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IMPACT OF LATIN AMERICAN INTEGRATION ON THE ECONOMIC DEVELOPMENT OF COLOMBIA

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INTRODUCTION

The industrialization process began in Latin America as a way to promote economic growth, and at the same time to save foreign exchange. Import substitution policies were adopted in almost every Latin American country. High tariffs and other import restrictions were adopted in order to protect the infant industries. Tax exemptions and other incentives were created in order to promote domestic and foreign investments.

The industries were oriented towards the production of commodities which were demanded by a high income class that constitutes a very small part of the population.

While the process of import substitution continued, there were increasing needs for the importation of intermediary and capital goods. On the other hand, the exporting sector continued under the traditional patterns of exporting primary products. By the mid 1950s Latin America's terms of trade and share of the world market deteriorated. Consequently, large deficits in the balance of payments and slow economic growth rates began to appear.

Under the above circumstances, the Latin American countries initiated programs of regional integration. In 1958 the Central American Isthmian countries, except

Panama, created the Central American Common Market (CACM). In 1960 the Latin American Free Trade Association (LAFTA) was founded and involves all South American countries plus Mexico.

The main objectives of the above-mentioned groups are: first, the expansion of national markets in order to achieve economies of scale and a more efficient utilization of resources; second, the promotion of competition among regional industries without exposing them to competition from industries of developed countries; and third, to reduce imports from outside the area in order to save foreign exchange.

The purpose of this paper is to analyze the effects of LAFTA on the economic growth of Colombia, based on the main objectives of LAFTA. At the same time, this paper will study the competitive situation of Colombia within the area, especially with respect to the recently created "Andean Group."

The criteria for the analysis are the following: If the LAFTA agreement has had beneficial effects on Colombia's economy, this should be reflected in (a) increased amount of exports to LAFTA countries, (b) increasing diversification of her exports, (c) increasing growth rates in the sectors of the economy, (d) balanced growth of her trade with the other countries of the region, and (e) less dependence on outside imports.

The framework of this paper is as follows:

Chapter I summarizes the evolution of international trade theories as well as the relationship between international trade and economic development. It also examines the factors which led Latin America to adopt import substitution policies and later to promote regional integration.

Chapter II presents a general description of the geographic and socio-economic conditions of Colombia. It describes and analyzes, in some detail, the agricultural, industrial and foreign sectors which are considered the most relevant for the purpose of this study. Commerce and construction, for example, are affected more indirectly than directly by the process of integration, and the measure of the effects of integration on them is outside the scope of this paper. Thus, special emphasis is placed on the analysis of the previously mentioned sectors of the economy.

Chapter III deals with LAFTA. It begins with a summary of the main provisions of the Montevideo Treaty and then examines the progress and problems of the group through the analysis of data from 1950-69. The last part of this chapter is devoted to the analysis of Colombia's trade with her main partners in the region.

Chapter IV deals with the Andean Group, created in 1969 by Bolivia, Colombia, Chile, Equador and Peru in order to speed up the process of integration which did not progress effectively under the LAFTA framework. This chapter also examines the competitive situation of Colombia within the Andean Group and describes the problems and perspectives that may be faced by this group.

Chapter V summarizes the results of the analysis made during the first chapters and provides suggestions that may help in the formulation of policies for Colombia's integrative policies.

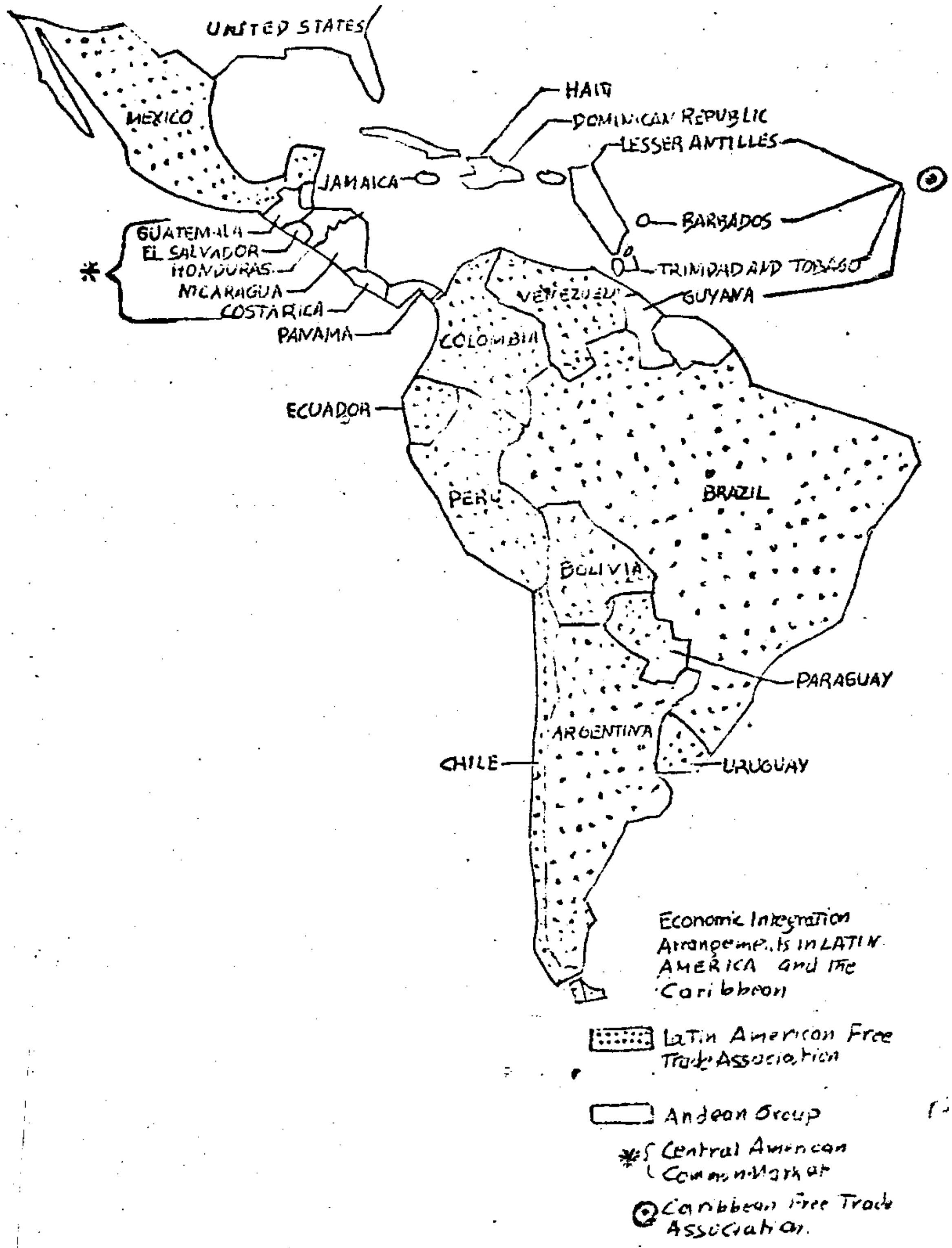

Figure 1

Economic Integration Arrangements in Latin America

CHAPTER I

International Trade and Economic Development

Theories have been developed to analyze and explain the economic activities related to economic development. Adam Smith developed the theory Division of Labor and Specialization, to explain the economic growth process.[1] According to his theory, the key to increase productivity is division of labor which leads to: (1) an increased skillfullness among workers, (2) reduction of time in producing commodities, and (3) invention of better machinery and equipment. By the use of trade, all nations will benefit by the exchange of products produced under specialization. Smith based his theory on principles of absolute advantage. Later, David Ricardo established the importance of trade on the basis of comparative advantages.[2] According to Ricardo's theory, nations specialize in the production of the commodities for which they have the larger comparative advantage, which he refers to as the less comparative cost. He assumes free mobility of commodities

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[1]Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations, ed. Edwin Cannan (New York: The Modern Library, 1937).

[2]David Ricardo, The Principles of Political Economy and Taxation (London: T. M. Dent and Sons, 1911).

between nations, no transportation costs and free mobility of factors of production within each country, but not between countries. He also developed his theory in terms of a single factor--labor, without considering qualities or degrees of effectiveness. Several years later this theory was restated by Eli F. Heckscher and Bertil Ohlin[3] in terms of factor proportions (or endowment) theory. Trade appeared as a substitute to factor movements, the tendency towards equalization of factor prices, and consequently, earnings and income.

In the middle of the 1950s, Wassily Leontief developed the model "input-output tables" to show the inter-industry flow of goods and services through the production process into the final form. By this method, he divided American exports and imports into their labor and capital components. He found that American exports embodied more labor and less capital than American imports. The results of this study were unexpected, and clearly are in discord with the factor proportions theory, since the United States is the most capital abundant country in the world. This finding came to be known as the "Leontief Scarce-Factor Paradox."[4]

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[3]Mordechai E. Kreinim, International Economics (Chicago: Harcourt, Brace, Javanovich, Inc., 1971).

[4]Ibid.

In the last twenty years economists have been trying to explain why the equalization of factor prices as a result of international trade has not occurred. Furthermore, they have been trying to explain the problems connected with the transmission of development through trade. Gunnar Myrdal pointed out that

> contrary to what the equilibrium theory of international trade would seem to suggest, the play of the market forces doesn't work towards equality in the remunerations to factors of production and, consequently, in incomes. If left to take its own course, economic development is a process of circular and cumulative causation which tends to award its favors to those which are already well endowed and even thwart the efforts of those who happen to live in regions that are lagging behind. The backsetting efforts of economic expansion in other regions dominate the more powerfully, the poorer a country is.[5]

Raul Prebish pointed out that

> it is true that the reasoning on the economic advantage of the international division of labor is theoretically sound; but it is usually forgotten that it is based upon an assumption which has been conclusively proven false by facts. According to this assumption, the benefits of technical progress tends to be distributed alike over the whole community, either by lowering of prices, or by the corresponding rising of incomes.[6]

He concludes that the enormous benefits that derive from increased productivity have not reached the "periphery" (countries outside the industrialized ones). This explains

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[5] Gunnar Myrdal, An International Economy, (New York: Harper & Brothers Pbulishers, 1956).

[6] Raul Prebish, "The Economic Development of Latin America and Its Principal Problems," Economic Bulletin for Latin America, Vol. 7, No. 1, United Nations: Economic Commission for Latin America (1962), I.

the outstanding differences between the centers (industrialized countries) and the periphery. In both levels of living and abilities to accumulate capital, the margin of savings depends primarily on increased productivity.

In summary, Myrdal and Prebish argue that the accrual of gains of trade is biased in favor of the industrialized countries, and that free trade, contrary to the classical theory, has accentuated international inequalities.

The explanation for the above-mentioned inequalities, or in other words, why larger benefits from international trade have been accrued by centers, has constituted one of the most discussed themes in the last decades.

The theory based on the deterioration of the terms of trade against the developing countries has been formulated especially by the United Nations' Economic Commission for Latin America (ECLA). According to this theory, terms of trade, the ratio of the export price index to the import price index, has been deteriorating in the past for the developing countries. Such deterioration has resulted primarily due to the following factors:

1. As world income grows, the demand for manufactured goods is increased more than the demand for primary goods.
2. Primary goods are marketed competitively, and any improvement in productivity is partially passed on to the consumer in terms of lower prices. However,

manufactured products are marketed under monopolistic practices where price rigidity is a common denominator. Improvements in productivity are translated into profits for the enterprise and higher wages for the labor force, and not in the form of lower prices (to foreign consumers).

3. The development of synthetic substitutes lowers the demand for many primary materials, and thereby depresses their prices.

ECLA adds that the sluggish demand for raw materials and food in the centers goes hand in hand with the periphery's marked propensity to import manufactured products. Thus, when demand for primary goods is increasing at a lower rate than that of incomes, the demand for manufactured imports in the developing countries is increasing at a faster rate than income.[7]

As established in the introduction, the process of industrialization through import substitution policies was intensified in the majority of Latin American countries after World War II. New manufacturing enterprises were protected by high import tariffs and other import restrictions. Tax reductions and other incentives were implemented in order to encourage investments in the new industries.

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[7] United Nations Economic Commission for Latin America, Institute of Latin American Studies, Development Problems in Latin America (Austin: The University of Texas Press, 1970), Chapter I.

Improvements in the terms of trade after World War II, plus international financing, made possible the implementation of programs in the import substitution of many non-durable consumer goods. Unfortunately, there were no policies tending to encourage the production of commodities for the export sector. The majority of the protected industries were dedicated to the manufacture of non-essential commodities to supply the demands of the high income level group, which constituted (and continues to constitute) a small percentage of the population. Due to: (a) a small market in terms of effective demand, (b) high protection which hampered competition, and (c) excessive subsidies, the new industries became inefficient in terms of high prices, under-utilization of the plant capacity, inferior quality products, lack of marketing aggressiveness, and in summary, non-competitive products for the world market.

While the process of import substitution continued, there were increasing needs for the importation of intermediary and capital goods. At the same time, the export sector which was constituted by primary products continued to produce in traditional methods. As a consequence, the balance of payments has been in constant deficit and the economies are highly dependent on the importation of intermediary and consumer goods.

