0.6	1.0
Total	100	100	100	100	100	100

SOURCE: JUNAC, "Andean Group, Gross domestic product at market prices for manufacturing sector, 1970-1980", J/VE. ES/004; 15-2-82.

of their requirements for durable goods, a smaller proportion of industrial plant and a very small percentage of capital goods.

3. Exports and Growth, 1970-1980

The availability of materials and the dynamism of demand on the home market are crucial factors in the growth of industry in the Andean countries. The export sector is taking positive steps to improve both conditions. The fundamental factor in this area has been the increase in oil prices since the middle of the decade. Ecuador and Venezuela in particular reaped the benefits of this increase (see Table 6). Bolivia gained to a lesser degree, due to the reduction in the export volume, whilst Colombia benefited in particular from the increase in coffee prices. Peru, on the other hand, suffered both from the drastic reduction in the anchovy catch and the increase in the price of imported oil immediately afterwards. As a result, exports rose by only 24% to $1,314.6 million between 1970 and 1976. An increase in the volume and prices of exports was only recorded later, between 1977 and 1979.

Trends in terms of trading following the rise in oil prices show substantial improvements for Colombia (see Table 7). There is a slight improvement in the case of Ecuador, whilst a slight deterioration was recorded in Bolivia and Venezuela. Peru suffered a drastic reduction in terms of trading. Purchasing power at the end of the decade was higher than at the beginning in all countries, with the obvious exception of Peru (see Table 7).

Growth of the national economies more or less corresponds to purchasing power. The economy of Ecuador clearly demonstrated the highest rate of growth during the decade (see Table 8). Colombia maintained regular growth throughout the decade, stimulated in the second half by increasing exports of coffee. Bolivia had two clearly defined stages, the first until 1976 and the second, decelerating

TABLE 6

GRAN: EXPORTS BY COUNTRY, 1970 and 1979
(in millions of Dollars)

	1970	1979	1979/1970
Bolivia	225	856	3.80
Colombia	735	3,300	4.49
Ecuador	190	2,104	11.07
Peru	1,047	3,390	3.23
Venezuela	3,181	14.177	4.46
GRAN	5,380	23,827	4.43

SOURCE: JUNAC, *Socio-economic Indicators, 1970-1979*, Lima, May 1981.

TABLE 7

GRAN: PURCHASING POWER BASED ON EXPORTS
AND TRADING BETWEEN COUNTRIES

(1970: P.P. = 100; Intertrade = 100)

	1974		1980	
	P.P.	Intertrade	P.P.	Intertrade
Bolivia	189.7	139.7	179.9	124.9
Colombia	122.9	101.0	191.1	149.5
Ecuador	375.1	192.0	490.5	199.0
Peru	93.0	123.7	77.6	94.9
Venezuela	258.8	307.7	129.5	300.4

SOURCE: NNUU, CEPAL, Statistical YearBook for Latin America, 1979, Santiago, Dec. 1980.
JUNAC, Socio-economic Indicators, 1970-1979, Lima, May 1981.

TABLE 8

GRAN: GROSS DOMESTIC PRODUCT AT MARKET PRICES, 1970-1980

(Rates of growth in 1973 national currencies)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	70-75	75-80	70-80
Bolivia	4.9	5.7	6.8	6.1	5.1	6.8	3.4	3.1	2.0	0.8	5.7	3.2	4.5
Colombia	5.8	7.8	7.1	6.0	3.8	4.6	4.9	8.9	5.1	4.0	6.1	5.5	5.8
Ecuador	4.9	7.2	25.3	6.4	6.4	5.6	9.2	6.2	5.8	4.6	9.6	6.3	7.9
Peru	5.0	1.7	4.3	7.5	4.5	2.0	0.1	-0.5	3.7	3.1	4.6	1.6	3.1
Venezuela	3.0	3.3	6.1	6.1	5.9	8.4	6.8	3.2	0.7	0.7	4.9	3.9	4.4

SOURCE: JUNAC, "Consolidated Accounts for the Andean countries"
JN/de 566 9-6-1981

continuously until 1980. This pattern coincides with developments in the mining and oil sectors. In the case of Venezuela, a division into two periods also occurred in 1976. Deceleration then followed, which led to stagnation of production in 1979 and 1980. In Peru, tentative expansion can be noted until 1974, followed by deceleration and signs of recession until 1978. Production recovered to some extent during the last two years of the decade, stimulated by increases in the volume (oil and copper) and prices (especially of silver and copper) of exported products.

To summarize, the majority of the countries (Bolivia, Peru and Venezuela), responding with some flexibility to demands for goods and financial resources from exports, have experienced a cycle of acceleration and deceleration of economic growth. Suitable economic conditions for the development of active industrialization policy lasted for a particularly short period in the first two countries mentioned. In Ecuador dynamic activity in the production and export sectors was recorded throughout the decade, offering excellent conditions for the stimulation of industrial development. In Colombia economic growth has been maintained, although at a slower rate than in Ecuador, and this trend and the slight fluctuations observed seem to be associated more with Colombia's economic policy than fluctuations of an international origin. Figures would otherwise have been higher during the second half of the decade.

II. THE ROLE OF INDUSTRY IN THE DEVELOPMENT PLANS

1. The Position of Industry and its Priorities

In Colombia the position accorded to industry under the development plans (1971-1974, 1974-1978 and 1978-1982) varies. Economic plans have not allotted a central, direct position to industry in terms of general economic objectives. Rather, industry has had to respond without precise directives, and with less external protection in each case, to stimuli from both demand generated from incentives to expand and also from the granting of subsidies for exports of manufactured articles. The emphasis on production efficiency within a process of liberalization of the economy constitutes the clearest example of the rejection of the thesis of industrialization by the replacement of imports in GRAN, a thesis which had predominated in Colombia during the two previous decades. Without doubt, favourable developments in respect of the above-mentioned exports favoured this option. At the same time the relative maturity of industrialization in Colombia called for a more explicit and more rapid decision in regard to the manner of continued stimulation of economic growth than in the other GRAN countries. The Colombian option was the most liberal within GRAN. At the end of the decade the 1978-1982 Plan reiterated the call for increased efficiency and specified the need to accelerate the development of transport, means of communication and the energy and mining sectors.

The subordination of the policy directly aimed at industrial development is shown by the existence of a multitude of standards and regulations, the degree of coherence of which is difficult to detect at first sight. Continuous amendment of these legal provisions is also a contributory factor.

Development plans for Venezuela assign a more prominent position to industry than in the case of Colombia. The plans explicitly differentiate between the important responsibilities of the public sector and those of the private sector in respect of production. Priorities are also established and are expressed by discriminatory incentive policies.

It was considered, in the plan applicable between 1970 and 1974, that the initial phase of replacement of imports had just ended, and that it was necessary to promote a new stage of industrialization. This could be defined as a combination of the replacement of imports and the processing of raw materials for export. This did not imply any great expectations in respect of the exporting of manufactured articles under existing industrial conditions.

On this basis industries are divided into three groups. Group I consists of industries aimed at the foreign market, represented by oil refining, petrochemicals, iron and steel and energy-intensive industries in general, such as aluminium.

Group II consists of industries making progress in the replacement of imports of consumer goods, especially raw materials and capital goods. Group III is less specific, although it generally includes manufacturing industries supplying the home market.

The 1976-1980 Plan was more sensitive both to the need to increase industrial efficiency and to ensure the mass production of general consumer goods. It was also particularly concerned with the internal cohesion of industry. It therefore proposed the establishment of programs for the processing of domestic raw materials on an industrial scale. The enormous growth of the home market as a result of the increase in oil prices opened up major possibilities for further expansion of production of goods for mass consumption, giving priority to the fulfilment of the needs of this market. Moreover, the need for internal integration of industry was considered less urgent than in countries with import restrictions.

At the end of the decade the emphasis was on the official preoccupation with industrial efficiency, and this is expressed in the 1981-1985 Plan. The culmination of the growing oil bonanza is a contributory factor towards this approach. A policy of major investments in the basic industries (aluminium, iron and steel, petrochemicals) also continues, and expansion of the production of capital goods associated with the extraction and refining of oil is proposed.

Apart from the provisions incorporated in the general plans there is no specific law on industrial development.

The essential aspects of the 1971-1975 Plan for Peru were not specified, in view of the existence of a General Industries Law. The plan itself emphasized the official interest in linking the primary and secondary industrial sectors, in order to achieve what is officially defined as "accelerated and self-sustained development". Industry was considered the focal point of the entire development strategy.

