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COLOMBIA AND THE ANDEAN GROUP

Two Essays

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IDEOLOGICAL DIVERSITY AND
THE ANDEAN INTEGRATION PROCESS

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Introduction

The purpose of this essay is to explore the impact of ideological diversity on the process of economic integration in the Andean subregion. This diversity can affect the integration process in two ways. First, it can paralyze that process by making it difficult to reach agreement on the basic functions which different economic instruments should perform for the subregion's economies. Second, one government's ideological position can influence the economic development model pursued in another country or by the Andean Pact as a whole.

In general terms, one can argue that it is difficult to imagine successful economic integration among countries with diverse economic ideologies. Among other things, integration requires common agreement on which instruments should be used to achieve economic efficiency. For countries which believe that market and price mechanisms allocate resources most efficiently, the integration process will involve adjusting tariffs and prices. For countries with centrally planned economies, sectoral plans will be used to allocate resources, and production goals will not take the price variable into account.

The negotiators confronted this problem when the Andean Pact was formed. Each member country had a different type of economic organization, and it was therefore hard to define the goals of the integration effort. Chile had very high tariffs and a public sector which played an important role in mineral and industrial production. Venezuela also had a public sector (financed by petroleum revenues) which was active in industry, and high tariffs which protected an apparently inefficient industrial sector. Neither country had much faith in market or price mechanisms as methods of allocating resources. The Colombian economy, on the other hand, had a weak public sector and was very dependent on market mechanisms. Under these circumstances, Colombia envisioned an integration process which would lead to the expansion of the market for all goods, while Venezuela only wanted a larger market for specific industries which would be highly protected.

This conflict was resolved in an original manner. Two integration mechanisms were created: an automatic reduction in tariffs was adopted for those countries which relied on the market, while industrial programming was put into effect for those countries less interested in market mechanisms. Let us now look at how this hybrid functioned.

Integration under Revolutionary Governments in Peru and Chile

The subregion's ideological orientation changed radically between the adoption of the Acta de Bogotá (August 1966) and 1970. The Chilean negotiators in 1970 were from the Communist wing of Unidad Popular, and the Peruvian government was beginning a revolutionary process which included the nationalization of sugar plantations and the banking system. The Peruvian government also created the Industrial Community, the objective of which was to gradually transfer the control of industry to the workers. In both countries, the price structure had become less important as a regulatory mechanism.

In Chile, a large number of industries were nationalized, and the new entities based their purchasing decisions more on political considerations than on profit maximization. In Peru, a large portion of imports went to state enterprises which did not have to pay tariffs. Under these conditions, the tariff preferences granted under the new liberalization plan had little effect. Nevertheless, Chile and Peru were able to accept the Colombian-supported plan to reduce tariffs because low tariffs did not necessarily stimulate imports under their economic systems.

On the other hand, it was important for Chile and Peru to belong to the Andean Pact because participation would enhance their international positions. Chile even promoted Venezuela's entry into the Pact for this reason. During this first phase, the socialist members thought that belonging to the Andean Pact would help them internationally by limiting external pressures against their regimes. This was even more evident after Venezuela entered the Pact.

In Colombia, on the other hand, there were great doubts about the Andean Pact during this initial period. It was clear to many Colombians that Chile and Peru would not provide markets for the expansion of Colombian exports if the political and economic trends in these two countries continued to be consolidated. At the same time, products which were highly subsidized by state enterprises in other countries would be able to penetrate Colombia's national market. But for internal reasons, it was impossible to withdraw from the Pact. This aspect will be treated in more detail below.

Ideological Division
After Allende's Fall

Political transformations in Chile and Peru after 1973 again changed the distribution of ideological forces. The new Chilean government adopted a neo-liberal economic model, the principal objective of which was to reduce state intervention in the economy. Not only did the government return nationalized businesses to the private sector, it also began to dismantle the protectionist system which had made industry dependent on the government's tariff policy. Regional integration is not compatible with this type of neo-liberal system because it is aimed at creating a protected market at the subregional level.

Chile could not remain within the Andean Group after adopting its rigid economic model. Although at the time Chile stated that its withdrawal from the Group was due to disagreement over the rules governing foreign capital, most of the people I have talked to agree that Chile's withdrawal was the result of a fundamental incompatibility with a protectionist policy. Chile wanted to reduce tariffs and open its economy, and it was impossible to do this as a member of the Andean Group given the existence of a minimum external tariff. Chile therefore used Decision 24 as an excuse to withdraw from the Pact.