Under the above-stated circumstances, the Latin American countries, by the mid-1950s, began to promote programs of integration. Using the framework of integration, the process of import substitution could continue allowing them to reduce, as much as possible, their demand for goods from outside Latin American countries, and at the same time, to promote competition and obtain gains by specialization and economies of scale.

CHAPTER II

Description of Colombia

General features. Colombia is located in the northernmost part of South America, bordered by Panama and the Atlantic Ocean to the north, Venezuela and Brazil to the east, Peru and Equador to the south, and the Pacific Ocean to the west. The area of the country is 445,000 square miles. Given her position in the tropical zone, there are no seasonal variations; however, due to her topographic structure, being crossed by the Andes, there are many sub-climates.

Population. Colombia has a population of 20,463,000 according to the United Nations estimates from 1969,[8] with a population growth of 3.2% per year.[9] Colombia's population growth rate is high in comparison with the data for Latin America, Canada and the United States which are 2.9%, 1.5%, and 1.0% respectively.[10] The distribution of

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[8]Kenneth Ruddle, Statistical Abstracts of Latin America, p. 65.

[9]Ibid., p. 85.

[10]Ibid.

population by urban-rural residents, according to the census of 1964, is 52.8% urban and 47.2% rural. The urban growth rate has a tendency to be higher than the rural. According to data of DANE (Departamento Administrativo Nacional de Estadistica-Colombia), the urban population growth rate from 1951-64 was 8.3%, while the rural growth rate during the same period was 1.5%.[11] There are 20 cities, from the estimates of 1969, with more than 100,000 people, ranging from 111,727 (Neiva) to 2,037,904 (Bogota).[12]

The structure of the economically active population is shown in Table 1.

Table 1

Economic Activity (%)	1951	1964	1967
Total	100.0	100.0	100.0
A. Agriculture	53.9	47.3	44.6
B. Non-Agriculture	46.1	52.7	55.4
1. Mining	1.6	1.6	1.4
2. Manufacturing	12.3	12.8	12.3
3. Construction	3.5	4.3	5.4
4. Utilities, transport	3.7	4.0	4.0
5. Commerce	5.4	8.6	9.0
6. Services	19.6	21.5	23.3

Source: DANE, Boletin Mensual de Estadistica, #227 (June, 1970), Table 8.8.8, p. 115.

[11]DANE, Boletin Mensual de Estadistica, #226 (May, 1970), Table 1.1.1, p. 4.

[12]Ruddle, *op. cit.*, p. 83.

From the data in Table 1 it is apparent that the agricultural sector has decreased its participation in the absorption of the economically active population. On the other hand, the mining and manufacturing sectors have maintained their positions during the analyzed period (1951-67). Commerce and services seem to be absorbing the released population by the agricultural sector, and at the same time, the new active population which is entering the labor force. The data seems to confirm the beliefs that there is large disguised unemployment in the commerce and services sectors. A more detailed analysis of unemployment will be discussed in the description of the agricultural and industrial sectors.

Education. Colombia has a literate population of 72.9% (1964) which is low in comparison with some Latin American countries such as Argentina (91.0%), Costa Rica (84.4%) and Chile (83.6%). Nevertheless, this percentage is higher than the majority of the other Latin American countries, such as Peru (61.1%), Brazil (60.5%), Guatamala (37.9%), etc.[13]

Health. There have been many improvements in the health field. The rate of mortality dropped from 14.2 per thousand in 1950 to 9.4 per thousand in 1967.[14] In spite

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[13]Ibid., p. 122.

[14]DANE, Boletin Mensual de Estadistica, #227 (June 1970), p. 1.

of this, however, health facilities and personnel are scarce, especially in the rural areas. The levels of nutrition, on the average, are under the minimum requirements, and food consumption is high in staple content and low in animal proteins.

The Economy

Economic Growth. GNP rate of growth is shown in the following table:

Table 2

Year	Rate of Growth of GNP
1960	4.3%
1961	5.1
1962	5.4
1963	3.3
1964	6.2
1965	3.6
1966	5.4
1967	4.2
1968	5.8
1969	5.5

Source: DANE, Boletin Mensual de Estadistica, #226 (May, 1970), Table 3, p. xxvi.

The average annual growth rate of the national product (GNP) over the period 1960-69 was 4.9%. Considering that Colombia's population growth rate for the period was 3.2% (1960-69), the average per capita GNP growth rate was 1.6% per year during the period. The corresponding data for the developed countries was 3.9% and for developing countries 2.8%.[15]

Structure and growth of the economy. The structure (see Tables 3 and 4) reveals a relatively low proportion of the total product generated by sectors producing goods. On the other hand, the category "other services" contributes a relatively high proportion of the total product. The explanation for this high proportion of services within the economy may be explained either as a result of high demand for services, which is doubtful given the stage of economic development of the country, or because they constitute the part of the economy which absorbs a large proportion of disguised unemployment. More details will be presented in the section on wages, employment and income distribution.

Another important factor to be pointed out is that the structure of the economy has changed very little since 1960. The agriculture-livestock sector reduced its participation in the economy from 32.5% in 1960 to 29.1% in 1968. On the other hand, the manufacturing sector increased its participation in the total output from 17.9% to 18.8%. The construction sector also increased its participation from 3.0% to 3.7%. Transportation and commerce did not

[15] AID, "Development Performance in the 1960s," Development Digest, Vol. 9, No. 2 (April, 1971), p. 94.

Table 3

Participation of the Sectors in the Gross Domestic Product
(Percentages)

Sectors / Years	1960	1961	1962	1963	1964	1965	1966	1967	1968
Agriculture-livestock	32.5	32.1	31.5	30.6	30.5	29.4	28.9	29.1	29.1
Fishing and Hunting	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Forestry	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Mining	3.[illegible]	3.4	3.2	3.5	3.6	3.7	3.4	3.3	3.0
Manufacturing	17.9	18.0	18.3	18.5	18.5	18.7	18.9	18.8	18.8
Construction	3.0	3.3	3.3	2.9	2.7	2.7	3.0	3.5	3.7
Commerce	15.4	15.4	15.4	15.4	15.6	15.8	16.1	15.6	15.8
Transportation	5.8	6.0	6.0	6.1	6.1	6.1	6.2	6.0	5.8
Other Services	21.0	21.3	21.7	22.4	22.4	23.0	22.9	23.1	23.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: DANE, Boletin Mensual de Estadistica (May, 1970), Table 1, p. xxv.

Table 4

Growth Rates of the Different Sectors
(Percentages)

Sectors Years	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Agriculture-livestock	5.0	3.9	3.2	0.5		-0.1	3.3	5.1	6.1	3.8
Fishing and Hunting	12.0	71.3	11.2	0.7	18.1	6.6	-6.4	11.5	10.0	---
Forestry	-0.9	4.5	8.1	-3.6	0.8	2.5	10.3	4.3	12.0	---
Mining	3.6	-6.5	-0.5	12.5	8.0	7.5	-3.9	1.2	-5.0	17.0
Manufacturing	6.1	5.9	6.8	4.7	5.9	4.6	6.6	3.5	6.1	5.8
Construction	-6.2	13.5	7.0	-9.2	0.1	2.3	17.6	20.7	11.4	8.0
Commerce	5.8	5.0	5.1	3.2	7.9	4.5	7.4	1.1	7.0	---
Transportation	11.0	7.5	6.8	5.1	5.1	4.5	6.5	0.1	3.0	---
Other Services	8.3	5.9	7.8	6.1	6.6	6.2	5.1	4.9	5.6	---
Total	4.3	5.1	5.4	3.3	6.2	3.6	5.4	4.2	5.8	5.5

Source: DANE, Boletin Mensual de Estadistica (May, 1970), Table 2.

change their participation in the economy during the noted period. Finally, other services increased its participation from 21% to 23%.

The agriculture-livestock sector had an average growth rate of 3.4% during the period (1960-68), slightly higher than the growth rate of the population (3.2%). The manufacturing sector had a growth rate of 5.8% over the period, and the construction sector had an average growth rate of 6.4% during the period. Other services had an average increased growth rate of 6.3%. The explanation for the differences in the growth rate of each sector will be analyzed in the context dealing with each particular sector.

Sectors producing goods.

Agriculture-livestock: As shown in the previous section, the agriculture livestock sector contributed 29% to the GNP in 1969, employed approximately half of the active population and contributed to more than 80% of the foreign exchange earnings (see foreign trade section). Coffee is the major component of the exporting sector, and it alone constitutes more than 60% of the total exports of Colombia.[16]

The average area and production of main agricultural products during 1967 to 1969 was as follows:

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[16] DANE, Boletin Mensual de Estadistica, #229 (1970), p. 101.

Table 5

Average Area and Production of Main Agricultural Products
(in thousands)

Crops	Area (Hectares)	Production (Tons)
Wheat	83.0	96.7
Corn	802.7	865.0
Rice	258.9	698.1
Barley	58.3	96.3
Cereals	1.202.9	
Potatoes	80.7	833.3
Cassava	148.7	883.3
Sweet Potatoes	12.3	143.3
Starchy Roots	241.7	
Beans	69.7	39.3
Peas	48.1	27.6
Pulses	117.8	
Sugar Cane	342.8	17.500.000
Onions	3.3	36.7
Tomatoes	3.0	47.1
Vegetables	6.3	
Bananas	58.7	76.8
Fruit	58.7	
Cotton (seed)	195.3	201.4
Sesame	16.7	11.7
Oil Seeds	212.0	
Coffee	813.5	477.1
Cocoa	NA	18.7
Tobacco	23.4	43.2
Cotton Fiber		117.2
Livestock		
Beef and Veal		419.7
Pork		80.3
Mutton and Lamb		4.0
Meat		504.0
Eggs		75.7
Milk		2.143.0

Source: United Nations, ECLA, "Agricultural Policy in the Countries Signatory to the Andean Subregional Integration Agreement," Economic Bulletin for Latin America, Vol. 16, No. 2 (New York: 1972), Table 4, p. 96.

It is apparent from the above data that the sector's productivity is very low. Furthermore, in a previous section it was shown that the participation of the agricultural sector in the economy is declining and that during the last decade the growth rate was slightly above the growth rate of the population. This has led to the slow expansion of agricultural exports and to the need for importing some foodstuffs and raw materials. This also means that the food per capita consumption continues to be low and that the food share of the budget of the consumer in the low income levels is relatively high. According to a recent study conducted by PIMUR in Colombia, it was shown that the poorest quartile of the population of Cali spent 80% of its income on food, while the second poorest quartile spent 63%.[17]

Insufficient improvements in the agricultural sector may be explained by the following factors:

(a) Over-concentration of ownership of land and agricultural income, which has contributed to the fact that a vast part of the agricultural population has a very low level of living; and under-utilization of land and labor contributing to unemployment and underemployment in the rural areas, and at the same time inducing an exodus of rural people to the cities. The lower 70% of the agricultural population has a yearly income per capita of approximately $150, most of

[17] H. M. Riley, Kelly Harrison, et al.,"Market Coordination in the Development of the Cauca Valley Region--Colombia," Research Report No. 5 (East Lansing: Michigan State University, 1970), p. 5.

which is spent on foodstuffs. Consequently, they live at subsistence levels outside of the market. The remaining part of the agricultural population receives an annual income per capita of $400 and the majority of this group is comprised of commercial farmers.[18] It must be stressed that 25%[19] of the active population is unemployed or underemployed. Probably a large part of this group is formed by rural population which has low levels of income and may find it necessary to immigrate to the cities in search of better standards of living.

The distribution of land and size of holdings is shown in Table 6. From the data in Table 6 it may be observed that 62.5% of the farm units holding less than 5 hectares occupy 4.5% of the total agricultural area of Colombia, and that .3% of the total number of farm units holding over 1,000 hectares occupy 30.5% of the agricultural land.

Some land reform programs have been established by the government in order to implement an agrarian reform, but the results have been minimal. The structure of economic and political power, and the lack of resources have only permitted small advances, without achieving structural changes. Land reform has been used as a political weapon. Delay in restructure of the land tenure system will be

[18] DANE, Boletin Mensual de Estadistica, #227 (June, 1970), p. xvii.

[19] Ibid.

Table 6

Number and Area of Agricultural Holdings

	Number		Area		Average Size
Hectares	Units	%	Thous. Hectares	%	Hectares
Total	1,209,672	100.0	27,338	100.0	22.6
Less than 1	298,071	24.6	132	0.5	0.4
1 to less than 5	458,534	37.9	1,107	4.0	2.4
5 to less than 20	283,376	23.4	2,737	10.0	9.7
20 to less than 100	126,779	10.5	5,319	19.4	41.9
100 to less than 500	36,010	3.0	6,990	25.6	194.1
500 to less than 1,000	4,141	0.3	2,731	10.0	659.5
1,000 to less than 2,500	1,975	0.2	2,808	10.3	1,421.8
2,500 and over	786	0.1	5,514	20.2	7,015.3

Source: DANE, Informe al Congreso Nacional, Reprinted in J. Kamal Dow, Colombia's Foreign Trade and Economic Integration in Latin America (University of Florida Press, 1971), Table 13, p. 28.

expensive in economic and political terms. Agrarian reform and other policies tending to have a more rational distribution of income will incorporate this large part of the population into the economic system. This will enlarge the market for the productive sectors, will promote employment, and finally, will provide a more peaceful environment. All of the above will promote a more steady and rapid economic development.