At the same time the Plan gave priority to social reforms based on economic growth. These reforms (agrarian, working communities, etc.) make the Plan a special case, inasmuch as they affect the internal functioning of industrial and manufacturing companies and the labour market. They also seek to expand the home market for industry.

The General Industrial Law, applicable throughout the decade, establishes a list of priorities, the first of which includes the basic industries of iron and steel, non-ferrous metallurgy, basic chemicals, fertilizers, cement and paper and industries producing capital goods. The second priority category includes goods for mass consumption and main items of industrial equipment. The third was established for "complementary industries" and the fourth for "non-priority industries".

Substantial specific incentives were offered in order of priority, and this system reflected the decision to make further progress in the replacement of imports by means of industrial expansion and to establish a sequence between natural resources and intermediate and consumer goods.

Social reform was applied to the Industrial Community. This represents all company employees who are collectively owners of an increasing percentage of the assets up to 50% of the authorised capital. At this point individual shares would be issued. The Industrial Community was accordingly assuming an increasingly important role in all aspects of company management. This institutional phenomenon was officially defined as a "first step" in the abolition of capitalism. At the same time, a Law on Workers' Rights made it difficult to dismiss factory workers belonging to trade unions.

The peculiar combination of major incentives for reinvestment and microeconomic social reforms became blurred in the second half of the decade. Changes took place in the area of social reforms, altering the basic characteristics of the Industrial Community and some aspect of the Law on Workers' Rights in favour of the private employer.

A change of direction did not occur until the end of the decade, and a process of gradual elimination of para-tariff protection mechanisms was introduced which totally banned the importing of goods similar to those produced in the country.

In Ecuador, the Plan applicable between 1972 and 1979 placed the emphasis on industry. It sought to expand the market by means of agrarian reform and the consequent redistribution of income. The desire to continue allocating resources from oil exports to industry was also expressed. Priority has been systematically given to industry in Ecuador during the last 20 years.

The Industrial Development Law dates from 1957 and has been supplemented by specific laws (Automotive, Fishing, Small Industries). The long period of enforcement of this law may be due to the general nature of the criteria for industrial priorities specified.

The "Special" category consists of companies which carry out activities entered on a list which is revised annually and companies considered to merit "top priority" or "immediate and urgent attention".

It is noted that this top priority category includes companies which seek "to utilize the advantages offered to the country by instruments of regional or subregional integration or the opportunities presented by the world market".

Category "A", which constitutes a second priority, also lists companies carrying out activities which are redefined annually. Companies exporting at least 50% of their output are included in this category. Those which produce plant and machinery are also considered worthy of this high priority, thus reflecting the official desire to stimulate the country's domestic output.

Since 1973 the government has listed priorities under three categories: Strategic goods include the oil refining, iron and steel, fertilizers, fishing and cement. Basic goods, and those supporting Andean integration, include refrigerating and pasteurizing plant, the industrialization of agricultural products (vegetables, fruit, etc.) and the metal fabricating industries.

In the case of Bolivia the decade began with a development strategy which included major social reforms. The change of government in 1971 prevented its implementation. In 1975 a new development plan was drawn up which focused attention on specific projects and not on an attempt at overall cohesion. The plans stressed the selective replacement of imports of foodstuffs, textiles, clothing, timber and furniture.

The main legal instrument directed towards stimulating production in general and industrial output in particular is the Investment Law of 1972.

The priorities established give top priority to Mining/Metallurgical, Petrochemical, Metal Fabricating, Basic Chemical, Pharmochemical, Automotive, Electrical and Electronic Industrial Complexes. The second priority relates to the manufacture of equipment for the former and explosives, agroindustrial and consumer goods.

There appears to be a general concern with the need to industrialize natural resources and to develop replacements for imports of manufactured goods. The country officially least orientated in this direction is without doubt Colombia. The country with the most objective difficulties towards achieving progress is Bolivia. Its regression in the industrialization process and its political instability impede industrial development in the areas indicated.

Financial capacity for advancement in this direction varies, Venezuela, Ecuador and Colombia having the most advantages. Stimulation of exports of manufactured consumer goods is mainly evident in Colombia, where the industrial process is more mature and where there is a more liberal political system.

2. The Role of the State in Andean Industry

Participation by the State assumes various forms. In general, however, it occupies a secondary position in respect of direct production. Its role is more important and decisive in the channelling of resources from the primary to the secondary sectors.

Colombia is the country which has adopted the most liberal development option on GRAN, and this is expressed by a desire to reduce state intervention in the running of the economy, confining it to the establishment of clear rules for the private sector and essential infrastructures. The three development plans applicable during the decade proposed as the main task of the planner and the State "that of ensuring that the environment provided sufficient incentives to produce, to invest.... (1971-1974 Plan), "to provide a suitable climate for the expansion of existing companies and the creation of new companies ...." (1974-1978 Plan) and "to maintain a suitable economic climate for investment .... (1978-1982 Plan).

One of the typical ways of expanding commercial activity was eliminated in the 1974-1978 Plan, which specified that "as a general rule private or public companies which had taken doubtful investment and production decisions would not be taken into consideration (by the State), except in the case of matters of serious national interest" (1974-1978 Plan).

The State was most actively engaged in the mining and basic industries (1974-1978). The need for the State to develop the energy, transport and communications infrastructures was specified at the end of the decade (1978-1982 Plan). It is thereby hoped to achieve some decentralization of the productive apparatus.

The high concentration of sources of surpluses in Venezuela prompted the State to fulfil an important intersectorial production and redistribution role. Channelling of resources from oil to industry was achieved by means of various policies which will be mentioned later. One of these is direct investment by the State. This is mainly directed towards basic industries processing non-renewable natural resources (basically those listed in Group I).

Another function of the State is that relating to state purchases. The scale of these purchases enables the State to impose certain minimum conditions on producers. The alternative of obtaining supplies abroad enables a comparison to be made between internal and foreign manufacturing efficiency. Finally, the State accepts with more enthusiasm the challenge of the territorial deconcentration of industry.

The economic influence of the State in Peru has been greater than in the two previous countries and in the member countries of GRAN in general. Participation by the State in production operations increased substantially during the decade 1970-1980. The previously particularly liberal history in this area made State intervention in basic industries a symbol of a break with the past

However, the State intervened directly in foreign trade and also in financing operations by means of its more important role in the national exchange system. According to the 1971-1975 Plan, which in this respect reflected an option implemented at the end of the previous decade, the State had to fulfil a particularly active role in the national economy. Moreover, the cooperative system, extended to the sugar industry as a result of agrarian reform, included a strong State influence.

The decentralization policy was assumed by the State, alth gh with little efficacy. The role of the State was also to supervise the implementation of microeconomic social reforms in the private sector and those applicable to the labour market and collective bargaining.

The systems of control established to protect the substantial tax and credit incentives, etc. strengthened the situation.

State intervention was extended during the decade 1970-80 in the case of Ecuador. Exporting of oil, as in Venezuela, but on a smaller scale, enabled it to fulfil an important supporting role for its industries. The Development Plan proposes State intervention in oil refining, in iron and steel, in the production of ammonia and urea and in fishing. Total state ownership of companies in these fields is envisaged. A joint ownership system is proposed under headings such as cement, shipyards, timber/paper, etc.

Moreover the desire for greater State participation in the economy is reaffirmed in the proposal for stricter planning of industrial activity, the establishment of wider administrative control, the preparation and promotion of plans, the provision of more selective incentives, etc. The objective was to reinvest income from oil in industry. As in all the other countries, incentives for decentralization in Ecuador were aimed at the territorial extension of industry.

Finally in Bolivia basic industries were also assigned to the State. The thwarted Plan of 1970 specified this option in great detail and proposed various industrial complexes for the processing of natural resources. The 1975 Plan reduced the role assigned to the State. However responsibility for three-quarters of industrial investment were assigned to the State for the five-year period 1975-80. Approximately 60% of total investment was attributable to the State over the decade. State-owned companies are concentrated in the Bolivian Development Cooperation, which includes a fairly diversified range of companies covering consumer and intermediate goods.

Selective stimulation of industrial investment plans has also been sought via the allocation of loans, but with little efficacy. Current State involvement in Bolivian industry seems to be attributable to the lethargy of the private commercial sector rather than the desire of the government.