Using this excuse had two advantages. First, the elimination of controls on foreign investment would be supported by the Chilean bourgeoisie. Leaving the Pact in order to reduce tariffs radically, on the other hand, would have generated opposition from those businessmen affected by this measure. Secondly, from the international point of view, it was not efficacious to suggest that the withdrawal was due to a fundamental, ideological disagreement with Chile's neighbors on the whole issue of economic management. Such an admission would have led to an ideological confrontation between Chile and the Pact's members at a time when the country was already very isolated internationally.

In the months before Chile's exit from the Pact, the Colombian negotiators, although very uncomfortable for ideological reasons, found themselves in agreement with Chile in the debates over a common external tariff and industrial programming. Colombia wanted to reduce the minimum tariff below the level which had been agreed upon at the beginning of the decade, because of the large increase in its international reserves and because of political changes described in the next essay. In 1970, the tariff level negotiated by the Pact was lower than Colombia's; by 1974, however, Colombia's tariff had fallen to the level of the Common Minimum External Tariff.[1] Faced with this concurrence of interests on tariff policy, Colombia, which has never had a rigid policy opposing foreign investment, proposed various changes in Decision 24 in an effort to keep Chile in the Pact. The problem, however, was too deepseated. Once Chile withdrew, Colombia was left as the only anti-protectionist country in the Pact.

The problems of reconciling the different interests of Peru and Venezuela, on the one hand, and Colombia on the other, inevitably led to the paralysis of the integration process. This fact was demonstrated by the postponement of the final date for reaching agreement on industrial programming and the common external tariff. Nevertheless, this development did not precipitate a general crisis within the Pact because Colombia's partners have mixed economies with some elements based on the market and some which are centrally planned. The result is an integration process which has mechanisms to deal with both sectors.

After President Morales Bermúdez came to power, Peru abandoned its extreme opposition to market mechanisms. Inflation in Venezuela and the inefficiency of some of Venezuela's industrial sectors also led to the adoption of a less-protectionist economic policy there. Under these circumstances, the Andean Group may be on the verge of reaching an ideological consensus, wherein it is accepted that a few economic sectors will be protected and programmed while the liberalization process simultaneously continues. One of the prerequisites for the achievement of this compromise is the weakening of the administrative organization of the Andean Pact Junta, which has been quite protectionist. The power of this organization has depended on maintaining a strong emphasis on programming and on high external tariffs. Under a customs-union plan, the Pact's central administration would have very little to do. Therefore, the change in the ideological center of gravity toward less protectionist policies has coincided with the weakening of the Junta's permanent secretariat.

Economic Justification for Decision 24

A useful way of looking at the role played by ideology in the Andean Pact is to analyze how Decision 24 was reached and how its implementation has evolved. Control of foreign investment did not figure as a fundamental aspect of the integration process under the Acta de Bogotá. The need to agree on a common system for treating foreign capital was established in the Acuerdo de Cartagena. The theory behind this decision was that it was necessary to keep transnational corporations from becoming the principal beneficiaries of the integration process. The protection which all companies serving the subregional market receive if a high common external tariff is established amounts to a subsidy, and the member countries wanted to limit this subsidy to companies owned by citizens of the subregion.

Controlling foreign investment becomes an important issue only if levels of protection are high. Therefore, from the very beginning, countries with high tariffs--such as Chile under Allende and Venezuela--insisted on limiting the access of foreign capital to their markets. On the other hand, Chile's military government, after dismantling the tariff structure which protected industry, is no longer interested in limiting foreign investment. The fact that the Acuerdo de Cartagena established the necessity to control foreign investment reflects the protectionist bias shared by all of the partners in 1969. Venezuela's high level of industrial protection explains why it still is very negative toward foreign capital in 1980.

Although it is clear that the problem of foreign investment is not a fundamental part of the integration process, especially if the common external tariff is not going to be very high, Decision 24 has become one of the main topics of discussion within the Andean Group.

Ideological Importance of Decision 24

Decision 24 was adopted at the beginning of the Peruvian revolution, while the Unidad Popular regime was in power in Chile and Misael Pastrana was President of Colombia. The Chilean and Peruvian governments were "socialist and anti-imperialist" regimes, and it was important for both of them to legitimize their expropriation of foreign companies. The Pastrana government, on the other hand, took office in a climate of great political uncertainty. The President had defeated General Rojas Pinilla by only a few votes, and ANAPO represented a populist political party which was very critical of Colombia's political and economic organization.