(b) In Colombia, the retailing system is constituted by a large number of small intermediaries. The combined wholesaling and retailing margins of profit are relatively low as compared to more advanced countries. Margins are low due to the low returns to labor and the small amount of services provided. Entrance to food retailing is easy, the operation size is small, and the rate of business failure is high. Modernization of the system is very slow due mainly to institutional barriers. An information system is practically nonexistent. Credit is usually not available from lending institutions. Governmental policies, such as subsidizing competition and arbitrary application of regulations discourage the private intermediaries.[20]

Lack of a well-established marketing system to coordinate production and consumption has inhibited the

[20] Riley and Harrison, op. cit., p. 352.

development of the agricultural sector. A strong fluctuation of prices, uncertainty in the market and a poor distribution system are limiting factors for the improvement of the agricultural sector. On the other hand, fragmentary and poor production, in terms of volume and quality, retard the development of an adequate marketing system. The apparent vicious cycle results in inertia in both the production and distribution systems.

Marketing improvements will cause great impacts on both consumption and production. On the consumption side, technological and institutional changes will bring about reduction in cost (by increasing productivity and gains by economies of scale) which will be transferred to the consumers in terms of lower prices, increasing the real income of the population. The increase in income would permit the expansion of consumption of foodstuffs, as well as the consumption of non-food commodities. On the production side, new demands, fair prices and less risk in the market would generate greater and better output, which would originate higher incomes to be spent on more farm inputs and manufactured products. Thus, marketing acts as a dynamic factor in the process of economic development.

(c) Traditional practices in the largest part of the agricultural sector (subsistence) have continued as a result of lack of resources, education, and technical assistance. A dual structure of production has been developed. Modern commercial farming, based on the production of one or more products for which there exist a relatively stable market and prices, has been developed. Modern technology is applied and credit and technical assistance are available. Most of these farms produce commodities for exportation, especially coffee, bananas, cotton and sugar. On the other hand, there exists the large amount of small farmers who produce mainly for self-consumption.

Manufacturing sector: The manufacturing sector accounts for approximately 19% of the total output of the economy. Its share in the GNP increased from 17.9% to 18.8% during the period of 1960-68, with an average growth rate of 5.8% over the same period. The slow and stable growth rate of the manufacturing sector may be explained by the following factors:

(a) It seems that the first stage of import substitution (non-durable consumer goods) has been completed or is being completed. Thus, the growth rate of the industry is subject to the growth of the domestic market.

(b) Chronic deficits in the balance of payments have occurred due to two main factors. First, there has been an increasing need for the importation of intermediary and capital goods that are required for the import substitution process. Secondly, the foreign exchange availability continues to depend on the exportation of raw materials, mainly agricultural products (See Colombian Foreign Trade).

In summary, it seems that the development of the industrial sector depends on the expansion of the market and the capacity of imports of the country.

The structure of the manufacturing sector is reflected in Table 7. From the data in Table 7 it may be observed that in 1968 the traditional industries (food, beverages, tobacco, textiles, clothing and wood products) accounted for 62% of the total added value of the industry. In 1967 this percentage declined to 40%. The figure for the chemical industry changed from 9% to 13%, while electrical machinery and appliances increased from 2% to 3.2%. These data suggest that a change in the structure of the industry has occurred between 1958 and 1967.

The annual cumulative growth rates of the different industrial groups during the period 1958-67 are shown in Table 8. The highest rates of growth during the period were achieved by those industries producing intermediary, durable, consumer and capital goods. The paper industry had an annual cumulative growth rate of 17.21%, metallic products 12%, electric machinery and appliances 15%, chemicals 14%. Moderate rates of growth were achieved by traditional industries such as textiles 5.12%, beverages 5.67%, food 6.97%, clothing 5.65%, and in general, those industries producing non-durable consumer goods. A negative growth rate was achieved (-0.98%) by the wood furniture industry.

The above data, plus the information concerning

Table 7

Value Added to the Final Supply by Different Groups of Industries

Industrial Group	Percentages									
	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
Food	2.16	2.08	2.13	2.25	2.44	2.46	2.58	2.62	2.66	2.62
Beverages	2.00	2.06	2.24	2.28	2.45	2.70	2.48	2.72	2.14	2.23
Tobacco	0.94	0.90	0.84	0.80	0.89	0.72	0.85	0.87	0.66	0.66
Textiles	2.23	2.27	2.36	2.25	2.39	2.66	2.24	2.38	2.07	2.15
Clothing	0.73	0.79	0.76	0.74	0.86	0.86	0.73	0.80	0.76	0.69
Wood	0.14	0.15	0.14	0.14	0.16	0.18	0.16	0.17	0.18	0.16
Wood Furniture	0.14	0.12	0.12	0.14	0.16	0.14	0.12	0.12	0.12	0.10
Paper	0.19	0.24	0.27	0.30	0.40	0.51	0.46	0.41	0.49	0.42
Printing	0.40	0.39	0.43	0.47	0.51	0.50	0.48	0.47	0.47	0.51
Leather Products	0.20	0.22	0.22	0.21	0.23	0.21	0.18	0.22	0.20	0.18
Rubber Products	0.32	0.34	0.37	0.42	0.52	0.60	0.45	0.47	0.43	0.41
Chemicals	1.21	1.37	1.53	1.56	1.69	1.78	1.74	1.91	2.03	2.20
Petroleum	0.45	0.62	0.53	0.52	0.56	0.52	0.48	0.40	0.46	0.61
Non-metallic Minerals	0.75	0.88	0.87	0.93	0.97	1.09	0.97	1.05	1.05	0.91
Basic Metals	0.30	0.37	0.51	0.61	0.30	0.48	0.40	0.24	0.26	0.35
Metallic Products (Except Machinery and Transportation Equipment)	0.38	0.47	0.53	0.61	0.74	0.79	0.74	0.84	0.79	0.75
Non-electric Machinery	0.11	0.12	0.13	0.16	0.21	0.20	0.21	0.21	0.20	0.20
Electric Machinery and Appliances	0.27	0.30	0.36	0.42	0.50	0.57	0.51	0.61	0.61	0.53
Transportation Machinery	0.32	0.36	0.38	0.37	0.41	0.45	0.42	0.40	0.33	0.43
Other Manufacturing	0.26	0.28	0.30	0.35	0.39	0.41	0.38	0.46	0.41	0.44

Source: DANE, Boletin Mensual de Estadistica, #224 (March, 1970), Table 8.6, p. 135.

Table 8

Annual Cumulative Growth Rate of Different Industrial Groups

Industrial Group	Annual Cumulative Growth Rate %
Food	6.97
Beverages	5.67
Tobacco	-0.19
Textiles	6.67
Clothing	5.12
Wood	5.65
Wood Furniture	-0.98
Paper	17.21
Printing	10.90
Leather Products	1.07
Rubber Products	11.28
Chemicals	14.12
Petroleum	11.10
Non-metallic Minerals	7.17
Basic Metals	8.17
Metallic Products (Except Machinery and Transportation Equipment	12.02
Non-electric Machinery	9.86
Electric Machinery and Appliances	15.14
Transportation Machinery	9.11
Other Machinery	12.77

Source: DANE, Boletin Mensual de Estadistica, #224 (March, 1970), Table 8.11, p. 140.

the proportion of foreign inputs in the manufacturing of different products, suggests that the first stage of import substitution is completed and the country is moving into the second stage, intermediary and capital goods.

An idea of the dependence of the importation of intermediary products by groups of industries is given in Table 9. The share of imported inputs in the production of the different industrial products declined in all of the products. In the period analyzed (1958-67), the decline for food was from 10.2% to 7.9%, for beverages from 10.4% to 3.7%, for textiles from 19.7% to 5.9%, and for electrical machinery and appliances from 44.3% to 27.6%. It may be concluded that the percentage of imported inputs in the production of traditional products is very small. However, even though there has been a decline of such imports for intermediary and capital goods production, the percentage continues to be high, and consequently, the development of these industries depends on the import capacity of the country. It is obvious that a more advanced industry requires high technology which comes from developed countries. The increasing needs for the importation of capital goods depends on the import capacity of the country.

Productivity and competitiveness of Colombian industry. The situation of Colombia's industry is the same as that which was described in Chapter I of this paper. Although Colombia's industrial products, in general, are

Table 9

Percentage of Foreign Inputs Used in Production

Year	Food	Beverages	Textiles	Clothing	Paper	Chemicals	Petroleum	Non-metallic Minerals	Basic Metals	Metallic Products (Exc. Machinery & Transport. Equip't)	Electric Machinery and Appliances	Total
1958	10.2	10.4	19.7	4.2	39.4	32.0	2.2	8.9	9.4	37.4	44.3	16.0
1960	9.5	5.3	10.7	2.3	32.6	26.9	4.1	8.9	7.9	29.2	45.4	13.6
1961	9.2	3.9	10.2	2.0	30.6	25.9	6.1	8.4	6.8	27.6	42.3	13.2
1962	8.7	2.7	8.1	1.7	24.1	25.2	5.6	8.3	6.8	26.4	38.0	12.5
1964	7.9	2.6	8.1	1.2	15.0	25.3	3.0	6.1	13.1	22.4	29.6	11.5
1965	7.4	2.8	6.4	1.0	16.3	26.1	2.6	6.6	15.1	20.3	27.7	11.2
1966	9.1	5.8	7.8	0.8	19.1	29.5	3.7	8.0	20.6	25.2	27.1	13.7
1967	7.9	3.7	5.9	0.6	18.1	28.3	4.9	7.5	9.1	22.3	27.6	12.2

Source: DANE, Boletin Mensual de Estadistica, #224, (March, 1970), Table 2.1.2, p. 23.

not competitive in the world market, there has been increasing demand for some of her products in some Latin American countries. However, increasing volume of exports of some manufactured products to Colombia's neighboring countries in Latin America (see intra-regional LAFTA trade) implies that some products are competitive in those countries. These Latin American countries have adopted similar policies in the import substitution process, and it seems that their economic structure and market conditions are similar to those prevailing in Colombia.

Foreign Trade

In this section only the general features of the foreign trade of the country will be analyzed. Major emphasis must be placed on the analysis of the dynamic effects of trade between Colombia and those countries which permit the expansion of the market for her industrial manufactured products.

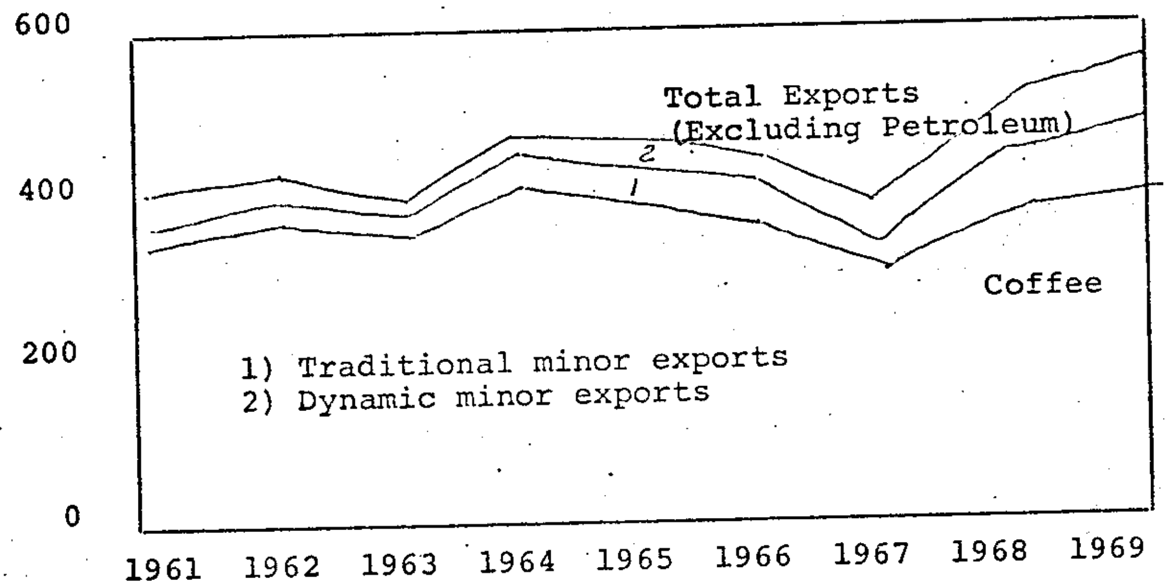
Exports, volume and composition. Table 10 and Figure 2 show the volume and composition of Colombian exports. Coffee carried remarkable weight in the total exports of the country during the period of 1958-69. It accounted for more than 80% of the total exports in the beginning of the sixties and 65% at the end of the decade. Furthermore, a high percentage of the remaining exports were constituted by other agricultural products: bananas, cotton,

Table 10

Value of Main Exports (Except Petroleum)
(thousands of dollars)

Year	Total	Coffee	Bananas	Cotton	Sugar	Livestock	Tobacco	Cement	Leather Products	Other Products
1958	394.144	354.514	15.496	2	2	33	1.982	1.209	918	19.992
1959	399.712	361.246	13.876	6	2	91	1.995	2.210	802	19.486
1960	384.580	332.249	13.687	12.587	9	107	2.376	2.000	268	21.297
1961	366.228	307.827	14.055	10.128	5.207	99	4.044	2.407	661	21.800
1962	402.819	332.020	10.644	15.638	7.382	244	5.690	1.997	1.774	27.430
1963	369.459	303.006	13.257	9.346	5.480	269	7.167	1.559	2.003	27.372
1964	473.174	394.228	12.406	6.277	3.271	430	9.437	2.315	3.330	41.510
1965	450.975	343.901	18.620	8.040	7.597	6.466	7.205	2.221	4.755	52.170
1966	472.016	328.266	19.998	2.176	8.257	6.104	5.551	2.125	3.844	60.737
1967	448.711	322.372	25.003	15.355	11.256	1.557	4.390	2.665	3.639	62.474
1968	522.045	351.441	24.692	27.839	14.906	1.689	4.903	3.808	6.311	86.456
1969	550.834	343.715	19.125	31.786	14.749	6.873	7.256	3.117	7.203	117.010

Source: DANE, Boletin Mensual de Estadistica, #229 (August, 1970), Table 6.2.1, p. 101.