Summarizing, therefore, the role of the State in industry is subordinate to that of the private sector. In the manufacturing area this role is centred on industries producing intermediate goods based on non-renewable natural resources. In general the role of distribution of funds consists of their transfer from the primary sector to industry. One continuing preoccupation is the need to achieve some degree of territorial decentralization of industry.

The lowest level of State participation in industry occurred in Colombia and the highest in Peru during the period 1970-80.

3. Direct Foreign Investment Policy

The dominant policy in this respect is that dictated by Resolution 24 passed by the Cartagena Agreement. In the case of Peru a policy of handling foreign capital very similar to that proposed for GRAN was established before this Resolution was approved. In Venezuela no distinction was made between foreign capital and national capital until the community system was incorporated in 1974. It came into force in 1977. The same process took place in Ecuador. In Colombia a legal mechanism (Decree 444) of 1967 existed which limited remittances abroad to 10% per annum of the net value of profits on the respective investment in foreign currency. This limit could be modified in special circumstances. In Bolivia one condition is that such money must not be allocated for a period of 7 years until taxes and exemptions have been applied.

Minimum limitations apply in terms of sectors or branches eligible for investment of foreign capital; they are confined to activities reserved exclusively for the State, of which there are few within the area of manufacturing industries, even in the case of systems with the highest level of State control, such as Peru.

III. ECONOMIC POLICY AND INDUSTRIALIZATION

Economic policy, which affects industry without necessarily being determined by industrial objectives, is summarized in this section. Wages policy, exchange policy, tariff policy and tax and financial policies are considered to be particularly relevant. Policies aimed at promoting exports are also included, since these are implemented, at least partly, to neutralize the favourable climate for supplying the home market provided by a combination of the above-mentioned policies.

1. Labour policy

The evolution of industrial wage costs is basically due to a confrontation between the forces operating within a given context and the point of the economic cycle and regulations established by the State. The institutional nature of collective bargaining, the general dynamism of industry in each country and wages trends are summarized below.

The wages system in Bolivia subdivides earned income into firstly basic income and secondly a complex system of allowances. Basic income has no connection whatsoever with the family's minimum living requirements. The number of different vouchers obtainable by industrial workers can be as high as 59. For a long time this system of vouchers enabled a worker's pay to be increased without contributing to Social Security. These vouchers replace a legally established minimum wage. At the end of the decade, the total minimum monthly industrial wage was 1,688 pesos (US$ 84.42). The average nominal industrial wage (basic + vouchers) in 1979 reached 3,464 pesos (US$ 173). In 1980 it was estimated that the minimum basic wage was 4,294 pesos (US$ 171.76).

Despite a fairly sustained level of industrial growth, average pay per worker rose until 1972 but was then followed by a marked deterioration until 1975 (see Table 9)*. Pay as a proportion of Added Value (AV) reached a maximum level of 43% in 1972, falling to 26% in 1977.

Pay fell substantially in relation to the Gross Value of Production (GVP) from 16% in 1971 to only 8% in 1977.

As in Ecuador and Venezuela, collective bargaining in Colombia introduced both wage and social benefits. There is much less State intervention in collective bargaining than in Peru. Agreements normally apply for 2 or more years.

Industrial growth was relatively stable, with the exception of 1975. Real pay per worker fluctuated, rising until 1972 and then falling. Pay is falling in terms of GVP and AV.

In Ecuador labour disputes are referred to conciliation and arbitration tribunals consisting the parties in dispute and presided over by the State. The National Wages Board (tripartite) created in 1974 also advises the ministry and proposes new measures in the labour area. The annual minimum basic wage (including basic earnings plus supplements) was 63,033 Sucres (US$ 2,521) in 1980. State insurance charges accounted for between 50 and 59% of basic pay.

Remuneration per worker increased slightly between 1970 and

* Information not given in this report shows a stagnation of actual wages between 1975 and 1979.

TABLE 9

BOLIVIA: INDUSTRIAL OUTPUT AND WAGES, 1970-1977

	1970	1971	1972	1973	1974	1975	1976	1977
Industrial GDP 1/ (rate of growth)	-	3.1	8.8	5.0	11.3	5.9	8.6	6.0
Wages per factory worker 2/	100	121	130	124	97	95	-	-
Wages / GVP (%) 3/	13	16	16	12	10	11	9	8
Wages / AV (%) 3/	36	39	43	31	36	35	31	26

SOURCE: JUNAC 1/ J/VE.ES/004, 15 February 1982
2/ J/ES-E/94, 10 October 1980
3/ Socio-economic Indicators, 1970-1979, Lima, May 1981

TABLE 10

COLOMBIA: INDUSTRIAL OUTPUT AND WAGES, 1970-1977

	1970	1971	1972	1973	1974	1975	1976	1977
Industrial GDP (rate of growth)	-	8.5	9.2	8.9	5.6	0.7	7.1	4.1
Wages per factory worker	100	101	102	95	95	95	101	97
Wages / GVP (%)	15.0	14.5	14.5	13.5	12.1	12.7	12.3	12.3
Wages / AV (%)	35.4	33.5	33.6	33.6	29.5	31.4	30.6	28.3

SOURCE: Ibid

1977, the proportion of pay for industrial GVP and AV remaining more or less stable (see Table 11).

In Peru the right to job security was established for the first time at the beginning of the decade, and came into force after a three months' "probatiorary" period. This measure was repealed in 1978 and the probationary period extended to 3 years for new employees. Workers have no legal protection during this period of time.

The State played an active part in the settlement of employer-trade union disputes and the establishment of higher limits than those obtainable by collective bargaining. Separate negotiations are normally undertaken for each company.

The minimum legal wage at the end of 1980 was 25,350 soles per month (US$ 74.6).

Industrial growth was fairly erratic, the worst crisis for the past four decades having been recorded during 1977 and 1978.

Remuneration per worker increased between 1970 and 1974 and then fell until 1977 (see Table 12) and subsequently decreased at an even faster rate. The proportion of industrial pay of GVP remained fairly stable, falling to its lowest point during the crisis.

One feature of Venezuela's labour policy is the system of "collective contracts". The duration of contracts varies, 54% of them having a duration of between 31 and 36 months in 1980. Another characteristic of these contracts is that they apply to the entire industrial sector when they are negotiated by a representative group of employers and trade unions. There is a Law against Unfair Dismissal and a Tripartite Commission decides each case.

At the end of the decade, in 1979, the minimum statutory wage was 30.00 Bs (US$ 7) per day's work. Social services (seniority,

TABLE 11

ECUADOR: INDUSTRIAL OUTPUT AND WAGES, 1970-1977

	1970	1971	1972	1973	1974	1975	1976	1977
Industrial GDP (rate of growth)	-	10.2	8.7	8.6	9.7	19.4	14.4	9.1
Wages per factory worker	100	104	108	107	103	107	115	
Wages / GVP (%)	10.2	10.3	10.7	10.3	9.4	10.7	10.5	9.9
Wages / AV (%)	26.7	25.8	28.1	27.3	24.8	36.1	26.3	26.5

SOURCE: Ibid

TABLE 12

PERU: INDUSTRIAL OUTPUT AND WAGES, 1970-1977

	1970	1971	1972	1973	1974	1975	1976	1977
Industrial GDP (rate of growth)	-	6.8	0.7	6.0	10.8	4.2	4.0	-4.3
Wages per factory worker	100	106	112	118	120	119	119	108
Wages / GVP (%)	11.2	11.4	11.9	11.7	10.9	11.5	11.5	10.6
Wages / AV (%)	23.6	23.5	24.5	24.1	23.5	24.0	23.5	22.4

SOURCE: Ibid

pensions, etc.) are obligatory and reached a total of 40% of the basic wage.

Industrial growth was sustained, and real industrial pay rose between 1971 and 1977 (see Table 13). Figures for the first half of the decade, however, showed that the pattern was too erratic to enable reliable conclusions to be drawn. It can however be stated that Venezuela has the lowest $\frac{\text{Wages}}{\text{GVP}}$ and $\frac{\text{Wages}}{\text{AV}}$ ratios in GRAN. The importance of oil refining must contribute to this result. A critical evaluation of the figures should be carried out to obtain a more accurate result.

To summarize, wages in GRAN constitute between 12% (1974-77) of the industrial AV in Venezuela and 34.6% in Bolivia. Colombia is comparable to the latter country (32.0%), whilst the percentages for Peru and Ecuador fall within these extremes at 23.6% and 27.7% respectively. Pay per worker rose in the early years of the decade, but then fell in Bolivia, Colombia and Peru. This process did not occur in Ecuador and Venezuela, and wages remained stable.