While the Peruvian and Chilean governments wanted to use the Andean Group to legitimize their anti-imperialist position and to limit the United States' reaction against expropriations, the Colombian government was in a defensive position, and wanted to keep any international issue from creating internal political problems. This interpretation of the Colombian position differs from that offered by other writers. In fact, Gail Richardson Sherman[2] and François Lombard[3] assert that Colombia's approval of Decision 24 stemmed from the Pastrana government's attempt to mobilize the masses in an anti-imperialist campaign which would weaken ANAPO's support. Lombard argues, for example, that in Decision 24 "Pastrana's government tried to mobilize the popular sectors under the banner of anti-imperialist nationalism."[4] Richardson, on the other hand, rejects the argument made by critics of Decision 24 that the philosophy underlying the Decision came from external sources (namely, Chile and Peru).[5]

The reality, it is clear, is exactly what Richardson rejects. Peru had passed the General Law on Industries and had nationalized foreign companies before Decision 24 was adopted. Allende was also committed to stopping foreign investment. It was dangerous for Chile and Peru to join an integration scheme if all of the foreign investment was going to the other Pact members. Even more important was the fact that the adoption of a common position with Colombia, Ecuador, Bolivia (and implicitly Venezuela), gave implicit support to the local policy against foreign investment in Chile and Peru. On the other hand, there was very little sentiment against foreign investment at the popular level in Colombia.

But President Pastrana's political position made withdrawal from the Pact impossible. It was even difficult to take a tough negotiating position, because the Minister of Development, Jorge Valencia Jaramillo, who was linked to ex-President Lleras and was the principal negotiator in the Andean Group, wanted to launch his own political career as a progressive Liberal. Breaking with Valencia would lead to a political crisis with the Liberals over an issue on which progressive Liberals and politicians from ANAPO could unite. Nor was it wise, at that moment, for the President to mount a campaign in which he would appear to be a reactionary who was breaking his ties with progressive governments in Chile and Peru.

Friends and Enemies of Decision 24

The principal opponents of Decision 24 were to be found in Colombia. This was because of the simple reason that when Decision 24 was approved, according to Thoumi, "the requirements of nationalization in practice only applied to Colombia. Peru, Chile, and Bolivia, because of their leftist governments, already applied stronger restrictions than those required by Decision 24 with its less rigid treatment of foreign capital in the short run."[6] Decision 24 introduced a fundamental change in Colombian legislation by requiring that all new foreign investment have a majority of local ownership in the future, with the exception of those industries which exported 80 percent of their production. In addition, existing foreign companies would have to change to mixed ownership in order to take advantage of the Andean Market. From the beginning, the mining sector was excluded from the requirement to change to mixed ownership, and a company was considered national even if a majority of the capital was foreign owned when the government was the national partner.

The original proposal submitted by the Junta was more drastic.[7] Article 25 stated: "Foreign enterprises will commit themselves to sell no less than 50 percent of their total shares, to be acquired by national investors." That meant that all enterprises must be transformed. Colombian negotiators managed to limit this requirement to new enterprises and those which wished to enjoy the benefits of Andean Group special tariffs. Article 14 of the original proposal authorized foreign enterprises only internal credit from suppliers. A later amendment permitted them to also obtain short-term credits. Article 32 in the proposal was equally drastic, reflecting measures taken in Chile and Peru. It prohibited new direct foreign investment in banks, insurance companies, and other financial institutions. It also established that "all foreign banks existing in the national territory of the Country Members will not receive local deposits starting three years after the initiation of this Regime." Article 44 of Decision 24 introduced an amendment which made possible the non-application of these rules and those of articles 40-43. Colombia adopted this exception in Decree 2153 of 1971.

Chapter III of the Junta proposal--which placed radical limitations on foreign investment in public services, the financial sector, and the mass media--had little relation to the integration process and was more concerned with political developments in Peru and Chile and with the economic ideology of the Junta. Although it is clear that foreign agricultural or industrial companies can obtain undesirable advantages from an economic integration process, it is not so obvious how this can happen in cases of foreign investment in public services or banks.