(1) Including bananas, cotton, sugar, tobacco, and shrimp.

(2) Other exports (except petroleum).

Figure 2

Value of Main Exports (Excluding Petroleum)
(thousands of dollars)

Source: DANE, Boletin Mensual de Estadistica, #229 (August, 1970), Table 6.2.1, p. 101.

sugar and tobacco. This fact explains the irregular trend of the exports, caused by strong price flucutations of the agricultural products in the world market. Colombia loses approximately 8 million dollars for each penny fall in the price of coffee.[21] The volume of total exports had an annual average increase of 3.3%. From 1964-67 there was a steady decline of the total value of exports. After this period it seems that the export sector had recuperated, in part due to an increasing volume of traditional minor exports (bananas, cotton, tobacco and shrimp) as well as non-traditional exports (other exports excluding petroleum). It seems that the price of coffee improved in the late sixties.

In the late 1950s the government began to establish programs in order to promote greater diversification of exports. Tax incentives and financial aids were given to the private sector involved in the production of export products. It seems that successful results have been achieved with such programs. Figure 3 shows the differences in growth of the three groups of export products. The index number of coffee exports was very close to 100 during the whole period (1960-69). On the other hand, the index number for minor exports was steadily increasing, and reached 522 in 1969. The annual average growth rate was 38%. In comparison, the figure for the growth rate for total exports of the country was 3.3%, and for coffee was almost nil.

It is important to point out that some of the

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[21] Ibid.

dynamic minor exports are constituted by manufactured products, such as textiles, cement, electric machinery and appliances.

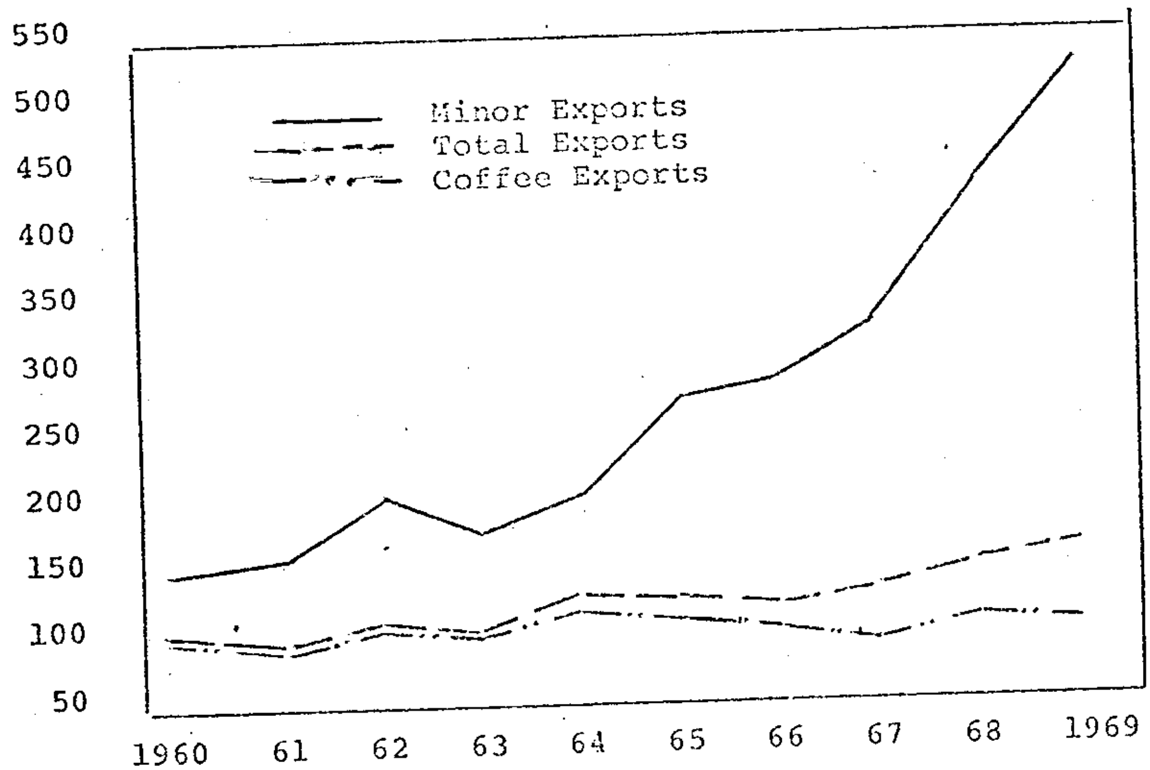

Figure 3

Export Index (Base 1958 = 100)

Source: DANE, Boletin Mensual de Estadistica, #228 (July, 1970), Graph 8.1.1A, p. 112.

Terms of trade

In 1958 Colombia exported 1.3 million tons of physical products, 1.7 million tons in 1964, and 3.7 million tons in 1969. The imports in million tons were 1.03 in 1958, 1.5 in 1964 and 1.7 in 1969. This means that Colombia has had to increase her physical volume of exports almost three

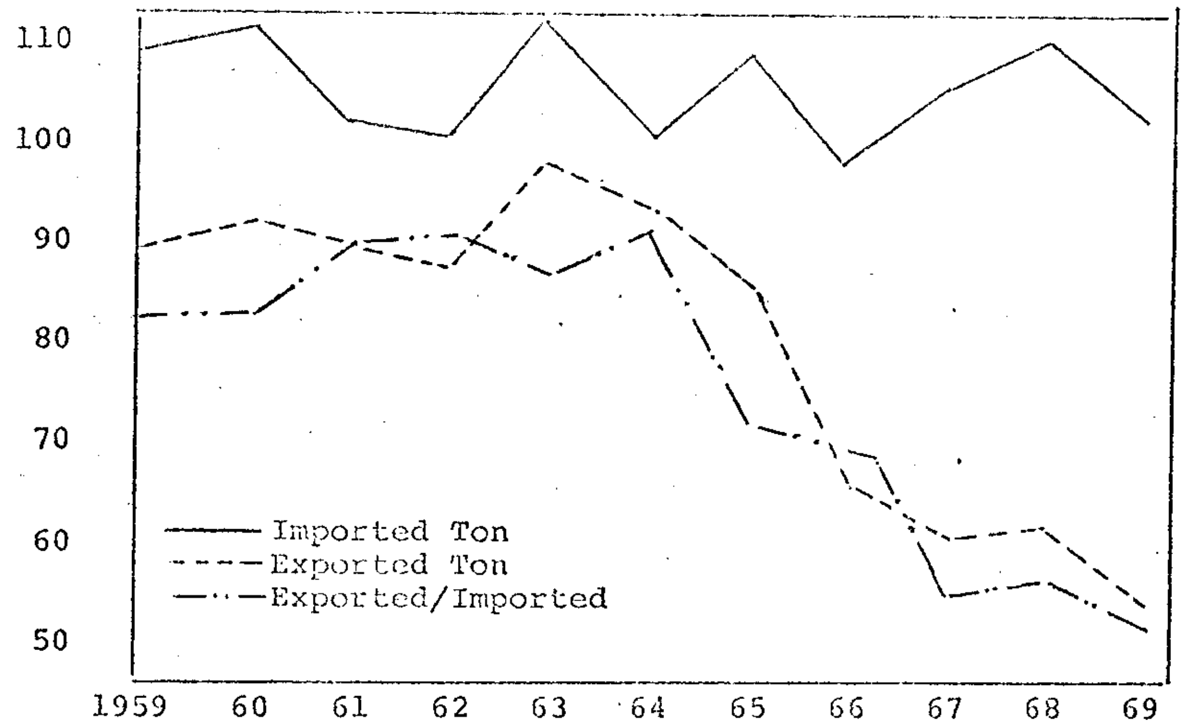

Figure 4

Value Index for Imported and Exported Tons
(Base 1958 = 100)

Source: DANE, Boletin Mensual de Estadistica, #228 (July, 1970), Graph 8.1.4A, p. 115.

times in order to maintain more or less the same level of foreign exchange earnings.

The index for the value of exported tons (base 1958) declined from 90 by the beginning of the 60s to 55 by 1969. The index for the value of imported tons has been above 100 during all the period except for 1961 and 1966 (range between 96 and 112).

The direction of the terms of trade have been declining for Colombia and it seems that the trend will continue to be downward in the future.

Destination of exports: The geographic destination of Colombian exports is shown in Table 11. The main market for Colombian exports is the United States, even though its participation has declined from 65% in 1960 to 38% in 1969. The second main market is the European Economic Community whose share had been increasing from 18% in 1960 to 24% in 1966-68 and 23% in 1969. Two other important changes have occurred in the last decade. First, the increasing importance of the Eastern European countries (included in "rest of the world") who have increased their importation of Colombian products from 8.4% in 1960 to 20% in 1969. Secondly, the increasing importance of LAFTA, whose participation changed from 1.6% to 9.0% during the period noted. Further analysis of LAFTA will deal with product composition and country of destination.

Imports, volume and composition. The variability of the total value of Colombian exports was previously discussed. Furthermore, the international financing funds have also been variable during the different years. This explains the varying trends of the Colombian imports. Table 12 shows the volume and composition of Colombian imports during the period 1958-68.

The importation of consumer goods was approximately 6% of the total imports of the country during the period 1958-68. The importation of this group of products was characterized by the wide fluctuations from year to year.

Table 11

Geographic Destination of Exports, 1960-69
(Percentages)

Economic Area	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
United States	65.4	62.9	59.3	56.4	56.4	54.0	47.6	43.4	36.2	38.0
European Economic Community	18.2	19.0	19.9	21.2	23.1	24.2	24.2	24.4	24.4	23.0
European Free Trade Assoc.	6.3	7.6	7.9	7.4	7.6	7.7	7.5	8.9	9.2	8.6
Latin American Free Trade Association	1.6	2.0	2.1	1.8	2.7	4.2	7.3	4.5	6.1	9.0
Central American Common Market	.1	.4	.4	.8	.9	1.4	.9	.7	.7	.8
Rest of the World	8.4	8.1	10.4	12.4	11.7	14.9	16.9	18.7	23.4	20.6

Source: DANE, Boletin Mensual de Estadistica, #229 (August, 1970), Table 6.2.3, p. 102.

Table 12

Import Composition (CIF Value)

Year	Import Total	Consumer Goods	Intermediary Products	Capital Goods	Other Products
1958	399.932	21.599	173.056	82.805	122.472
1959	415.588	27.160	207.034	114.860	66.534
1960	518.585	37.850	233.604	169.946	77.185
1961	557.129	59.971	250.153	161.319	85.686
1962	540.351	32.751	260.516	166.232	80.852
1963	506.023	28.075	258.505	157.432	62.011
1964	586.291	26.522	303.915	195.804	60.050
1965	453.502	21.032	182.315	177.164	72.991
1966	674.146	47.359	350.097	207.932	68.758
1967	496.862	35.376	219.956	186.540	54.990
1968	643.260	32.213	231.500	233.723	145.823
1969	686.047	70.758	301.941	305.600	7.748

Source: DANE, Boletin Mensual de Estadistica, #229 (August, 1970), Table 6.3.1, p. 103.

Intermediary goods constituted approximately 45% of the total imports, and this group had less variation than the imports of consumer and capital goods. This may be explained in terms of the inflexibility of such imports for the normal development of the industry. The capital goods constituted approximately 32% of the total imports.

Considering that more than 80% of the available foreign exchange is spent in the importing of intermediary and capital goods, there is little flexibility in the importing sector of Colombia. This emphasizes the importance of the exporting sector which must provide the foreign exchange necessary to maintain and increase the import capacity indispensible for the development of the industrial sector, and consequently, the economic development of the country.