The State actively intervened in the rise and fall of wages, at times offering social benefits and withdrawing them on other occasions, responding to the pressures of the trade unions as a result of certain negotiations and imposing limits to their pressures at other times, favouring the trade union movement or making its activities illegal at various times in different countries.

2. Exchange policy

Exchange policy in GRAN has been extremely passive, especially in view of the troubled international situation. This is partly due to the situation of oil exporters in three of the five cases.

TABLE 13

VENEZUELA: INDUSTRIAL OUTPUT AND WAGES, 1970-1977

	1970	1971	1972	1973	1974	1975	1976	1977
Industrial GDP (rate of growth)	-	3.5	4.5	7.3	6.1	4.5	12.0	3.5
Wages per factory worker	n.d.	100	n.d.	n.d.	102	103	96	105
$\frac{\text{Wages}}{\text{GVP}}$ (%)	21.4	10.7	13.4	n.d.	7.8	8.9	8.8	9.2
$\frac{\text{Wages}}{\text{AV}}$ (%)	19.3	11.8	15.0	n.d.	12.0	12.2	11.3	12.4

SOURCE: Ibid

In Bolivia there has been an unrestricted exchange market since 1956. From this date until October 1972 the value of the Dollar remained at 11.50 Bolivian pesos. Devaluation on this latter date was by 69.5%, bringing the rate to 20 pesos/Dollar. In 1979 it was devalued to 25 pesos.

The relationship between internal inflation and devaluation (see Table 14) indicates a situation which, in the context of a tariff protection policy, favours the reduction of the cost of raw materials imported by industrial producers for the home market. The proportion of the value of imported raw materials to total raw materials used accordingly fell drastically between 1972 and 1974, this trend continuing at a slower rate until 1977. The fixed exchange rate policy seems to have contributed to this, irrespective of other factors.

A more or less parallel trend between the rate of devaluation and the rate of inflation was recorded in Colombia. The "minidevaluation" policy facilitated this trend. This pattern ceased in 1977, when there was a reduction in the rate of devaluation, whilst inflation remained at a high level in Colombian terms (see Table 14).

This change of direction coincided with other policies aimed principally at checking inflation, such as free negotiability of exchange certificates on the Stock Exchange (Resolution 25 of 1977), which sought to hold back the monetization of international reserves. This measure also coincided with a policy which had already reduced incentives for the exporting of manufactured articles during the decade. It is therefore seen that the country with the policy least openly directed towards industrialization for supplying the home market in the presence of inflationary problems opted to make relative reductions in the cost of imported raw materials. However, this occurred in the latter years of the decade; the predominant

TABLE 14

GRAN: DEVALUATION AND INFLATION RATES BY COUNTRY, 1970-1980

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Bolivia											
i	-	3.6	6.4	31.6	62.3	8.3	4.5	8.1	10.4	19.7	47.2
d	-	0.0	11.4	51.1	0.0	0.0	0.0	0.0	0.0	2.9	
Colombia											
i	-	11.0	13.1	19.6	23.3	22.1	20.5	31.4	18.8	23.9	24.9
d	-	9.4	9.6	8.2	13.8	15.1	12.1	5.8	6.1	8.5	
Ecuador											
i	-	9.5	7.7	12.0	22.7	14.4	10.2	12.9	13.1	10.1	12.8
d	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Peru											
i	-	6.8	7.2	9.5	16.9	23.6	33.5	38.1	57.8	67.7	59.2
d	-	0.0	0.0	0.0	0.0	5.4	40.8	45.9	86.5	43.6	
Venezuela											
i	-	3.3	2.8	4.2	8.3	10.3	7.5	7.8	7.1	12.4	23.2
d	-	0.0	-2.3	-2.2	-0.4	0.0	0.0	0.0	0.0	0.0	

SOURCE: JUNAC, Socio-economic Indicators, 1970-1979, May 1981.

i = percentage variation between average annual price indices
d = percentage variation between average annual exchange rates.

feature in this country, in terms of exchange policy, has been the maintenance of an approximate parity of exchange rates.

In this context the proportion of the value of imported raw materials in the Gross Value of Production and the total value of raw materials used remained basically constant between 1971 and 1976.

Ecuador, on the other hand, has maintained an official fixed rate of exchange of 25 sucres/US$, although there is a free market rate which is increasing and which fluctuates between 25 and 30 sucres/Dollar. However, inflation in Ecuador consistently exceeded the rate of devaluation, favouring a reduction in the costs of goods of imported origin. Ecuador accordingly reduced the proportion of imported raw materials in the total output value. This basically applied in 1976 and 1977. Previously, the reduction in the relative cost of imported raw materials seems to have coincided with a higher demand for these products.

Two periods may be clearly distinguished in the case of Peru. There was a fixed rate of exchange during the first period. The highest rate of devaluation of the decade in GRAN occurred during the second period. Devaluation exceeded the rate of inflation at the beginning of the second period (see Table 14). This exchange situation, combined with other elements, contributed to the great leap in exports of manufactured articles observed between 1977 and 1979. Policy during the first half of the decade, together with stagnation of output of industrial plant and other factors, contributed to an increase in the relative usage of imported raw materials and an increase in costs of imported raw materials as a proportion of the GPV. There was a drastic reversal of the process in the second half of the decade.*

* The relationship between imported raw materials and total raw materials was 24.9 in 1979. The replacement of imported oil by domestic production contributed to this drastic reduction.

In Peru fixed rates of exchange were applied, together with drastic devaluation, but a "minidevaluation" policy was eventually adopted. There were various controls on transactions in foreign currency, more or less irrespective of the economic situation. The decision to impose controls arose from State planning aspirations.

Trade balance deficits were unknown in Venezuela until 1977. Such a situation had not been recorded for 40 years. The rate of exchange had been very stable. There is a free market, and there is no pressure to change the official rate. The level of internal inflation was low until the last years of the decade, subsequently rising to over 20% in 1980. In view of world inflation the variation in the rate of exchange, in terms of favouring a policy directed towards the home market or exporting, was insignificant until the end of the decade, when imports of raw materials for the sale of finished goods on the home market were given priority.

To summarize, therefore, it may be stated that exchange policy has not been explicitly used to promote industry. However the passiveness of the exchange field has favoured production for the home market and not for export. Nor does the level of the rate of exchange stimulate the exporting of manufactured articles.

3. T... policy

A more precise analysis of the effect of exchange policy on industrialization would have at least required the supplementing of the information given with an analysis of tariff protection developments. However, the salient feature of import tariffs is the opposite of that for exchange policy. Whereas this was put to little explicit use, tariff policy, and especially para-tariff policy, was used in an arbitrary manner. Although the structure of nominal tariffs corresponded with the objective of stimulating the substitution of imports of consumer goods, an overabundance of para-tariff measures and tariff exemptions made it difficult to detect their rationality in relation to exchange policy. In general it may be said that taxes on imports of capital goods and plant were waived, according to the industrial priorities established, but that such exemptions also covered every type of product promoted by influential pressure groups. In most of the countries tariff policy did not fulfil a coherent, discriminating role in the allocation of resources, nor an adequate fiscal function.

Venezuela used a customs tariff based on specific rates (Bs per kilo) until 1972. The replacement of imports was achieved by means of quantitative restrictions on imports.

The average level of protection of the Venezuelan tariff was 55% and the actual figure is estimated to be 69%. Figures for traditional industries are 98% and 250%. Levels for the newer industries such as those producing capital goods, for example, are 30% and 25% respectively. As well as these figures the disjointed nature of the tariff structure should also be noted. Licences are required when national output supplies part of the home demand and the product cannot be distinguished by its physical characteristics. Reference prices are also used to avoid under-invoicing, dumping, etc.

In Colombia tariff policy was reflected in the progressive reduction of the average rate of tariff protection. An average of approximately 26% was obtained following the reform of 1979. The Tax Reform of 1974 had favoured the fiscal function of the tariff, and exemptions were reduced.

There were no changes in the tariff policy as such in Peru during the greater part of the decade. The general average figure for ad valorem duties was 55%. If specific existing duties are added the level is estimated to be 69%*. Tariff reform was introduced during the last year of the decade and this tended to reduce the level of protection and eliminate para-tariff mechanisms. The banning of imports therefore occupied a very important place in Peruvian industrial policy. This made the tariff practically inoperable. Only slightly over half the tariff entries for 1973 related to free imports.