Even before the Junta's radical proposal, the negotiation process had become difficult for Colombia. During the IV Regular Meeting of the Junta del Acuerdo de Cartagena, the Chilean representative made his country's position very clear. He declared that Chile would not accept any common regime concerning foreign capital unless it respected the economic-nationalization measures taken by his country's new government and unless the integration process did not frustrate Chile's efforts to reduce and eliminate its external dependence. In other words, any common regime had to guarantee that integration would not allow international corporations from capitalist countries to enter Chilean markets through the back door of the Andean Group. A better illustration is provided by the Programa Básico de Gobierno de la Unidad Popular, which stated that "Latin American integration should be constructed on the basis of economies free from the imperialist schemes of dependence and exploitation."[8]

Peru supported the Junta position in general terms, but it did not agree with a special regime for Bolivia and Ecuador which would not benefit those countries but foreign companies. Bolivia did not have a clear position. The Junta proposal caused several serious problems in Ecuador, to the extent that the permanent delegate from that country presented his resignation and the government had to send its Minister of Production to the negotiations.

It appears that the proposal for a common regime to govern foreign investment was made in order to limit such investment in Colombia. The major portion of foreign investment in the other countries was in the mining sector, which was excluded from the general rules. Although this exception was logical economically, because the mining sector had low tariffs and produced primarily for third countries, the exception left the impression that Decision 24 was a Junta effort to put Colombia at a disadvantage. The rule which converted foreign companies with state support into national entities also discriminated in favor of economies with a larger private sector. It also favored greater state intervention in the economy.

Given this situation, the debate over Decision 24 in Colombia concerned not only defining the proper attitude toward foreign capital but also the role of the state in the economy. Minister of Development Jorge Valencia Jaramillo, the Colombian official responsible for the negotiations within the Andean Pact, was the most influential supporter of Decision 24. Valencia was in favor of accepting Decision 24 for various reasons. First, he had become an unconditional supporter of the integration process, and opposing Decision 24 would have been dangerous to the process itself. Second, he was beginning his own political career and wanted to be seen as the standard bearer of progressive liberalism.

It is significant that Valencia did not discuss his position on Decision 24 with the political parties. In addition, when he conducted meetings within the government and in the Consejo Superior de Comercio Exterior, which included representatives from the private sector, there was clear opposition to the requirement concerning transformation of existing foreign companies into national enterprises.

Apparently, President Pastrana was also a supporter of Decision 24. Although the idea of limiting foreign participation to minority ownership attracted him, it is doubtful that he was willing to face a high level of political opposition in order to accomplish this. As for the private sector, the businessmen from Medellín, and therefore ANDI (National Association of Industry), found the rule on nationalization attractive. There is hardly any foreign investment in Antioquia and in fact the antioqueños expected to be able to buy foreign companies at low prices if the rule requiring majority national ownership was adopted. It is interesting to note that Jorge Valencia, as an antioqueño politician, was aware of the support among Medellín businessmen for taking a tough decision on foreign investment.

Leftist political groups and leftist or nationalist intellectuals obviously were also in favor of Decision 24. This generated support for the measure in the press and in many publications.

The enemies of Decision 24 in 1970 included ANDI outside of Antioquia (influenced by foreign industry), the financial sector, the government's technical organs (the Banco de la República and the National Planning Department),[9] and those groups which saw Decision 24 as a victory of the Chilean or Peruvian economic models. Opposition to Decision 24 within the government was based upon foreign-exchange considerations. Between 1955 and 1975, Colombian economic policy was dedicated to solving the problem of insufficient foreign exchange, which had placed serious limits on the country's rate of growth. At the beginning of 1975, the Junta Monetaria (Monetary Council), for the final time in the 1970s, considered the introduction of quantitative restrictions on imports.[10] In 1970, however, officials from the National Planning Department and the Banco de la República were still thinking in terms of strengthening international reserves in order to avoid foreign-exchange crises such as that which had occurred in 1966.[11] Given this challenge, it did not seem logical to use the country's limited reserves to buy existing companies, whose profit remittances to their home companies averaged less than 4 percent of their registered capital. Both within the government and among other opponents of the measure, the limiting of foreign participation in future companies was not considered important.