Origin of imports: The volume and geographical origin of Colombian imports is shown in Table 13. These data suggest that the U. S. continues to be the main supplier of imports to Colombia. Contrary to the trends observed for the U. S. share of Colombian exports, the trend for imports is increasing. This is probably due to financial arrangements between Colombia and the U. S. Imports from the EEC appear very irregular. Imports from the CAM are declining. Eastern Europe is increasing in importance as a supplier of Colombia as are Japan and LAFTA. The imports from LAFTA have been steadily increasing from 10.5 million dollars in 1958 to 74.3 million dollars in 1969. More detail on this will be found in Chapters III and IV.

Table 13

Geographic Origin of Imports, 1960-1969
(Percentages)

Economic Area	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
United States	57.1	51.6	52.4	51.9	48.3	47.8	48.0	45.0	45.0	45.5
European Economic Community	18.9	20.9	19.4	18.2	18.4	17.1	18.6	16.0	14.6	14.9
European Free Trade Association	11.1	12.3	12.3	10.9	11.3	10.0	10.0	12.0	9.1	9.3
Latin American Free Trade Association	1.6	2.2	2.6	4.5	6.0	8.7	8.6	7.7	7.5	10.8
Central American Common Market	.3	.2	.4	.1	.1	.1	.1	2.6	.8	2.5
Rest of the World	11.0	12.8	12.9	14.9	15.9	16.3	14.7	14.7	25.0	17.0

Source: DANE, Boletín Mensual de Estadistica, #229 (August, 1970), Table 6.2.3, p. 102.

CHAPTER III

Latin American Free Trade Association (LAFTA)

After many attempts to create a union among Latin American countries, on February 18, 1960 a treaty creating the Latin American Free Trade Association was signed by the following countries: Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay. The treaty is considered as an instrument which directs the liberalization of trade between parties with the ultimate goal of establishing a Latin American Common Market. In 1961 Colombia and Equador joined LAFTA, followed by Bolivia in 1967 and Venezuela in 1968. All Latin American nations can become members of the "area" upon acceptance of the provisions of the treaty. The major objective of LAFTA is to create a common market in order to foster the complementary diversification and integration of the economies of all Latin American nations.

The liberalization process stipulates the elimination of custom duties and charges on all imports of goods originating in the territory of the contracting parties, within a period of 12 years from the date of entry into the association. Some of the instruments established to achieve the main goals are:[22]

1. A general liberalization program, consisting of two schedules. The first, the "National Schedule," should be conducted in order to reduce duties and charges by no less than 8% per annum of the weighted average applicable to countries outside of the area (current tariffs). The second, the "Common Schedule," should include products whose tariffs would be eliminated over a period of 12 years. This schedule should represent 25% of the value of trade between parties by the end of the third year, 50% by the end of the sixth, 75% of value by the end of the ninth, and essentially all the trade between parties at the end of the twelfth year. The concession of the National Schedule may be withdrawn by negotiation and on the basis of adequate compensations, but the concessions given in the Common Schedule are irrevocable.

One of the biggest difficulties of LAFTA has been the accomplishment of the above schedules, especially for new industrial products due to the large differences in custom duties and charges in the various countries. Complaints about over-valued and under-valued currencies have been made, as well as differences in the development of the different countries. It is important to stress that the negotiations have been made on a product-by-product basis

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[22]Asociacion Latino Americana, ALALC, Tratado de Montevideo, Resoluciones de la Conferencia, Montevideo, 1963.

rather than automatic and linear settlement.

2. A special regime for less developed countries. This regime lends special attention to countries which are considered less developed within the association in order to protect the balance of payments and products considered essential to the development of those less developed nations.

3. Complementary and reciprocity agreements. This mechanism was established in order to promote closer coordination between two or more countries in their industrial policies.

4. Coordination and harmonization policies. These were established to coordinate and harmonize policies of industrial and agricultural development, and policies concerning goods, services and capital imports. Special treatment is given to the agricultural sector in order to obtain diversification, complementarity and the best utilization of natural resources. When the domestic output of one of the parties is inadequate to meet the requirements, other LAFTA members are to give priority in furnishing the necessary supplies according to competitive conditions within the area.

International Trade

In this section, given the difficulty of finding specific data on international trade for LAFTA countries, it will be necessary to use data for all of Latin America. Nevertheless, LAFTA countries contribute to more than 70%

of the international trade of Latin America and the trade of the remaining countries is similar to that of LAFTA. Thus the analysis of the data given in this section will be a good indicator for LAFTA international trade trends.

Latin American countries continue to be net exporters of primary goods and importers of manufactured goods. The growth rate of Latin American exports during the period 1950-69 was lower than that of developed countries, as well as that for other developing countries. Table 14 shows the annual cumulative rates of growth for different export regions of the world.

Table 14

World Exports--Annual Cumulative Rate of Growth of Exports of Some Regions

Region	1950-60	1960-68	1969
World	7.6	8.1	13.9
Developed Countries	8.7	8.8	15.8
Developing Countries	3.5	6.0	9.2
Latin America	2.3	4.5	7.5

Source: ECLA, Estudio Economico de America Latina, (1969), Table 8, p. 58.

The above differences in growth rates of exports in part shows the declining share of Latin America in world exports. The Latin American share declined from 11.1%

in 1950 to 4.8% in 1969 (see Table 15).

Table 15

World Exports by Region

Region	1950	1960	1965	1968	1969
World Total	100.0	100.0	100.0	100.0	100.0
Developed Countries	60.4	66.8	68.8	70.2	71.3
Developing Countries	31.6	21.4	19.5	18.5	17.7
Planned Economies	8.0	11.8	11.7	11.3	10.8
United States	16.5	16.0	14.6	14.3	13.8
Latin America	11.1	6.7	5.9	5.1	4.8

Source: United Nations, ECLA, Estudio Economico de America Latina (1969), Table 9, p. 59.

The following factors may explain Latin America's declining share of world exports:

(a) The elasticity of demand for primary goods is low when compared with that for manufactured products. The share of primary products in world exports declined from 50% in 1955 to 35.4% in 1968, while the share for manufactured products increased from 49.0% to 62.8% during the same period (see Table 16).

(b) The substitution for primary products for synthetics; the participation of chemicals and machinery in the total world exports increased from 23.1% to 33.3% (1955-68). The figure corresponding to primary products declined from 18.7% to

11.5% (see Table 16).

(c) The low growth rate of Latin America's physical volume of exports in comparison to developed and other developing countries.

(d) The effects of restrictive measures and discriminatory policies in international trade, both domestic and international, are apparent.

Table 16

Trends and Structure of World Trade

Groups of Goods	1955	1960	1968	Annual Cumulative Rates 1955-60	Annual Cumulative Rates 1960-68
Food (0 and 1)					
Mill. dollars	18,400	22,310	34,200		
Percentage	19.7	17.4	14.3	3.9	5.5
Raw Materials (2 & 4)					
Mill. dollars	17,480	21,320	27,330		
Percentage	18.7	16.7	11.5	4.1	3.2
Petroleum (3)					
Mill. dollars	10,270	12,640	22,950		
Percentage	11.0	9.9	9.6	4.3	7.6
Machinery (7)					
Mill. dollars	16,920	27,770	65,530		
Percentage	18.1	21.7	27.2	10.4	11.2
Other Manufacturing (6 & 8)					
Mill. dollars	24,200	34,860	68,120		
Percentage	25.9	27.3	28.5	7.6	8.7
Chemical Products					
Mill. dollars	4,270	7,520	17,030		
Percentage	5.0	5.9	7.1	9.8	10.7
Total (mill. dollars)	93,540	127,870	238,680		

Source: ECLA, Estudio Economico de America Latina (1969), Table 10, p. 60.

Terms of Trade

The Latin American terms of trade have continually been deteriorating since the middle of the 1950s, and the likelihood for improvement seems grim. Figure 5 shows the terms of trade for developing countries which in general are exporters of primary products and importers of capital and intermediary goods; thus it may be used as a good indicator for Latin America.

Export Composition

Latin American exports continue to be constituted mainly by primary products. In 1968,83% of total exports were constituted by food, raw materials, and petroleum, while only 17% were constituted by manufactured products. Among the manufactured products there were some metals that contained only a small amount of added value by the industry. If the percentage corresponding to those metals is subtracted from the total percentage of manufactured products it will change the participation of manufactured products to only 7%. Thus Latin America, even with her industrialization process, continues to be a net exporter of raw materials.

Import Composition

Latin American imports of manufactured products increased from 67-75% during the period 1955-68. The

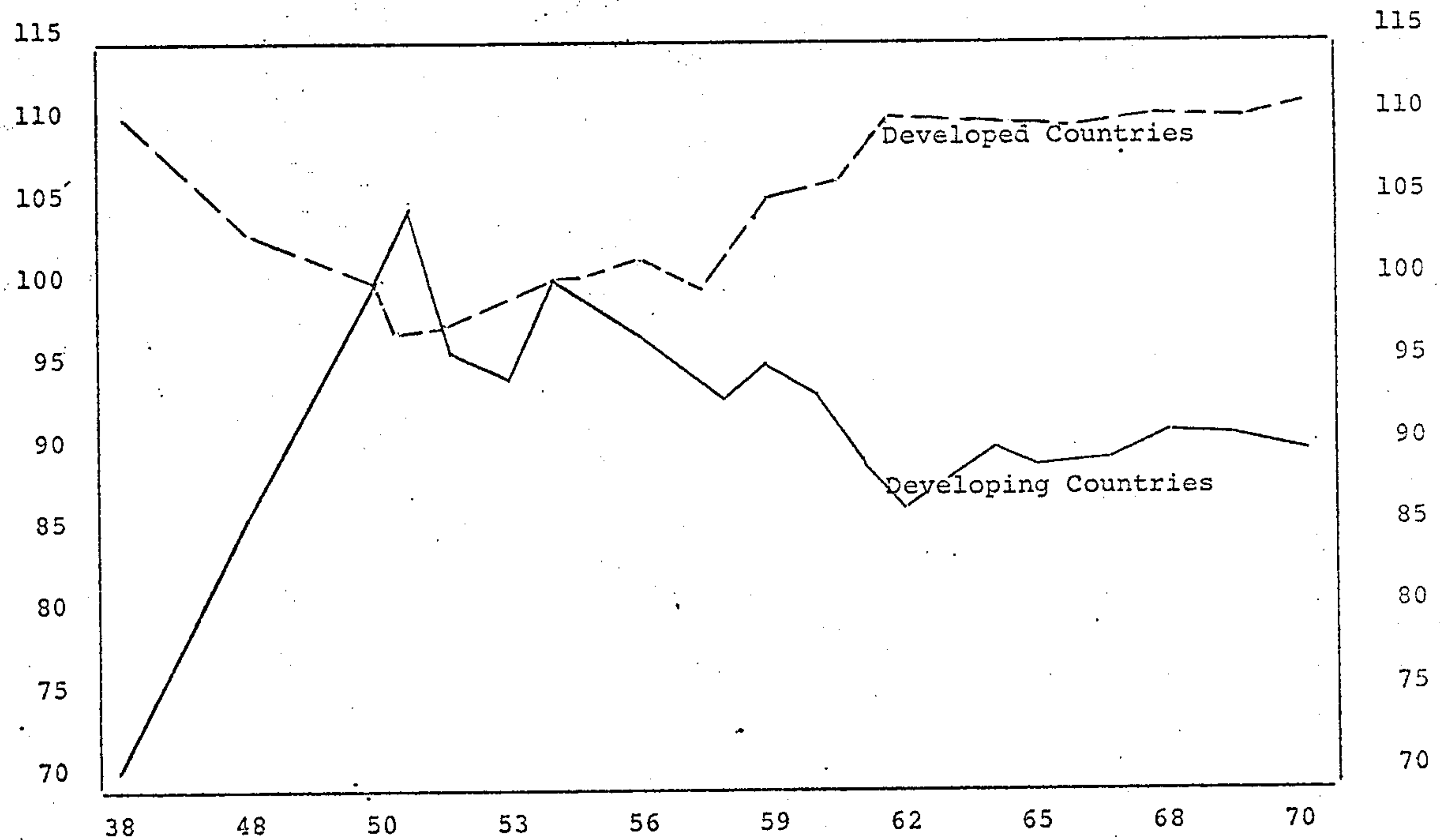

Figure 5

Terms of Trade 1938-1970

Source: IBRD, Trends on Developing Countries (1971), Chart 5.4.

corresponding increase for chemicals was 9-12%, and machinery 31-41%. This may be explained by the import substitution process employed in all Latin American countries.

Intra-regional Trade (LAFTA)

It was explained at the beginning of this chapter that LAFTA created two schedules for the trade liberalization program. Given the product-by-product character of the negotiation, the expansion has been slow. Table 17 shows the LAFTA tariff concessions from 1962-68. At the end of this period there had been 10,382 tariff concessions between the parties, but a detailed analysis of such concessions reveals that most of them are given to products which are not produced in the granting countries.[23] The liberalization of industrial products is virtually at a standstill.