In 1978 40% of NABANDINA entries were rejected, and 22% required prior authorization. Controls were stricter in Peru than in any other country in GRAN.

It must be stated, within the context of industrial policy, that the lower the priority granted to industry, the greater was the protection granted under the General Industries Law. Banning the import of any article produced in the country considerably reduced the practical significance of the priorities established.

A new tariff was imposed in Ecuador in 1971. It was based on the degree of complexity of the product and differentiated between consumer, intermediate or capital goods. In 1974 a new tariff was adopted. Exemptions were so numerous, however, that the rates approved were not applied. In 1975 a tariff charge of 30% on imports of luxury goods (List II) was introduced. Requirements for prior authorization or prohibition were also added. Finally, as the tariff was based on the degree of complexity of the product and not according to the aggregate value, so that the effective protection structure bore no relation to the theoretical structure.

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* Torres, Jorge "Effective protection and the replacement of imports in Peru" (Protecciones Efectivas y Sustitución de Importaciones en el Perú), P.U.C., CISEPA, Lima, 1976.

In Bolivia the tariff structure was continuously amended during the decade. Many changes were made to the reform of 1973. The basic structure afforded greater protection to consumer goods than to intermediate and capital goods. The average figure for 1975 was 30.45%. Exemptions were granted to the public sector and to companies protected by the Investment Law and the law relating to the promotion of exports.

To summarize, therefore, tariff policy has in particular protected finished consumer goods. Moreover, tariff exemptions were applied to intermediate and capital goods in particular, thus increasing the level of protection accorded to them. Tariff incentives on purchases by export companies were also found to be widespread. Their criteria are however affected in practice by many regulations which detract from the validity of the tariff. This instrument is one of those most susceptible to pressure from various groups with particular vested interests. Common criteria for the Andean countries need to be established and some simplification of tariff structure is also required for the general planning of subregional integration programmes. The Cartagena Agreement has had a significant influence in this difficult simplification process and in the gradual reduction of the nominal average rate of national tariffs.

4. Tax policy

Tax policy in respect of industry comprises a combination of incentives which indicate the priority assigned to this production sector. In the case of Venezuela, fiscal incentives for industry were achieved by means of exemptions and income tax rebates. Originally, according to the Income Tax Law of 1966, exemptions were applied firstly to interest on capital for financing industrial investments and secondly to gains in respect of new industries, decentralized industries and industries exporting manufactured goods. Tax rebate was 15% of the total of new investments under fixed assets.

Further possibilities for claiming the benefit of exemptions were introduced during the decade 1970-80. These included those connected with the distribution of shares, exporting, the absorption of labour, etc. In 1978 the processing of goods under international agreements was added to other types of exemption, especially those connected with industrial programs for the Andean Group.

In Colombia the Tax Reform of 1974 sought to raise fiscal income in the face of difficulties of a budgetary nature. The taxable basis was extended, and practically all tax incentives were abolished. This again reaffirms the special characteristics of this country within GRAN. The main change was the abolition of subsidies for basic industries and the reduction of subsidies on exports of manufactured articles, which had previously been high.

In Peru the General Industries Law granted large tax incentives to industry, according to the priorities specified. The objective of tax collection was almost entirely subordinated to that of stimulating investment in industry. The main tax incentives throughout the decade were those granted to imports by means of the reduction of the tariff payable and to reinvestment, by reducing tax on profits. Territorial decentralization of industry was encouraged by offering important exemptions on practically all forms of tax.

The general incentives granted to industry in Ecuador are various, and stimulate the setting up of new companies, operations involving shares or securities, the exporting of manufactured articles and the establishment of fixed capital.

In Ecuador specific exemptions apply, according to industrial priorities. Thus, companies in the special category, for example, are eligible for total exemption from import duties on new machinery and for partial exemption in the case of imports of raw materials not produced in the country. This total exemption also applies in the case of companies in categories A and B, and there are other total or partial exemptions. Moreover, substantial deductions for investment and reinvestment may be made when determining taxable income. Major incentives for regional decentralization also exist.

Total exemption for a period of 10 years applies in the case of the "List of Specific Investments", and there are also other tax benefits.

In Bolivia, tax policy throughout the decade was more clearly directed towards regional decentralization of production and the promotion of small companies and export activities. As regards investments (Investment Law of 1972), duties on imports of machinery, equipment and spares were relaxed; also those on imports of raw materials not produced in the country. Other mechanisms were also established, such as scales of depreciation. Benefits were granted on the basis of the three above-mentioned categories.

In general Andean tax policy has encouraged industry by means of important tariff exemptions on imports of machinery for production purposes (Peru, Ecuador, Bolivia, Venezuela). Colombia is the only country where the policy was to reduce exemptions. The other main mechanism for stimulating industrial growth was the exemption of income tax, both in respect of new companies, companies in regions with little industrial activity, or those producing goods for export.

The availability of resources arising from the exporting of oil favoured the reduction of the fiscal function of the taxation system in some countries. In Peru, the desire to accelerate the industrializing process led to tax incentives without the provision of any alternative means of securing fiscal resources by the State, since important exemptions also apply to mining and fishing activities. In Colombia tax policy reduced the role assigned to the resources sector and concentrated on its fiscal function.

A tax policy was essential to establish industrial priorities. In general, the main exemptions applied to basic industries.

The efficacy of these policies must be evaluated. The possibilities of tax evasion are high, due to administrative inefficiency or simple corruption. There is, however, some willingness in the case of certain incentives such as decentralization.

It should also be noted that the basic tax system (without considering exemptions) is being updated, partly due to the growing desire for international and Andean integration.

5. Financial Policy

The financial system of the Andean countries has served as a vehicle for the transfer of funds to industry. To this end the degree of its intermediation has been substantially extended, and a more complex and specialized system has been created.

The structure of the state industrial financing system in Venezuela consists of institutions providing services covering the various areas given priority by the government. A large number of the most powerful bodies were formed following the steep increase in oil prices. For example, the Industrial Loan

Fund which finances sectors given priority under the National Plan, the Corporation for the Development of Small and Medium Sized Industries and the Venezuelan Investment Fund, which directs its resources to basic industries (aluminium, iron, steel, etc.) were created in 1974.

Financing granted by the State to the industrial sector during the period 1975-1979 reached a total of 21,442.5 million Bolivars. Of this financing 70% was directed to industries producing industrial supplies, the greater part (57.2%) having been supplied by the Venezuelan Investment Fund.

The Commercial Bank is the most important in terms of volume of transactions. At the end of 1980 investments totalled 62,162 million Bolivars (US$16,084 million), about 20% of which was directed to industry. During 1980 finance companies granted total credit to industry of about $1,000 million.

Gross domestic lending in Venezuela increased 12.1 times between 1970 and 1979 (see Table 15). This enormous figure reaffirmed the new economic situation caused by the rise in oil prices.

The financial system in Colombia directed resources towards decentralization via the Private Investment Fund and the Industrial Development Institute, both public bodies. Small and medium sized companies were favoured by the Private Investment Fund and the Industrial Development Institute, both public bodies, and also by the Industrial Financing Fund, which also promotes regional decentralization of industry. The private sector offers special credit facilities for industrial promotion purposes. Promotion of exports gave rise to the creation of the Export Promotion Fund, an institution now ascribed to the Central Bank and which has also

TABLE 15

GRAN: TOTAL GROSS DOMESTIC CREDIT BY COUNTRY, 1970 and 1979
(millions of Dollars)

	1970	1979	1979/1970
Bolivia	238.1	1,538.3	6.46
Colombia 1/	1,499.1	3,768.5	2.51
Ecuador 2/	436.8	2,220.8	5.08
Peru 3/	1,049	2,532.1	2.41
Venezuela 4/	2,195.1	26,574.1	12.1
Total	5,418.5	36,633.8	6.76

1/ Colombia 1979: Loans granted under Banking System (I.B.S.) + loans from the Banco de la Republica.
2/ Net.
3/ Peru: 1972-1973 net.
4/ Venezuela: Credit and discounts under Banking System.

SOURCE: JUNAC, Socio-economic Indicators, 1970-1979, Lima, May 1981.

become involved in the purchasing and exporting of Colombian products, the promotion of transportation systems, marketing operations and investment in export companies. It obtains its resources mainly by means of a 5% tax on imports.

The increase in gross domestic lending was not very significant in Andean terms.

Gross lending (evaluated in Dollars) in the private sector increased by 161% between 1971 and 1978, whilst that for the public sector during this period increased by only 38% after originally (in 1970) having been less than half of that granted to the private sector. This was confirmation of the most liberal option in GRAN.