Nevertheless, the fact that the proposal did not establish limitations on profit transfers and capital gains was considered a serious matter. The proposal made by the Junta, which was eager to accelerate transformation, prevented reinvestment of profits, authorized transfer of capital gains, and stimulated transfers of profits. Colombian concern for foreign-exchange savings led to limitations over profit remittances in Decision 24. Decree 444 of 1967 emphasized the provision of foreign exchange as a major criterion for the approval of foreign investment (the foreign-exchange effect of the investment had to be positive). This has continued to be the most important criterion in the National Planning Department's evaluations. In other words, the Planning Department implicitly thinks that foreign investment has a positive impact if profit remittances from the foreign investor's activities do not negatively affect the foreign-exchange balance. The Planning Department has therefore recently established export requirements.[12]

The financial sector's opposition was more general. Given the existing controls on internal credit in Colombia, during most of the 1960s the bulk of this sector's profits came from external operations. Its relations with foreign banks were, therefore, important, and the philosophy underlying Decision 24 could precipitate a reaction by the foreign private sector against its Colombian clients.

Finally, the private sector as a whole found the anti-private-sector bias of the common rules on foreign capital unacceptable. These rules clearly treated public capital more favorably than private capital. Not only was a company considered nationally owned when the state had minority ownership in it, but the state was given the first option in the purchase of companies which were changing from predominantly foreign to majority-national ownership. In Colombia, surprisingly, this bias toward greater state participation generated more opposition than the implicit rejection of foreign investment.

The internal negotiations in Colombia preceding the approval of Decision 24 went through two phases: discussion within the government, followed by discussion within the private sector. According to available information, there was no discussion of this issue with either the political parties or the legislature.

According to existing legislation (Decree 444 of 1967), control of foreign investment was in the hands of the National Planning Department. As a result, the Planning Department participated actively in the Lima negotiations and presented a proposal outlining the Colombian position to CONPES (Council of Economic and Social Policy). During preliminary meetings in Lima, Raúl Arbelaez, director of Incomex (Colombian Institute of Foreign Trade) left the negotiations in the hands of Miguel Urrutia (Banco de la República) and Roberto Junguito (National Planning Department). Although he tacitly supported Colombia's tough stance merely by being there, Arbelaez was able to avoid committing himself personally by not participating actively in the negotiations. The Banco and the Planning Department withdrew from the negotiations after Jorge Valencia rejected the Planning Department's position at a CONPES meeting before the Junta of the Pact's final sessions of the year. This break was surprising, since neither the President nor Valencia tried to explain the change in the Colombian position to the members of CONPES. There was no joint dialogue during the CONPES sessions. The impression given was that the President preferred to make his own decisions on international policy issues without internal consultation.

The CONPES meeting followed one of the Consejo Superior de Comercio Exterior, a consultative council which meets sporadically and includes representatives from various ministries and from some private-sector associations. ANDI and others in attendance from the private sector reinforced the National Planning Department's negative view of Decision 24 at this council meeting.

In the Comisión Mixta, private-sector representatives seriously questioned the benefits of the Andean Pact for Colombia. ANDI manager Luciano Elejalde was less negative toward the Junta proposal than the other private-sector participants. However, he emphasized that it was not possible to take ex-post measures (transformation of existing companies) and accept credit limitations on foreign companies. The National Association of Metal Industries (FEDEMETAL) presented the government with a document containing its position. The text included the following: "Commitments included in Decision 24 can be serious and dangerous to Colombia. . . . Our country does not have . . . the resources required to transform foreign companies into majority-national-ownership enterprises. If this measure is to be taken, it would be necessary to withdraw a great amount of resources from internal investment while other development areas urgently demand those resources." The ACOPLASTICOS (Association of Plastic Industries) position was even harder: "The changes which have occurred in the orientation of some of the countries participating in the Acuerdo de Cartagena force us to question the Junta's proposal and the Pact itself, all in the light of the new reality and for the convenience of our country." It seems evident that the Pact's mechanisms have led the Junta to submit proposals inspired by some member countries' political systems, which differ radically from Colombia's juridical system and economic policies. We seriously question the benefits of modifying Colombia's system in order to harmonize it with those adopted by other countries. In the end, Jorge Valencia agreed to Decision 24 in Lima, knowing that there was little support for the measure either within the government or among important private-sector groups.

But there was no consensus in the private sector. As mentioned above, antioqueño businessmen and the leadership of ANDI originally supported the plan set forth in Decision 24. This position, however, led to a crisis in the <u>gremio</u> (private-sector association).[13] But the local divisions of ANDI in Bogotá and Cali, whose more important members included foreign companies, could not accept the position taken by the national leadership in Medellín. Luciano Elejalde, the manager, had to resign. The association chose Luis Prieto, who was manager of IFI (Institute for National Development) but had connections in Antioquia, as the compromise candidate with the intention of reaching a more balanced position on Decision 24.