Intra-LAFTA Trade

Although there were imperfections in the Montevedio Treaty, Intra-LAFTA trade showed large increases during the period 1961-68. Intra-regional trade increased from 637 to 1,971 million dollars, which corresponds to an increase of 210% (see Tables 18 and 19). Exports increased from 278 to 747 million dollars, which corresponds to an increase

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[23]Nino Maritano, A Latin American Economic Community London: University of Notre Dame Press, 1970), p. 109.

Table 17

LAFTA Tariff Concessions

Country	1962	%	1963	%	1964	%	1965	%	1966	%	1967	%	1968	%
Argentina	414	12.7	1,072	14.1	1,280	15.5	1,363	16.1	1,537	17.0	1,621	17.3	1,717	16.5
Bolivia	---	----	-----	----	-----	----	-----	----	-----	----	-----	----	178	1.7
Brazil	619	19.0	1,250	16.5	1,312	15.9	1,352	16.0	1,511	16.7	1,603	17.1	1,710	16.5
Colombia	268	8.3	619	8.1	704	8.5	714	8.4	745	8.2	751	8.0	766	7.4
Chile	343	10.6	833	11.0	864	10.5	872	10.3	894	9.9	917	9.7	959	9.2
Ecuador	---	----	1,714	22.6	1,677	20.3	1,680	19.8	1,685	18.6	1,689	18.0	1,697	16.4
Mexico	288	8.9	607	8.0	727	8.8	802	9.5	937	10.4	1,030	11.0	1,090	10.5
Paraguay	520	16.0	589	7.8	665	8.1	663	7.8	677	7.5	691	7.3	691	6.7
Peru	227	7.0	299	3.9	355	4.3	364	4.3	392	4.3	402	4.3	424	4.1
Uruguay	567	17.5	610	8.0	664	8.1	664	7.8	676	7.4	689	7.3	716	6.9
Venezuela	---	----	-----	----	-----	----	-----	----	-----	----	-----	----	434	4.2
Total	3,246	----	7,593	----	8,248	----	8,474	----	9,054	----	9,393	----	10,382	----

Source: Nino Maritano, A Latin American Economic Community (London: University of Notre Dame Press, 1970), p. 110.

Table 18

LAFTA: Exports FOB to Other Member Countries*
In Millions U. S. Dollars

Country	1961	1962	1963	1964	1965	1966	1967	1968	Percentage Increase in Exports 1961-68
Argentina	100	141	185	218	231	242	271	318	218
Brazil	95	76	76	133	197	181	154	196	95
Chile	35	39	49	54	53	53	77	86	147
Colombia	6	7	6	11	17	29	18	25	314
Ecuador	7	6	8	16	17	12	14	19	153
Mexico	8	17	26	34	36	56	47	50	533
Paraguay	10	11	11	15	17	20	15	16	61
Peru	31	49	49	64	54	52	34	43	36
Uruguay	6	8	15	15	16	26	17	4	-20

*Excluding Venezuela and Bolivia.

Source: ALALC, Síntesis Mensual, Montevideo, Several Issues.

Table 19

LAFTA: Imports CIF From Other Member Countries*
In Millions U. S. Dollars

Country	1961	1962	1963	1964	1965	1966	1967	1968	Percentage Increase in Imports 1961-68
Argentina	126	103	102	171	256	226	212	239	90
Brazil	45	129	164	168	190	167	171	210	364
Chile	94	80	120	129	122	150	113	147	56
Colombia	10	12	21	33	38	56	31	36	256
Ecuador	4	4	5	8	9	81	12	17	314
Mexico	4	6	11	17	30	33	38	41	900
Paraguay	10	6	8	12	11	14	16	17	73
Peru	32	45	62	59	81	91	93	98	208
Uruguay	34	34	32	49	32	46	44	19	-42

*Excluding Venezuela and Bolivia.

Source: ALALC, Sintèsis Mensual, Montevideo, Several Issues.

of 168%. Table 18 shows the volume of exports of each LAFTA country to other members during the period under consideration. Data in Table 18 show that Mexico increased her exports by 533% in a relatively steady manner; the same was observed in the case of Colombia, whose exports increased by 353%. It must be noted that both Colombia and Mexico had a relatively low level of exports at the beginning of the period. Argentina increased her exports from 100 to 318 million dollars; Brazil's increase was from 95 to 186 million dollars. Peru, Paraguay, and Uruguay showed relatively low increases in their exports, and at the same time showed greater variations from year to year than those observed in the former countries. Finally, Equador increased her exports by 314%.

The import behavior is somewhat different than that observed in exports. Argentina showed a relatively low increase in imports (90%); this is reflected in her surplus trade (see Tables 19 and 20). Mexico had the largest increase of imports from the area (900%). However, given her relatively low level of imports, her trade balance showed surpluses during the whole period. Brazil showed a deficit in the total balance, although small in comparison with Peru and Chile. Colombia increased her imports; even though they are lower than exports, her trade balance showed deficits during the whole period (see Table 20).

Table 20

LAFTA Countries: Trade Balance with Rest of Area*
In Millions U. S. Dollars

Country	1961	1962	1963	1964	1965	1966	1967	1968	Total Balance 1961-68
Argentina	-26.0	38.2	83.4	47.6	-24.6	+16.0	+59.4	+79.0	+273.0
Brazil	50.0	-52.8	-87.9	-35.2	7.0	+14.5	-17.4	-24.0	-145.8
Chile	-59.7	-41.1	-70.7	-74.4	-68.4	-87.2	-65.7	+ 9.0	-529.5
Colombia	- 4.1	- 5.2	-15.3	-22.2	-21.7	-26.9	-13.1	-61.7	-119.3
Ecuador	3.4	2.2	2.8	5.3	8.4	+ 4.2	+ 2.4	-11.1	+ 23.7
Mexico	3.8	10.6	15.1	16.7	6.6	+23.0	+ 9.5	-55.0	+ 30.3
Paraguay	0.1	4.9	2.3	3.2	6.1	+ 5.7	- 0.9	-15.2	- 18.1
Peru	- 0.3	3.6	-12.9	4.9	-26.9	-39.2	-59.2	+ 2.0	-183.2
Uruguay	-28.7	-26.0	-16.8	-34.3	-16.5	-19.2	-27.1	- 1.0	-182.8

*Excluding Venezuela and Bolivia.

Source: ALALC, Sintesis Mensual, Montevideo, Several Issues.

This is due to the high levels of imports during the whole period. Chile increased her imports by the same percentage as her exports (147%). Due to her high levels of imports, her trade balance showed large deficits throughout the period. Peru also showed approximately the same increase in imports as in exports. However, her trade balance was variable from year to year. This may be explained in terms of more flexibility to adjust imports to the level of exports than was seen in the cases of Colombia and Chile. Equador showed a low increase in imports in contrast to increased exports. Thus, her trade balance was positive during the period, except for 1968.

Table 20 shows the trade balance of each country with the rest of the area. Argentina and Mexico showed a surplus in the total trade balance from 1961-68. This may be explained in terms of their more advanced industries, which provide them with a more diversified export mix, and at the same time make them less dependent on food and intermediary imports from the area. Brazil, which also belongs to the "more developed"[24] sub-group (Argentina, Brazil and Mexico) showed a trade deficit in the period. However, in three of the seven analyzed years surpluses were shown in her balance of trade.

The LAFTA sub-region classified as "insufficient

[24]LAFTA classifications: "more developed," "insufficient markets," and "relatively less developed."

markets," (Chile, Colombia, Peru and Uruguay) showed the highest deficits for the balance of trade. The figures in million dollars were -529.5 for Chile, -119.3 for Colombia, -183.2 for Peru and -182.8 for Uruguay. Given their insufficient markets, these countries do not have a well developed industry capable of competing in the area with products of the "more developed" countries in LAFTA. Their dependence on intermediary and food imports may be very high in comparison with Argentina, Brazil and Mexico.

The "relatively less developed" countries, Equador and Paraguay, showed the following results: Equador had surplus trade during the whole period, except for 1968. Her total balance was +23.7. Paraguay had surplus trade during the first five years and deficits in the last two years. Her total trade balance was -18.1. This may be explained in terms of their flexibility to match level of imports and exports. Their imports consist chiefly of consumer goods and their import mix does not have the rigidity seen in the "insufficient market" group.

Trade Composition

Export composition is not encouraging (see Table 21). In 1963 the participation of manufactured products (data for intra-Latin America) was as follows: food, raw materials and petroleum accounted for 89.5%, while chemicals, machinery and other manufactured products accounted for 10.5%. In 1967 the former products accounted for 61.6%, while the figure for the latter products was 38.4%. If one subtracts the figure for non-metallic products (which have very little added value) the percentage of manufactured products in the total trade is very low.

Table 21

Intra-Latin American Trade Composition
(Percentage)

Year	Total	Food and Beverages	Raw Materials	Petroleum	Chemicals	Machinery and Transportation Equipment	Other Manufactures
1960	100	38.0	13.5	38.0	2.2	8.9	7.4
1965	100	33.5	16.2	19.5	5.8	4.6	20.4
1968	100	30.4	15.2	16.0	7.5	6.0	22.9

Source: ECLA, Estudio Economico de America Latina (1969), Table 34, p. 94.

Trade Concentration of Intra-LAFTA Trade

Table 22 shows the concentration of intra-LAFTA trade. It shows that Argentina and Brazil account for 67.5% of total exports; the figure for imports was 54.5%. If the data for Chile are added, the concentration of exports and imports for the three countries would be 79.0% and 72.4% respectively.

Table 22

Trade Concentration in LAFTA, 1968*
(Percentages)

Country	Exports	Imports
Argentina	42.5	29.0
Brazil	25.0	25.5
Chile	11.5	17.9
Colombia	3.3	4.4
Equador	2.5	2.0
Mexico	6.7	5.0
Paraguay	2.2	2.0
Peru	5.8	11.9
Uruguay	0.5	2.3
Total	100.0	100.0

*Excluding Venezuela and Bolivia.

Source: Taken from data in Tables 11 and 12 above.

The fact that the three countries whose share of intra-regional trade was more than 60% of the total are geographically close suggests that "bordering trade" (trade among neighboring countries) is a pattern of LAFTA trade. This may be confirmed when observing the trade among the countries in the northernmost part of South America--Colombia, Equador, Peru and Venezuela. The "bordering trade" among Latin American countries may suggest high economic distance (in terms of underdeveloped transportation, information and marketing networks) separating non-bordering countries in the region. Donald S. Henley expresses this problem during his analysis of the Central American Common Market where he points out that: "Our research indicated that marketing barriers to intra-union trade were a major factor at any given point in time between any pair of countries."[25]

Colombia's Position Among LAFTA Countries

Colombia's position among LAFTA countries may be deduced from her balance of trade with the area. Comments were made in the balance of trade section that the "insufficient market" countries had large deficits in their balances of trade. Colombia's deficits increased from -4.1 to -61.7 million dollars from 1961-67. Her total balance amounted to -119.3 million dollars during the period in consideration. The causes for such deficits are mainly due to the previously described factors: (a) the lack of a competitive mix to face competition from "more developed" countries, and (b) increasing need for importing intermediary products and some food products to supply rigid domestic needs.

A more detailed analysis of Colombia's trade trends with other LAFTA countries reveals that Colombia has had, along with some of the countries, positive gains in terms of expansion of the market, diversification of her exports

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[25]Donald S. Henley, "Regional Trade and Market Performance: A Study of the Central American Common Market." Unpublished Ph. D. Thesis, Harvard University, 1967, p. 215.

and a more balanced trade growth. Table 23 shows the trends of Colombia's exports to, imports from, and balance of trade with all LAFTA countries. These data show that Colombia's trade with Argentina, Brazil and Mexico had large expansions in exports as well as imports. However, imports grew faster, and as a consequence Colombia's trade with the three above-mentioned countries presented deficits during the whole period, except in 1968 with Brazil and 1969 with Argentina.

Colombia's trade with Bolivia and Paraguay was negligible, while her trade with Uruguay was one-sided. Although Colombia's exports were maintained at a low level during the period, exports did increase from .3, which was the average between 1957-61, to 4.3 million dollars in 1969.

The trade between Colombia and Chile, Equador, Peru and Venezuela was dynamic, as well as balanced. Colombia's trade with Chile grow from 1.7 million dollars (1957-61 average) to 9.3 million dollars in 1969. The balance of trade showed surpluses in two years and small deficits during the remaining part of the analyzed period. Trade with Equador followed similar trends. The total trade grew from $5.2 to $11.1 million during the period in consideration. Exports increased from $1.5 million to $2.8 million, while imports had a small increase. The balance of trade showed small deficits until 1968, and then a relatively large surplus in 1969 (8.4 million dollars).