In Peru, the decade began with a nationalizing process and State control of a large part of the financing mechanism. State-owned companies feature prominently in the operations of the Commercial Bank. The National Bank receives deposits from Central Government and from the Public Sector under an exclusive arrangement and grants them loans. In 1978 it held 48.1% of total investments by the banking system. The Financial Development Corporation was also formed in 1971, which is empowered to grant loans for promotional purposes. Under State legislation investments in industry by the Commercial Bank increased from 25.4% in 1965 to 47.4% in 1979. Investments in industry by recently formed private finance houses increased from 35.8% in 1975 to 63.6% in 1979.

The Industrial Bank of Peru, the oldest institution for industrial development, provides about one-third of the total funds in this sector. Investments by the Commercial Bank (public and private) fell from 72% in 1970 to 51% in 1980. This relative reduction was due to the activities of the new institutions granting long term credit, namely the Financial Development Corporation (public) and private Finance Houses. Despite the absorption of financial resources by mining, oil, irrigation, etc., about 20% of total investments under the financial system applied to industry during the decade 1970-1980. As has already been mentioned, institutions which place funds in the industrial sector had to increase the proportion allocated to this sector.

Investments by the entire financial system in industry increased from 11,457 million Soles in 1970 to 335,471 million in 1980. After allowing for inflation, this represents an increase of 109%.

Total gross lending for the private sector (average in Dollars) rose by 135% between 1970 and 1975. It fell by 34% in the second half of the decade. Lending for the public sector increased by 739% between 1970 and 1977, having started from a very low basic figure. In 1978 and 1979 pressure to reduce spending in a period of crisis, together with extremely favourable international prices, resulted in a fall in lending (-63.1%) between 1977 and 1979. These trends reflect the extent of State involvement in the Peruvian experience.

In Ecuador the most dynamic sector of the financing system was that of the private banks. The number of new banking institutions, agencies and subsidiaries and the modernization of facilities reflect progress in this field. Loans granted to industry by the Commercial Bank were around 25% of the total granted by these institutions; total lending rose to 119,357 million Sucres in 1980, and the average annual figure was 23%.

Industrial lending by the Central Bank was equivalent to 35% of total lending during the period 1970-1980, which increased at an average annual rate of 31%, reaching 119,357 million Sucres in 1980. Percentages for industrial lending were highest at the beginning and end of the decade.

Public and private finance companies grew rapidly during the decade. The annual growth rate represented by loans granted was 36%, amounting to a total of 20,127 million Sucres.

The resources of the bank mainly responsible for the promotion of production, the National Bank for Development, were mostly placed in the agriculture and cattle-raising sector. Total gross domestic lending was 5.08 times greater in 1979 than in 1970 (see Table 15).

In Bolivia loans to the industrial sector increased very rapidly during the decade 1970-80, rising from 437.6 million Pesos in 1971 to 7,277.4 million in 1979. On the basis of these figures, the average actual increase in lending was 17% per annum.

This enormous increase contrasts with the low level of industrial dynamism, which gives reason to suppose the use for other activities of funds destined for industry. After Venezuela, Bolivia was the country with the highest increase in total loans granted to the economy (see Table 15).

To summarize, general modernization of the financial system was observed during the decade, as shown by new and more specialized institutions. This applies particularly to newly-created institutions concentrating on financing medium and long-term investments.

There was a substantial increase in the level of lending in countries with export capacity and loans in Venezuela in particular, were mainly channelled towards the basic industries. Lending trends in Colombia, on the other hand, were dictated by the country's anti-inflationary policy.

Peru encouraged lending to industry via development institutions and by the establishment of minimum quotas in the case of the Commercial Bank. In Ecuador, private banks, the Central Bank, the National Finance Corporation and private finance houses, were the ones most actively involved in industrial lending activities. The rate of industrial lending in Bolivia increased at an extremely rapid rate.

The nominal cost of lending remained fairly stable. In Bolivia interest rates on short-term loans granted by the Commercial Bank were between 13 and 15% (without allowing for commission, etc.). In Colombia the rate of interest for working capital in industry was fixed at 14%. In Ecuador the rate of interest for loans for a term of less than one year granted by private banks and financial institutions was 12%. The same figure applied for a considerable period in Peru. It subsequently increased, but at a slower rate than inflation, reflecting negative figures. The short-term interest rate in Venezuela was 11%.

The structure of special interest rates for industrial development purposes is too complex for inclusion in this summary. In general it may be stated that the actual rates are low or even negative.

6. Export Promotion Policy

Colombia is the country with the oldest export promotion policy. The Tax Allowance Certificate was established under Decree 111 of 1967, which constituted an export subsidy. This subsidy was substantially reduced under the Tax Reform of 1974.

The other major instrument in this field has been the creation of an Export Promotion Fund (PROEXPO), already mentioned in connection with general financial policy.

In Peru the policy in respect of subsidies for industries manufacturing goods for the home market began slightly later than in Colombia, but it did not achieve much momentum. The Tax Refund Certificate (CERTEX) was created in 1969, a subsidy proportional to the FOB export value. Assured export loans and the Non-Traditional Export Fund were subsequently created. The CERTEX system was amended in 1976, and the subsidy increased, which, combined with a major devaluation process and a fall in real wages, together with a new CERTEX reform two years later, gave a strong impetus to non-traditional exports between 1976 and 1979. The average CERTEX value during this latter period was around 25% of the FOB export value.

Promotion of exports in Venezuela commenced in 1973 with the creation of a Fund designed for this purpose. In 1973 an Export Incentive Law was introduced and assured export loans established. Industrial exports represent 5% of Venezuela's total exports.

The tax incentive system is based on the right to tax credit (assessed in relation to the National Added Value, which may not be less than 30%). The higher the added value, the greater the incentive, fluctuating between 11% of the FOB export value for products with a National Added Value of between 30% and 45% and 30% of the FOB export value for products with 100% N.A.V. The average incentive is about 16%.

The procedure for exports of manufactured articles was different in Ecuador. In this country, efforts were made to identify exportable supplies. The Ministry for Industry, Trade and Integration made a study of 193 companies in various sectors from which a list of 23 products was selected as having concrete export possibilities.

A tax allowance proportional to the NAV was established in 1979, starting from products incorporating over 35% of the NAV, which receive a refund of 7% of the FOB export value, up to those representing 80-100% of the NAV, which receive 15% of the FOB export value.

A combined fiscal and lending system was adopted in Bolivia. In 1977 Decree 14803 was passed which established a system of tax incentives. These cover the refunding of tariffs paid on imports of supplies, the reduction if inland taxes and tax refunds. The latter are based on the NAV and vary between 5% of the export value in the case of 10% NAV up to 25% for products with no imported components.

Credit facilities for industrial development purposes were formerly in existence, are granted by the Central Bank and until 1978 the rate of interest paid by exporters was determined according to the basis of the Libor rate, plus 1.5% commission for the intermediate bank. Later, the rate established was 10%.

In general, it may be stated that the export promotion policy applies within the context of a general policy which gives priority to industrialization for the purposes of supplying the home market. Significant progress has been made, the greatest achievement having been developments of a basically adequate institutional nature.

7. Other Policies

The above-mentioned policies have been supplemented by more specific initiatives in some countries, such as the promoting of greater integration of national sectors. This policy was mainly centred on the automotive sector and the metal fabricating sector in general. Venezuela also concentrated certain resources in the agro-industrial sector. Agriculture output is essential in this case in order to obtain exemption from tariffs on supplies of foreign origin. By way of illustration, loans granted in Venezuela fluctuated between 100% of integration for the manufacture of padlocks and 5-15% for the motor cycle industry (Table 16). In Peru, there is a total ban on imports of goods produced in the country. In this way producers of parts, supplies for the chemical industry, etc., are fully protected.

TABLE 16

VENEZUELA: LEVEL OF INTEGRATION OF NATIONAL OUTPUT

Products		Percentage of integration
Black and white television sets		60-70
Goods lifts		73
Passenger lifts		40-70
Boilers		50-90
Electric motors		70
Electric liquidizers		70
Compressors		27-61
Electric irons		63
Fans		35
Padlocks		100
3-in-1 audio equipment		45
Telephones		80
Transformers		72
Refrigerators		75-85
Cookers		98
Washing machines		70
Automotive vehicles:	Passenger	45
	Agricultural	40
	Commercial	30-45
Parts for automotive vehicles		50-80
Motorcycles		5-15
Trailers		80
Bicycles		30-77
Construction plant		50

SOURCE: Eglée Iturbe de Blanco, "Venezuela's industrial policy in the seventies". (duplicated document)

It may be stated that there is no legislation in existence with ant' ~monopoly objectives, but there are price controls on basic products. Such controls operate mainly in Venezuela.