Finally, ANDI agreed to accept the forceful conversion of foreign enterprises into majority-owned national companies, but unequivocally rejected the clause which gave the state first option in the purchase of foreign companies. ANDI decided not to compromise on this issue, because conceding would imply the acceptance of a larger state role in the industrial process.

The manager of ANDI and some other ANDI representatives travelled throughout the Andean Pact nations trying to convince their governments that changes in Décision 24 were needed in order to maintain private support in Colombia for the integration process. President Pastrana did not oppose this mission, and asked to be kept informed on the results of its efforts. The mission's members had interviews with Allende and with President Velasco as well as with the Chilean and Peruvian negotiators. It was a surprise to the Colombians that neither Luis Somavía (Chile) nor General Barandiarán (Peru) objected to eliminating the clause which gave the state first option in the purchase of foreign companies. In addition, Somavía and Barandiarán suggested that it might have been Jorge Valencia who had introduced this clause. Their position was logical since both Chile and Peru were nationalizing companies directly and did not need Decision 24 in order to do so. Peru agreed to propose the desired change in Decision 24 and it was rapidly accepted in Lima.

This sequence of events suggests 5 hypotheses concerning the decision-making process in Colombia:

1) Ministers, acting on the basis of self-interest or personal conviction, have considerable "espacio de iniciativa" in policy decisions. It is clear that Valencia Jaramillo's "nationalist" position had little support from some government sectors or from pressure groups. Initially, however, his position apparently had Presidential support.

2) At the same time, as Decree 444 of 1967 already demonstrated, there is neither great interest in Colombia for promoting foreign investment nor opposition to limiting its activities. This suggests, contrary to the belief of dependency theorists, that foreign companies do not have much influence in Colombia.[14]

3) Contradictory regional economic interests exist. This weakens the gremios, but it also keeps them from adopting extreme positions. The regional factor leads to a certain degree of dialogue within the gremios and to the development of an organization which is neither very hierarchical nor authoritarian.

4) There is negative sentiment toward state participation in the production process. President Pastrana, agreed to take a step backwards on the clause granting a first option to the state, even though running the risk of having a political crisis initiated by Minister Valencia.

5) The gremios, and ANDI in particular, had enough influence in some cases to prevent fundamental changes from being made in the Colombian development model. The gremios' role in killing measures which significantly increased government intervention in the economy is analyzed in Bagley's work on urban and agrarian reform.[15]

The Institutional Process of Controlling Government Decisions

As was noted earlier, the Minister of Development has substantial freedom to take the initiative in negotiations within the Andean Group. He can also make decisions which are contrary to the wishes of the gremios or government agencies without discussing this decision or negotiating with these groups.

Since 1957, when the Frente Nacional was created, power within the Colombian government has been quite fragmented. Ministers may represent political parties, or factions within those parties, or they can be technocrats with independent ideas. This composition involves an absence of programmatic coherence which leads to independent policies pursued by each Minister in his own fief. Ministers establish temporary alliances, frequently against the Minister of Finance, whose position is special since he controls the expenditures of the other Ministers. But the only limitation on the Minister's initiative is the President's personal opinion. Presidential power is not at all feudal because it is placed well above the power of his Ministers, even if they represent an important political group. The reverse side of the coin is that the President is also responsible for the handling of pressure groups and Congress. Without incurring high political costs, the President can rectify his Ministers' policies if he thinks they are causing excessive conflict with any powerful group.

For these reasons, once a decision has been made in the Colombian system, there are various possible ways in which interest groups can modify rulings which they consider prejudicial. In the case of Decision 24, the private sector utilized all of these institutional possibilities in an effort to obtain changes in the agreement reached in Lima.

We have already seen that ANDI focused on eliminating one clause which it considered very dangerous. ANDI's strategy was to go directly to the President, over the head of the Minister of Development. The President decided that if ANDI could get approval for the change without creating a crisis in the Andean Group, which would be costly politically, it should do so. Even if this made relations with his Minister more difficult, it was important to go ahead. ANDI's future collaboration would be secured. By 1971 it was clear that Valencia was a troublesome Minister and that his departure from the government would not create political problems with the Liberals.[16]

It is interesting that changes or amendments are frequent in the Colombian decision-making process. Instead of discussing a measure before announcing it, an adjustment is frequently negotiated after the measure has been promulgated. Perhaps this phenomenon can be explained by the fact that the actions of the gremios are not considered legitimate,[17] and officials therefore do not want to seem to be influenced by them. By issuing a measure without consulting anyone, the official establishes his independence and integrity. The subsequent negotiation is public, and thus avoids creating any doubts about the official's independence and honesty. It is possible to compromise at that point because a person who does so publicly is considered pragmatic.[18] The system has the further advantage that it is only necessary to make adjustments when the interested group has been able to mobilize real political support for its position.