Table 23

Colombia's Trade Trends with LAFTA Countries,* 1957-69
(In Millions U. S. Dollars)

		Argentina	Bolivia	Brazil	Chile	Equador	Mexico	Paraguay	Peru	Uruguay	Venezuela
1957-	Exports	.41		.11	.89	.49	.09	0	2.24	.02	1.62
1961	Imports	.32	n.a.	.30	.86	4.80	.89	0	1.25	.36	2.04
Avg.	Balance	.09		- .19	.03	- 4.31	- .80	0	.99	- .34	- .42
	Exports	.69		.01	.99	1.50	.10	.01	3.84	.14	.92
1962	Imports	2.37	n.a.	.14	.20	4.86	1.64	.0	.88	2.39	1.62
	Balance	- 1.68		- .13	.79	- 3.36	- 1.54	.01	2.96	- 2.25	- .70
	Exports	.62		.12	.32	2.66	.21	.03	1.77	.28	.88
1963	Imports	8.62	n.a.	.54	.95	4.44	3.11	0	1.98	1.71	1.01
	Balance	- 8.00		- .42	- .63	- 1.78	- 2.90	.03	- .21	- 1.43	- .13
	Exports	3.40		0	.30	3.70	.30	0	2.70	.50	2.19
1964	Imports	8.80	n.a.	1.9	1.50	6.30	4.50	0	3.80	6.30	1.75
	Balance	- 5.40		- 1.9	- 1.20	- 2.60	- 4.20	0	- 1.10	- 5.80	.44
	Exports	5.45		.37	.75	3.92	.51	.19	5.19	.27	3.23
1965	Imports	9.84	n.a.	3.10	2.29	6.66	5.80	.03	4.73	5.86	.90
	Balance	- 4.39		- 2.73	- 1.54	- 3.64	- 5.29	.16	.46	- 5.59	2.33

1966	Exports	11.71	n.a.	.46	1.26	5.11	.64	.18	9.46	.26	3.04
	Imports	13.61		7.34	3.48	4.97	9.89	.01	10.27	6.87	2.02
	Balance	- 1.90		- 6.88	- 2.22	.14	- 9.25	.17	- .81	- 6.61	1.02
1967	Exports	4.50	n.a.	.56	1.85	5.61	.36	.10	5.66	.09	4.14
	Imports	8.78		2.93	1.71	5.90	5.54	.02	4.27	2.73	5.96
	Balance	- 4.28		- 2.37	.14	- .39	- 5.18	.08	1.39	- 2.64	1.82
1968	Exports	5.50	.40	2.90	3.00	6.10	.70	0	8.50	.10	6.20
	Imports	12.30	0	1.70	4.20	7.00	7.60	0	6.20	4.40	4.50
	Balance	- 6.80	.40	1.20	- 1.20	- .90	- 6.90	0	2.30	- 4.30	1.70
1969	Exports	9.70	.40	2.10	4.00	12.80	.60	.10	13.30	.20	5.80
	Imports	7.50	0	3.40	5.30	4.40	1.85	.20	7.90	4.30	9.00
	Balance	2.20	.40	- 1.30	- 1.30	8.40	- 1.79	- .10	5.40	- 4.10	- 3.20

*Includes Bolivia and Venezuela.

Source: ALALC, Sintesis Mensual, Montevideo, Several Issues; United Nations, Estudio Economico de America Latina (New York, 1970).

Trade with Peru showed expansion in both exports and imports. Exports grew from 2.2 million dollars (1957-61 average) to 13.3 million dollars in 1969. Imports grew from $1.2 million to $7.9 million in the period. The balance of trade with Peru showed small deficits in 1963 and 1966, while relatively large surpluses existed during the remainder of the period. Venezuela (which entered LAFTA in 1968) also was well balanced and showed large rates of growth. Colombian exports during the period grew from $1.6 million to $5.8 million. Imports were more variable and increased from $2.0 million to $9.0 million. The balance of trade of Colombia showed alternating surpluses and deficits.

In summary, Colombia's trade with LAFTA had positive expansion with almost all of the countries. However, trade with Argentina, Brazil and Mexico did not represent a substantial increase for Colombian exports. Colombian imports were much higher, and her trade balance showed increasing deficits after 1966. On the other hand, Colombia's trade with "insufficient market" partners and Venezuela, which may be classified in the same group, showed large increases. Furthermore, trade was well balanced showing reciprocal benefits.

Data on a commodity by commodity basis was not available for all LAFTA countries. However a table showing imports from Mexico and another table containing data on Colombia's exports to Andean Group partners (see Tables 24 and 25) may give one insight into the situation and confirm the findings in the analysis based on the balance of trade.

Table 24

Colombia's Main Imports From Mexico, 1966

Item	CIF Value ($)
Steel Pipe for Oil Pipelines	1,535,000
Raw Zinc	1,274,000
Chemicals and Resins	1,024,000
Refined Copper and Copper Alloys	438,000
Aluminum (Raw and Ingots)	354,000
Raw Lead	318,000
Glass Products	304,000
Raisins	256,000
Raw Cotton	158,000

Source: J. Kamal Dow, Colombia's Foreign Trade and Economic Integration in Latin America (University of Florida Press, 1971), Table 40, p. 67.

The above data show that Colombia's main imports from Mexico are composed of intermediary products. It may be inferred from the above data that Colombia's imports from the "more developed" countries are constituted mainly by intermediary and light capital goods. Other imports from LAFTA are raw materials not produced or insufficiently produced within the country, such as wool, which is imported from Argentina and Uruguay, cacao which is imported from Equador and Brazil, and wheat which is imported from Argentina and Chile. Colombian exports to Mexico are constituted mainly of petroleum and lumber, which account for more than

80% of such exports. The low level of exports to Brazil (see Table 23) suggests that Colombian products are not competitive or that Colombian exporters have not developed adequate marketing channels in that area. Exports to Argentina have been increasing more rapidly than in the case of Brazil and Mexico which may be due to complementarity of products (due to climatic differences) or that there are some manufactured products that are competitive in the Argentinian market.

The main exports of Colombia to the Andean Group are presented in Table 25. A large part of the main exports to Chile in 1966 were constituted of manufactured products (71.5%). This clearly shows the difference of trade patterns between Colombia and Chile. The percentage of manufactured products in Colombian exports to Equador were 100% and were constituted by a wide variety of manufactured products. The participation of manufactured products in exports to Peru accounted for 35% of such exports and 90% of the remainder was constituted by one import item--cattle--which is becoming a very important product on the list of main exports of Colombia. The exports to Venezuela include products such as cement, asbestos manufactured products, iron and steel joints, bolts, etc. and water pumps. Manufactured products accounted for approximately 90% of total exports to Venezuela.

The above findings confirm the importance of "bordering trade" in LAFTA, and most important, that positive improvements in expansion of the markets, diversification

Table 25

Colombia's Main Exports to Other Andean Group Countries, 1966

Country	Item	FOB Value ($)
Bolivia[1]		
Chile	Dry batteries	138,200
	Earth-moving machinery	69,200
	Concrete mixers	47,500
	Electric cables	30,100
Equador	Cement - asbestos products	1,027,200
	Paper products	846,900
	Medicines	797,200
	Synthetic Yarn	501,600
	Glass products	353,100
	Copper wire	254,000
	Iron and steel manufactures	251,800
	Cotton textiles	122,100
	Ceramic manufactures	114,200
	Aluminum manufactures	93,000
	Plastic cables	88,800
Peru	Cattle (live)	5,210,000
	Fuel oil	2,301,700
	Beef (frozen, fresh, chilled)	371,000
	Cement	231,800
	Paper products	192,351
	Ceramic manufactures	164,800
	Grain mills	162,600
	Medicines	156,000
	Vegetable cakes	134,900
	Cotton textiles	121,700
	Small machinery (pumps, cement mixers)	100,000
	Rubber products	45,000
	Fiberglass	22,000

Table 25

Continued

Country	Item	FOB Value ($)
Venezuela[2]	Cement - asbestos manufactures	722,700
	Grain mills	297,200
	Sugar cane	267,500
	Iron and steel joints, nuts, bolts	242,200
	Water pumps	155,900
	Steel pipes	113,900
	Automobile springs	111,100
	Raw zinc	61,800
	Plastic products	60,000
	Bulls for bullfighting	43,000

[1] Trade with Bolivia is negligible.

[2] At this time Venezuela was not a formal member of the Group, but was part of the Advisory Committee, and her entrance into the Group seemed imminent in the near future.

Source: J. Kamal Dow, Colombia's Foreign Trade and Economic Integration in Latin America (University of Florida Press, 1971), pp. 69-74.

of exports and reciprocal benefits have been achieved in some subgroups of LAFTA. It is difficult to evaluate to what extent such gains have been achieved because of LAFTA's trade liberalization and complementary agreements, but it is improbable that such impressive advances would have been achieved without multi-national cooperation and organization.

CHAPTER IV

The Andean Group

The Andean Group was created in May 1969 by the following countries: Bolivia, Colombia, Equador, Peru and Chile. Venezuela officially asked for membership in January 1972. The sub-regional group had the approval of LAFTA and was created in order to attempt a more accelerated process of integration. This came as a response to the slow growth of integration within the framework of LAFTA, especially during the late sixties. The agreement calls for an elimination of all trade barriers between the signatory countries and effective common external tariffs before December 31, 1980. The tariff reductions will be automatic and irrevocable (10% per year). Products included in a LAFTA common list were completely freed and goods not produced within the area were to be freed by 1971. The pact includes not only the elimination of trade barriers, but also the establishment of a common external tariff, harmonization of the members' economic and social policies, establishment of joint industrial development programs, acceleration of agricultural development, in addition to channeling of domestic and foreign resources to finance investments necessary for integration and physical coordination of the communications and transportation systems.

The Cartagena Agreement (Andean Group Pact) also provides for special treatment to Equador and Bolivia, the less developed countries within the group. Special treatment permits them to lower their import duties over a longer period of time, and gives them some preferences in the allocation of sectorial development plans.

One of the most novel codes attempted in the process of integration was made by the Commission of the Cartagena (the government instrument of the Andean Group), when it established common rules for foreign investors. Public utilities (water, electricity, telephone, tele-communications, etc.) and inland transportation, insurance, commercial banks and other financial institutions, commercial radio, television, newspapers and magazines are reserved for local capital only. Foreign companies operating in these fields must transfer 80% of their capital to local investors within three years. Other existing foreign investments must become 51% owned by nationals of the country in consideration within 10 years. (In the cases of Bolivia and Equador the period is 15 years.) Special concessions up to 20 years may be granted for mineral and petroleum developments which are joint ventures with state enterprises. The joint ventures are given incentive by permitting them to remit profits and principal in foreign currency subject to the approval of each respective national authority. Compensation for expropriation, which can only be carried out in the public interest, will be subject to the laws of each country. Investment of profits will be treated as new investments. While the Andean Group welcomes foreign private enterprise, its rules are probably more strict than those of almost any of the other Latin American countries.

Another step taken by the Commission was the establishment of the Andean Development Corporation to function as a sub-regional development bank. The capital stock authorized for the corporation is $100 million and will be contributed by Colombia, Chile, Peru and Venezuela, $5.5 million each, and Bolivia and Ecuador 1.5 million each. The Corporation will distribute investments among the member countries favoring the less developed.

Another agreement was the integration of the petro-chemical industry within the Andean Group since 1968 (80% of the output of petroleum of Latin America is produced within the sub-region). It also was agreed to set up a payments union, eliminate double taxation, and promote technical cooperation, including research and post-graduate training institutions.

The sub-group, including Venezuela, accounts for approximately 25% of Latin America's gross national product, population, and area. The data for 1968 are shown in Table 26.

Table 26

Gross National Product, Population and Area of Latin American Sub-groups, 1968

Group	Area (mill. sq. km.)	Population (millions)	Gross National Product Total (mill. $)	Gross National Product Per Capita ($)
LAFTA	19.3	226.7	95.3	421
Andean Group (including Venezuela)	5.4	62.2	26.7	429
CACM	.4	14	4.5	322
Latin America	19.9	250.8	102.2	407
Other Latin American Regions	.4	5.9	2.7	418

Source: Joseph Grunwald, et al., Latin American Economic Integration and U. S. Policy (Washington, D. C.: The Brookings Institution, 1972), Table 4, p. 59.

The Andean Group in 1968 (excluding Venezuela) had 4.3 billion dollars industrial output, compared with a 29 billion dollar total gross industrial product of Latin America (see Table 27). The participation of the manufacturing sector in the gross national product was 20.9%; the figure for Latin American was 23.6%. The manufacturing sector represents 15% of the total of Latin America, 64% of Mexico, 60% of Argentina and 62% of Brazil. However, the size of the market is proportionally smaller than any of the above-mentioned countries. Argentina, for example,

Table 27

Andean Group: Some Demographic, Economic and Industrial Indicators, 1968

Country	Population (millions)	Gross National Product (millions)		Per Capita GNP, $	Degree of Industriali-zation, %	Participation in Andean Group Industrial Product, %	Structure of the Manu-facturing sector, %		
		Total	Industrial				Non-durable Consumer Goods	Intermed-iary Products	Metal Machinery Products
Colombia	20.7	7.200	1.300	349	18.2	31.3	61.6	25.5	12.9
Bolivia	4.4	800	.100	186	13.2	2.6	68.0	17.0	15.0
Chile	9.3	5.600	1.400	600	25.8	34.4	46.3	38.3	15.4
Equador	5.6	1.600	.300	286	16.9	6.5	64.0	21.0	15.0
Peru	12.8	4.800	1.100	382	22.0	25.2	58.4	27.9	13.7
Total Andean Group	52.8	20.000	4.300	379	20.9	100.0	55.8	30.0	14.2
Argentina	23.6	20.000	7.100	851	35.2	----	39.9	30.4	29.6
Brazil	88.1	28.000	6.700	318	24.0	----	41.8	28.0	30.2
Mexico	47.3	29.900	6.500	632	21.9	----	45.1	34.2	20.7
Latin America	251.5	114.500	29.300	455	23.6	----	----	----	----

Source: Joseph Grunwald, et al., Latin American Economic Integration and U. S. Policy (Washington, D. C.: The Brookings Institution, 1972), Table 4, p. 59.

has 23.6 million people with an average per capita income of $851, while the Andean Group has 52.8 million people and a $379 per capita income (excluding Venezuela). This is without considering income distribution which is very unequal within the Andean Group. According to ECLA studies in 1968, 50% of the Andean Group population received 15.4% of the total income, which corresponds to less than $100 per year; 40% received $300 dollars, and the remaining 10% received 45% of the total income ($1,400 per year).[26] The unequal distribution of income results in a relatively ineffective market, and this factor may offset the benefits of integration.