Technological policy is in its infancy, and is becoming a matter for increasing official concern, as the problem of subregional and international competitiveness in general increases. There has been less progress in this respect, considering the current challenge.

In the same way efforts are being made in the fields of standardization, quality control and metrology, and also in the area of specialized education. The basic process in regard to production efforts is following a spontaneous course, determined by the trend for the replacement of industrial imports.

8. Conclusion

The policies summarized above indicate a rational approach, despite some arbitrariness in their implementation. In general it may be said that they correspond fairly coherently with the objective of expanding the policy of replacing imports. Efforts to export manufactured articles do not serve as complementary initiatives. The emphasis placed by the State on the development of an intermediate sector, based on the countries' own natural resources, also complements the fundamental and spontaneous approach to the industrialization process. The main policies, such as those relating to wages, exchange systems, financing, tariffs and taxes within a broad system of exemptions, subsidies, etc., reflect this situation.

IV. INDUSTRY AND SUBREGIONAL INTEGRATION

National dynamics in respect of exchange requirements under the Cartagena Agreement have predominated in GRAN. The industrialization policy in each country has basically been conducted independently of the integration process. There are many explanatory factors for this mode of procedure, beginning with the centuries-old tradition of establishing closer links with centres than with neighbouring countries.

It is therefore necessary to determine the significance of subregional integration for national processes. The fact that the Cartagena Agreement is a voluntary process with supreme powers indicates that the need for development is acknowledged. Its nature and its effects must be specified.

1. Subregional Integration in Development Plans

Venezuela joined the Cartagena Agreement halfway through the decade. The general objective proposed in the 1970-74 plan was "to convert Venezuela from a developing economy, which is mediatized and lacking dynamism, into a modern industrial economy with a high level of external autonomy". Foreign trade policy is not considered a favourable instrument for the achievement of these objectives. Subregional integration is not given special consideration.

The need to lend full support to the effective implementation of the mechanisms of the Andean Subregional Pact was specified in the 1976-1980 Plan. Particular emphasis was placed on industrial programming and on joint participation in major plans for the provision of basic resources. The need for large marketing units to achieve a higher concentration capacity was also stated. This emphasis corresponded to a "Third world" strategy in the field of international relations. The role of subregional integration was specified to an even greater extent in the Plan for the first half of the following decade (1981-1985), and the emphasis placed on the need to encourage progress in harmonization of trade liberation policy, the powers of a common external tariff (C.E.T.) and industrial programming (SPID). The influence of the Subregional Agreement in regard to industrial protection policy, for encouraging rationalization of the tariff structure, is indicated in this Plan. The usefulness of subregional integration for advancement of industrial development strategy is also mentioned. It is planned to implement allocations received by Venezuela and to raise industrial efficiency, in order to be able to compete in the Andean market.

It may therefore be concluded that Venezuelan industrial development strategy and the objectives of the Cartagena Agreement are convergent. The most explicit expression of this convergence and direct desire for integration is found in the 1981-85 Plan.

References to the Cartagena Agreement can be found in all development plans in the case of Colombia, in particular to those aspects relating to the lowering of tariffs within the subregion. The need for the adoption of a Common External Tariff is accordingly emphasized. This preference corresponds with the policy of encouraging industrial efficiency by way of the competitiveness of private enterprise.

On the other hand, support for Sectorial Programs of Industrial Development is maintained, but greater flexibility of the original mechanism is proposed in the latest plan.

The closer relationship between industrial development strategy in Peru and the Cartagena Agreement is reflected in the country's approach to Sectorial Programming. The prospect of developing a metal fabricating sector was based on the possibilities offered by the opening-up of the subregional market. For example, projects to the value of slightly over 4,000 million Soles (a little over $100 million) were specified in the Draft Two-year Plan for 1973-74.

The close relationship between priorities established under the General Industries Law in Peru and the type of products subject to Sectorial Programming may be mentioned within a more general context. These priorities are supported by large tax incentives for reinvestment of profits and imports of machinery and supplies.

The main preoccupation of the government during the decade was not improved microeconomic efficiency, nor its achievement by means of trade openings. The predominant criterion was to supply the needs of the home market, following expansion induced by economic growth and redistribution of income. As a result imports of products similar to those produced in the country were banned. Policies relating to aspects of integration associated with trading relations were given little encouragement.

Industries destined to provide the potential benefits of the Cartagena Agreement are also given high priority in the Ecuador plan. As well as substantial tax and other incentives corresponding to the priorities indicated, a policy of technical assistance was implemented in 1979 in collaboration with various bodies, such as the European Economic Community, UNIDO, etc. in order to diagnose the situation in various sectors and prepare industry for subregional competence.

At the end of the first decade it was officially proposed to consolidate the integration process by means of development projects allocated to the country under Sectorial Planning.

Bolivia originally showed a particular interest in the SPID and preferential treatment, which it shares with Ecuador. In 1971 there was a change of government and general development plan. However, the Investment Law passed at the end of 1971 gave priority to sectors corresponding to the SPID.

Balanced integration was achieved in the 1975 Plan and strong doubts expressed as to the suitability of the Agreement for Bolivia. The main doubts lay in the fact that whilst Bolivian exports, based on natural resources, did not call for any preferential tariff treatment in order to enter markets, in view of the lack of diversification of exports, imports in the subregion would affect Bolivia's low level of industrial output for its own markets. However, the Plan postulates the continued inclusion of Bolivia in the Cartagena Agreement.

2. Trade between the Andean countries

Interchange of industrial output has been dynamic in the Subregion. Industrial exports to countries in the subregion increased from $27.5 million in 1970 to $832.5 million in 1979, representing a 30-fold increase in value. Total industrial exports increased from $154.8 million to $1,992.6 million between these dates, the final figure being 12.8 times the initial value. The Andean market, being smaller, has acquired more than an adequate proportion of Andean manufactured articles.

In percentage terms, whereas industrial exports for GRAN constituted 25% of total exports to the subregion in 1979, the figure ros to 65% in 1979. The proportion of industrial exports to the world market of total exports to this market also rose from 3% in 1970 to 8% in 1979 (see Table 17).

Trends for the various countries indicated that, except in the cases of Venezuela and Ecuador, due to their status as oil exporters, the proportion of exports of manufactured articles to total world exports is rising (see Table 18); volumes and rates of growth are especially noteworthy in the case of Colombia and Peru.

Dissimilar paths may be observed for the countries in terms of subregional trade liberation policy (see Table 19). The enormous difference between Ecuador and Bolivia in respect of immediate opening calls for particular comment (an advantage which does not apply to the other countries). Ecuador's exports to GRAN stimulated by immediate opening constituted over 50% of exports to the subregion (excluding oil) during the decade. The dynamism of Ecuador within relatively less developed countries in other trade liberation programmes is also noted.

The industrial maturity of Colombia has been fully expressed. Although it is difficult to evaluate the effect of integration as such on industrial export trends, a very rapid rate of development starting from very low initial levels is clearly observed.

3. Industrial Programming

Evolution of the more advanced sectorial programs are summarized in this section and the case of one of the less developed countries in the subregion, which has implemented sectorial programming in the most systematic manner, is discussed in greater detail. In this way a more precise picture of its significance may be obtained.

TABLE 17

GRAN: STRUCTURE OF EXPORTS BY PRODUCTION SECTOR
1970 and 1979
(Percentages)

	1970	1979
Total (Millions US$)		
Subregion	111 (100)	1,289 (100)
World	5,380 (100)	24,166 (100)
Agriculture and cattle raising		
Subregion	33	12
World	24	16
Mining		
Subregion	12	4
World	17	12
Petroleum and derived products		
Subregion	30	19
World	56	64
Industrial		
Subregion	25	65
World	3	8

SOURCE: JUNAC, Socio-economic Indicators, 1970-1979, Lima, May 1981.