In addition to direct negotiations with the government, the opponents of Decision 24 had other instruments which they could use to prevent the implementation of the Decision. Decree 1299 of 1971 which promulgated the Decision was challenged before the Council of

State, which sent down an ambiguous decision. The decree was also judged by the Supreme Court, which declared it unconstitutional in December 1971. This forced the government to ask Congress to adopt the Acuerdo de Cartagena as law and to grant the powers necessary to implement Decision 24.

Congress, however, is not a very likely forum to block measures against foreign investment. In addition, the gremios in Colombia, unlike the United States and other Western democracies, have very little influence in the Congress. The response to the government's request was the approval of Decision 24. But the government agreed to exclude the banking sector from the Decision's general rules in order to disarm opposition from financial interests. This exception probably was obtained by Rodrigo Llorente, Minister of Finance. Llorente was a conservative who thought that external credit was very important for the country's development, and whose views reflected the conservatives' opposition to strict regulations against foreign investment.[19] The legislature's consideration of whether and how to control foreign capital demonstrates two things. First, the gremios are more likely to be successful if they negotiate directly with the executive rather than with the Congress. Secondly, Congress, and perhaps the Liberal representatives, tend to support nationalist positions which advocate the control of foreign capital once the executive takes some initial steps in that direction. This phenomenon was evident in the legislative debate on Law 55 of 1975, which prohibited new direct foreign investment in the banking sector. That law followed a three-month procedure in Congress.

Contrary to François Lombard's assertion,[20] neither the public as a whole nor an important sector of the financial community was opposed to the presence of foreign banks in 1975. The decision to limit foreign investment in this sector was made for ideological reasons by Rodrigo Botero, Minister of Finance. The concept of "fading out" foreign investment in the banks did not have the support of the rest of the government. CONPES decided rather to negotiate the transformation of foreign banks into mixed enterprises. Since this option was not accepted by the First National City Bank, negotiations between the banks and the government were transferred to the Congress after the Minister of Finance proposed a draft law to transform banks into mixed enterprises. During the process in Congress, substantial amendments were introduced into the original draft and Law 55 established limitations on foreign investment (it prohibited all new investments, which meant a decreasing participation by foreign capital in mixed banks as the banks increased their capital).[21] Congress passed the law in more radical terms than the original proposal submitted by the Government. Although the President apparently supported his Minister's idea, and thought that the measure gave his government progressive credentials, the incident once again demonstrates the Ministers' extensive "espacio de iniciativa." It also shows the small degree of influence which transnational corporations exercise in Colombia.

The whole legal process involving Decision 24 also suggests that in Colombia, placing limits on the executive's authority is more important than controlling foreign investment. Both the gremios and the Supreme Court moved to limit the government's influence in the economy. The Court forced the government to submit the decisions taken in Lima to Congress for ratification, and ANDI convinced its own and other governments to drop the clause which gave the public sector an advantage in the purchase of foreign corporations. The requirement that foreign corporations acquire majority national ownership was less controversial, and is still being applied without opposition today.

Although it is not the purpose of this essay to evaluate the economic effects of Decision 24 in Colombia, it seems worthwhile to mention that one of the most important issues raised by the Andean Pact in Colombia was the introduction of regulations over foreign investment, use of patents and trademarks, and payment of royalties. Trade liberalization has not significantly affected the country's international trade flow. Industrial programming has not yet led to considerable numbers of new enterprises receiving the benefits of open markets. Regulations over foreign capital, however, have had an immediate effect. Without the Andean Pact, it is probable that the Colombian decision to limit new foreign investment to enterprises with mixed capital would not have been taken. In this decision, the ideological position of the governments of Chile and Peru was influential, and the political cost of leaving the Andean Group was a crucial factor in Colombia's acceptance of this measure. As applied in Colombia, this legislation will in the long run probably contribute to national economic development. Foreign investment in mixed enterprises supports technology transfer and the development of a Colombian entrepreneurial class. The lack of foreign-capital control over important economic sectors also makes less likely the development of nationalistic and populist political movements which tend to propose irrational economic policies. Finally, although it seems paradoxical, it is probably easier in a democratic system to get political support for an open-economy model--such as the post-1970 Colombian model--when foreign investment is less important.