The above may explain the slow development of the industries producing capital goods when compared with those of "more developed countries" in Latin America. The metal machinery industry represents 14% of the manufacturing sector in the Andean Group, 30% in Brazil, 29% in Argentina and 20% in Mexico. Industries producing intermediary products are relatively more developed than those for capital goods. The figures are: Andean Group, 30%; Argentina, 20%; Brazil, 28%; and Mexico, 34% (see Table 27). Table 28 provides additional information on industry and transportation for the Andean Group and some other Latin American countries.

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[26] Quoted in DANE, Boletin Mensual de Estadistica, #228 (July, 1970), p. xv.

Table 28

Andean Group: Industrial and Transportation Data

Country	Cement Production (thous. met. ton)	Crude Steel Manufacturing (thou. met. ton)	Electrical Energy Prod. (mill. KWH)	Motor Vehicles (thous.)	Paved Roads (miles)	Air Transport ton/mi.	Merchant Fleet (thou. gross ton)	Railroads (thous. miles)
Colombia	2,075	216	6,355	245	6,692	115	210	3
Bolivia	61	--	620	45	615	5	--	4
Chile	1,362	556	6,670	203	6,664	41	369	8
Equador	325	--	700	49	1,771	5	43	1
Peru	1,021	82	4,085	286	4,932	24	197	4
Total Andean Group	4,844	854	18,430	828	20,674	190	819	20
Argentina	3,492	1,288	15,420	1,737	22,000	88	1,361	44
Brazil	6,002	3,532	32,654	2,236	18,730	260	1,501	37
Mexico	4,966	2,645	19,399	1,290	37,321	115	380	25

Source: Walter Krause, Latin America and Economic Integration (University of Iowa Press, 1970), pp. 84-85.

The above data show that there exist large differences among the Andean Group countries. The per capita GNP ranges from $186 in Bolivia to $600 in Chile. The degree of industrialization and the structure of industries are relatively similar in Peru and Colombia. Chile presents the highest rate of industrialization (25.8%); however her industrial structure is very similar to that of Equador and Bolivia.

The industrial growth rate between 1960-68 was 8.3% in Peru, 6.7% in Bolivia, 6.2% in Chile and 5.5% in Colombia and Equador (see Table 29).

Table 29

Growth Rates of Industry and GNP

Country	Growth Rates GNP 1950-68	GNP 1960-68	Industrial Gross Product 1950-68	Industrial Gross Product 1960-68
Colombia	4.6	4.9	6.1	5.5
Bolivia	2.5	5.3	3.3	6.7
Chile	3.7	4.8	4.7	6.2
Equador	4.7	4.5	5.1	5.5
Peru	5.4	5.5	7.7	8.3
Total Andean Group	4.4	5.0	5.7	6.4
Argentina	3.1	3.1	4.1	4.2
Brazil	5.0	5.1	7.6	5.7
Mexico	6.3	6.9	7.9	8.5
Latin America	---	---	---	---

Source: Information from ECLA presented in DANE, Boletin Mensual de Estadistica, #228 (July 1970), pp. xiv-xvi.

The production of electrical energy is relatively high in Colombia and Chile and very low in Bolivia and Equador. Colombia shows a large production of cement (2 million tons) in comparison with Equador and Bolivia (.3 and .06 million tons respectively). The air transport is higher in Colombia than in the other countries. However, the railroad framework is much more developed in Chile than in Colombia

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problems which may impede the process of integration. For example, large differences in per capita income between Colombia and Venezuela have led to large migration from the former to the latter. This has been a problem for many years and it is doubtful whether there is a solution for the near future. One of the basic articles of the Agreement deals with harmonization of economic and social policies. The achievement of such harmonization, when considering the different political trends--socialism under democratic guidance in Chile, socialism under dictatorship in Peru, political instability in Bolivia, and capitalism in Colombia and Equador--seems to be one of the most complicated and difficult tasks to be accomplished by the Andean Group. However, any attempt to go ahead in this program would have immeasurable repercussions, especially in the social field. Financial institutions, besides the payments union, must be promoted to expand intra-regional trade, and provide credit to any of the group members when its balance of payments is suffering transitory deficits. Besides the expansion of intra-regional trade, the financial institutions must provide credit so that the country with a trade deficit need not cut the foreign exchange reserves necessary for extra-regional trade (for the importation of intermediary and capital goods which are not produced in the area).

The Andean Development Corporation constitutes a very important tool for the planning and implementation of policies such as: creation of multi-national enterprises directed to the production of commodities or services, financing industries which are facing difficulties due to the new competition in order to permit them to adapt and avoid disinvestments, and the training of people who may be displaced by the reallocation of resources. The Corporation also may play a very important role in avoiding unemployment caused by labor-saving oriented technologies. A rational selection of technologies to be applied in the productive sector, as well as selection of goods to be produced, would avoid unemployment, one of the biggest problems of the Andean Group countries.

If the Andean Group succeeds in its attempts, this undoubtedly will have a large impact on the Latin American process of integration towards a Latin American common market, as was established by the "Declaration of the Presidents" at Punta del Este, April, 1967.

CHAPTER V

Conclusions and Recommendations

Chapter I showed the main reasons for Latin America's adoption of import substitution policies, and later promotion of integration on the basis of common markets and free trade areas. The basic factor was the deterioration of the terms of trade as a consequence of low elasticity of demand for primary goods, development of synthetics which replaced some raw materials, and unequal marketing practices for primary goods which are marketed competitively and manufactured products which are marketed under monopolistic practices.

Due to the deterioration of terms of trade and declining participation in the world market, the Latin American countries began to have slow economic growth rates. In order to accelerate their economic rates of growth, they initiated import substitution practices, protecting their infant industries with high tariffs and other import restrictions. Due to the small markets and lack of competition, high cost and inefficient industries were developed. At the same time the export sectors continued to be constituted by primary products. Low growth rates of exports and increasing imports of intermediary and capital goods to sustain the industries caused chronic deficits in their balance of payments.

Under the above circumstances, Latin American countries began the process of integration in order to enlarge their domestic markets, and at the same time save foreign exchange. The ultimate goal was the achievement of faster economic growth.

Chapter II described Colombia and analyzed the most relevant characteristics of her social and economic structure. It was shown that the structure of the economy changed little during the period 1960-68. The agricultural sector changed its participation in the GNP from 32-29%, and manufacturing from 17.9-18.8%. However, some changes in the structure of each of the above-mentioned sectors occurred, such as a declining importance of coffee in the agricultural sector and a declining importance of the traditional industries in the manufacturing sector. The changes in the structure of the agricultural and industrial sectors apparently did not affect the distribution of income of the population. The agricultural active population decreased from 47-44% during the period 1964-67. The manufacturing active population was 12% during the whole period. Considering the rates of growth of the population (3.2%), the growth of the agricultural sector (3.6%) and the growth of the industrial sector (5.8%), it may be concluded that high rates of unemployment exist. Furthermore, it was shown that 62% of the farming units consist of less than five hectares.

Thus, a large part of the population lives at subsistence levels. It was inferred that a lack of effective demand has hampered the efforts of industrialization. The industrial sector is facing the same problems that the majority of the Latin American countries are encountering.

It was pointed out that an inefficient marketing system is also retarding the development of the agricultural sector. Improvements in this system will break up the vicious circle that was explained in Chapter II. Agrarian reform is probably the most urgent necessity in order to incorporate a large part of the population into the market, facilitate the development of the productive sectors, generate employment and accomplish the main goal of any society--to give a decent standard of living to its population.

Chapter III described the problems and achievements of the Latin American Free Trade Association. It was shown that intra-regional trade expanded at a rate of approximately 12% per year between 1961-69. The achievement of the diversification of exports was not as successful as that of expansion of trade. A large part of intra-regional trade continued to be constituted by raw materials. Another interesting factor is that even though intra-regional trade expanded, it continued to constitute a low percentage of the total trade of the region (11% in 1969). At the same time, it was pointed out that there was a large concentration of intra-regional trade in two countries, Argentina and Brazil. These countries accounted for 67% of total exports and 55% of the imports of the region. "Bordering trade" was observed among LAFTA countries; this may have been caused by large economic distances between non-bordering countries. This factor confirmed the findings of a study of the Central American Common Market where it was noted that marketing barriers impede the expansion of trade and that liberalization of trade by itself is not enough to expand trade between countries. Marketing facilities, institutions promoting exports, information systems and a payments union should be established parallel to a more efficient tariff reduction system. Tariff reduction must be changed from a product-by-product system to an automatic linear system. It must be stressed that the Central American Common Market and the Andean Group were set up with the approval of LAFTA and these two groups will disappear when the proposed Latin American Common Market is fully structured and completed.

Chapter IV dealt with the structure of the Andean Group, the main articles of the agreement, and its position in relation to LAFTA. Unequal benefits from expansion of trade of LAFTA, in terms of volume and composition, led the five countries to integrate in order to face competition from the "more developed" countries--Argentina, Brazil and Mexico.

Colombia seems to have a predominant position within the Group and her trade with the Group's members was shown as beneficial to her economic development. Colombia's trade with the group expanded, but more important, the composition of the trade changed greatly; more than 70% of her exports were constituted by manufactured products. At the same time, trade between Colombia and the Group was more balanced.

The differences which exist among the member countries may facilitate regional industrial programming based on complementary agreements which are the key point in the Cartagena Agreement. Political factors may retard the harmonization of economic and social policies considered in the main agreement. However, economic and social common problems may break down political barriers and may force the governments to act in terms of mutual cooperation.

If the Andean Group succeeds in its attempts, undoubtedly this will influence all Latin American countries to act in a more cooperative way in order to achieve the establishment of a Latin American Common Market, which was the main goal of the Montavideo Treaty.

In summary, it seems that Colombia made a good decision when she adopted integration policies with LAFTA and later with the Andean Group. There exist large possibilities for the expansion of Colombia's agricultural, and industrial exports, especially to the Andean Group. Industrial products, such as textiles, cement, appliances and light capital goods seem to be competitive in the subregional market, according to last year's trends of trade. Emphasis must be placed on the expansion of these industries in the short run. Studies concerning additional export goods, such as fertilizers, chemicals, etc. must be conducted in order to evaluate their competitive situation within the area, and possibilities for exporting these products to third countries. Beef, coffee and other agricultural products seem to have large possibilities for expansion to countries such as Chile and Peru, due to the differences in the actual production patterns (climatic differences).

The expansion of the market will permit Colombian industries to achieve large economies of scale and full utilization of plant capacity. At the same time, the exposure of her industries to competition from other firms within the Andean Group will generate improvements in product quality, marketing practices and reduction of production costs, which will allow Colombia's industries to be competitive, not only with the Andean Group, but also with third countries.

The creation of institutions dealing with the coordination of national firms, the establishment of channels of distribution in foreign countries, financial arrangements to facilitate trade, the furnishing of adequate information on foreign market needs, prices, competition, commercial regulations, etc. are necessary when implementing policies for the diversification and expansion of exports to the Andean Group, as well as to third countries.

Considering the high rate of unemployment, underutilization of plant capacity and scarcity of capital which exist in Colombia, stress must be placed on better utilization of resources, rather than indiscriminatory investments to promote productivity and expansion of output.

Studies concerning comparative cost of the industries within the Andean Group must be conducted in order to find out the real situation of Colombia and provide the basic information needed for adopting policies of integration. At the same time studies dealing with foreign investment, impacts on employment, economic growth and the creation of externalities must be undertaken in order to establish policies on this subject. It seems that the size of the market and stage of economic development are more important than tax reductions and other incentives to foreign investors. Furthermore, incentives may attract foreign investments, which frequently do not match the main goal of the country, such as employment, transfer of know-how, export expansion and economic growth.

Finally, the common market will provide conditions for the unification of efforts when bargaining with other countries or other groups of countries. In other words, the Andean Group countries will improve their bargaining power, which is one of the main objectives of integration. Their bargaining position is important when negotiating with other LAFTA countries, as well as when dealing with developed countries in regard to trade preferences and commodity agreements.

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