TABLE 18

GRAN: DEVELOPMENT OF INDUSTRIAL EXPORTS* BY COUNTRY, 1970 and 1979

(millions of Dollars and % of total exports)

	1970	1979	1979/1970
Bolivia	5.5 (2.4)	60.1 (7.0)	10.93
Colombia	94.7 (12.9)	1,168.5 (34.3)	12.30
Ecuador	19.9 (10.5)	195.3 (9.6)	9.81
Peru	38.4 (3.7)	835.2** (24.8)	21.8
Venezuela	65.4 (2.1)	315.5 (2.2)	4.82

* Products are those classified as type B by JUNAC
** National information

SOURCE: JUNAC, Socio-economic Indicators, 1970-1979, Lima, May 1981.

TABLE 19

GRAN: EXPORTING OF INTRASUBREGIONAL PRODUCTS UNDER THE PROGRAM OF TRADE LIBERATION

1970 and 1979

(Millions Dollars)

	Immediate opening		General list		Reserved for SPID		Bol. and Ec. w/o liberation		Petrochemical		Automatic lowering of taxes		A.L.T. (exceptional)	
	1970	1979	1970	1979	1970	1979	1970	1979	1970	1979	1970	1979	1970	1979
Ecuador	0.1	40.9	0.1	2.4	0.0	1.7	0.1	0.6	0.0	0.0	1.7	16.2	0.0	0.0
Bolivia	0.0	1.0	0.0	0.1	0.0	0.0	0.0	0.3	0.0	0.0	0.0	1.5	0.0	0.0
Colombia	n.a.	n.a.	0.3	18.1	1.6	28.3	8.5	76.3	0.0	7.3	0.9	188.8	0.4	197.9
Peru	n.a.	n.a.	0.0	1.9	0.8	7.8	4.4	186.2	0.0	11.7	0.2	49.8	0.0	13.8
Venezuela*	n.a.	n.a.	0.0	1.6	0.0	18.1	0.0	1.9	0.0	7.3	0.0	2.1	0.0	2.9
Total	0.1	41.9	0.4	24.1	2.4	55.9	13.0	265.3	0.0	26.3	2.8	258.4	0.4	214.6

n.a. Not applicable

* Venezuela starts at zero in each case as it was not included until 1974.

SOURCE Socio-Economic Indicators, 1970-1979, Lima, May 1981.

a) General Summary

i) Metal Fabricating Program Decision 57 (1972)

The difference between production levels for the countries is significant. Whereas levels for Venezuela, Colombia and Peru vary between $500 and 600 million, Ecuador achieved about $120 million and Bolivia only $13 million.

However, although progress has been rapid, the proposed objectives of this programme have not yet been achieved. Despite the growth in the trading of metal fabrication products, imports from GRAN are barely 2% of metal fabrication imports from the rest of the world.

Decision 57 allocated 57 units incorporating 202 NABANDINA items. Exclusive allocations number 55, and include 142 NABANDINA items. Distribution per country is as follows: Bolivia, 9; Colombia, 14; Chile, 6; Ecuador, 10 and Peru, 16. Shared allocations number 15, and include 55 NABANDINA items.

Production of 45 of the 72 units allocated has been verified, representing 62.5% of the number allocated. Production of 85 of the 202 NABANDINA items allocated has been verified, that is to say 42% of those allocated.

There are 65 companies in the subregion which produce the products allocated, 16 of which are new and 49 of which already existed prior to the introduction of the expansion and diversification programme.

New products are basically assembled products with little national integration. Existing companies have been able to rationalize and improve production processes.

The exit of Chile and the entry of Venezuela called for reassessment of the program under Decision 146 of 1979.

ii) Petrochemicals Program: Decision 91

The petrochemicals program originated in 1968 under LAFTA. With the entry of Venezuela the basic document was drawn up which is known today as Decision 91, and which was passed in 1975.

A total of 163 products are allocated; these are distributed as follows: Bolivia 16; Colombia 18; Ecuador 23; Peru 20 and Venezuela 24 products.

Unallocated products number 105, and may be manufactured by any country.

Colombia had the largest installed capacity in GRAN in terms of basic, intermediate and final products at the time the program was implemented (see Table 20).

Peru fell behind Venezuela during the period 1975-80, since this country increased its output by 455.2 thousand tonnes/annum (259.0k basic products, 178.2k intermediate and finished and allocated products and 18.0k unallocated intermediate and final products). Peru's output of intermediate and finished allocated products increased by only 18,350 tonnes/annum, and the output of unallocated products rose by 14,400 tonnes/annum as a result of the economic crisis.

Bolivia initiated plans for basic petrochemicals during this period to give output of 129,900 tonnes/annum and Colombia 140,000 tonnes/annum.

Total actual capacity (including developments planned) is 1,633,000 tonnes/annum, corresponding to 129,900t for Bolivia, 681,300t for Colombia, 151,500t for Peru and 640,200t for Venezuela.

TABLE 20

GRAN: EXISTING CAPACITY OF PETROCHEMICAL INDUSTRY, 1975

(Thousands of tonnes/annum)

	Colombia	Peru	Venezuela
Basic products	183.4	9.1	-
Allocated intermediate and finished products	215.4	81.6	76.0
Unallocated intermediate and finished products	144.5	60.8	90.0

SOURCE: MITI, Office of Secretary of State for Integration, Lima.

This process has been carried out in the face of great difficulties. Bolivia did not incorporate Decision 91 in its legal regulations. Colombia did not reduce tariffs during the last three years. Venezuela only implemented lower tariffs for the first year, and did not fulfil requirements for the remaining four years. The other great difficulty is of a financial order, especially in the case of serious economic crises, as in Peru.

b) A relatively less developed country: Ecuador

From the point of view of relatively less developed countries, this aspect of the integration plan is crucial for economic expansion. Progress in the case of Ecuador, a country which made much greater use of this possibility than Bolivia, has been as follows:

a) Decisions 57 and 146: Metal Fabricating Program

Ecuador was allocated 11 projects, 10 of them of an exclusive nature. The situation is indicated below:

Projects	Stage of progress
- Machinery for the dairy industry	Promotion
- Spindles, broaches, reamers, etc.	*
- Hydraulic presses	In operation
- Starting gear	Promotion
- Presses for the plastics industry	In course of installation
- Measuring and control instruments (electrical and electronic)	*
- Centrifuges	Promotion

* Installed, but activities subsequently ceased.

- Switching and cut-out equipment, less than 1000 volts	In operation
- Clock and watch making	*
- Hydraulic systems	In operation
- Pressure gauges	In operation

Ecuador started to export helicoidal spindles, electric drills, wrist-watches and ammeters.

b) Decisions 91 and 130: Petrochemicals and Chemical Fertilizers

Feasibility studies for two petrochemicals complexes based on oil and gas were completed.

c) Decisions 28, 108 and 127: products not produced in the subregion, not classified under industrial development programs, and which are reserved for production in Ecuador.

Ecuador has implemented the following under this program:

- Oil or kerosene lamps and lanterns
- Gas-operated cutting and soldering machinery and equipment
- Pneumatic valves
- Tools and machinery, electromechanical tools with integral motors
- Sorbitol
- Special papers (in final installation phase)

Although these projects as a whole are not of macroeconomic importance they constitute a channel for the use of resources from the extraction of oil and a stimulus for industrial diversification. Six new companies have been formed for the execution of the metal fabricating program, which constitute over one-third of the total for the Andean group (Peru 7, Colombia 2 and Bolivia 1).

* Installed, but activities subsequently ceased.

4. Institutional Aspects

The effect of the Cartagena Agreement is particularly important from certain institutional aspects of economic policy. For example, tariff policy has followed a similar course and has been harmonized with the stimulus provided by integration requirements.

Policy in respect of foreign capital is clearer. GRAN favoured a subregional policy of treatment which would not have existed without Decision 24.

Pressure to organize a more effective trading relationship between the GRAN countries not only called for a more or less continuous tariff reform process; it also encouraged updating of the tax system, especially in some countries. The only way of preventing the exporting of taxes was by having the possibilities for estimating its magnitude, which presupposed a fairly modern system.

It has also been necessary to initiate rationalization, standardization programs, etc. in industry in view of the greater prospective competence of these countries.

There are various elements which give impetus in this direction, one of which is the Cartagena Agreement.

The potential possibilities of the subregional market have favoured diversification and modernization of the export promotion policy. This was essential in view of the challenge to the Andean countries.

The Cartagena Agreement has helped to strengthen the role of the State in the area of basic industry. Industrial programming has been a spur in this direction.

The effects of the Agreement vary from one country to another, but in general, it may be stated that industrial policy has had to be implemented in view of the existence of a trade liberation programme and industrial programming which called for expansion in the case of certain industrial sectors and products.