Benefits obtained from regulations over contracts concerning royalties, trademarks, and patents are less clear. Those regulations have in some cases impeded the transfer of technical assistance and technology which would have improved productivity in Colombian industry. However, Decision 24 could have helped to eliminate from those contracts undesirable clauses such as those prohibiting exports. This legislation is likely to have created a certain consciousness of the possibility of improving conditions in contracts concerning royalties, trademarks, and patents, but at the same time it established some undesirable barriers to the transfer of technology which should be eliminated.[22]

Paradoxically, the Andean Pact helped to make more realistic the regulations of Decree Law 444 which limited capital remittances. The increase of the 14 percent limit on profit remittances was necessary due to increased interest rates and international inflation. The Andean regulations on capital-gains remittances and the solution of the non-registered-profits issue ("utilidades en el limbo") gave mobility to foreign investment.

In summary, concerning the foreign-investment regime, ideological diversity among the Andean Pact members led to a reform which is likely to improve the prospects for national economic development. The Chilean and Peruvian ideological positions, blended with the more pragmatic Colombian orientation, led to a new foreign-investment regime which can be better than that existing in any of the member countries at the time of negotiation.

Conclusion

One of the Andean Group's greatest difficulties has been ideological diversity. This has made it more difficult to reach a consensus regarding which instruments should be used in the integration process. The ideological conflict between economies which rely on the market and those which want more central planning was resolved in the Acuerdo de Cartagena by creating two integration mechanisms: automatic reduction of tariffs and industrial programming.

Some economies have high tariff levels and an important public sector because their leaders do not believe in the market mechanism. For these countries, a customs union does not solve their economic problems. They want to expand the market for those industries which have economies of scale. Therefore, they support industrial programming at a subregional level, depending on a high common external tariff and markets for certain subregional industries which are protected from outside competition. Since a free market system cannot guarantee the fulfillment of industrial programming, this strategy assumes the existence of a public sector which is active in industry. The state therefore commits itself to making some investment in those products which are assigned to that country. The Venezuelans have been the strongest supporters of this scheme ever since the negotiations in Cartagena. They have adopted this policy because they have high levels of protection and are able to finance capital-intensive public enterprises from the fiscal resources generated by petroleum. Programming was also supported by socialist governments in Peru and Chile, and is also in the interest of Bolivia and Ecuador because these countries need larger, protected markets in order to begin the import-substitution process. Colombia, in contrast, does not want to expand its industrial public sector, and its export-promotion plan is incompatible with a high common external tariff. It therefore emphasizes the trade-liberalization program.

The Andean Group's effort to resolve these contradictions has been relatively efficient. It has lowered tariffs for those countries which have wanted lower tariffs, and it has devised industrial programming for those which are capable of carrying it out. As a result, the integration process has progressed to the point where the extent of programming which is desired has to be defined. It appears that the time for defining this has already arrived. But this will not create an insoluble crisis because the countries supporting programming have reduced their demands. Peru is already abandoning an economic model in which the state is directly in charge of industrial development. The Venezuelan government is concerned about excessive industrial protection and the inefficiency which it has generated. Colombia, on the other hand, is willing to participate in programming for those industrial sectors where the state already plays an important role.

It is not surprising, therefore, that the Andean integration process will involve greater state participation than the European Economic Community. This development reflects the greater importance which state enterprises have in Latin America. But an important role is also being assigned to the market and to the process of tariff reduction. It is not impossible for the negotiations on a common external tariff to result in levels more acceptable to Colombia.

Another way of reducing the contradictions between the different models of development would be to limit the scope of programming. At the same time, however, a limited number of products would be assigned for production by Bolivia and Ecuador with the understanding that the markets for these products would be truly protected, as long as their production is begun within a reasonable period of time. Instead of programming massive sectoral projects which require a large amount of investment, the Group could periodically agree on the specific industries which are of interest to these two countries. This strategy provides an alternative to the impractical idea of programming whole industrial sectors which are divided among all the countries but are intended to help the relatively less developed countries.

It is clear that the issue of controlling foreign investment is not crucial to the integration process. If the Andean Group does not continue with a highly protectionist plan, the advantages enjoyed by foreign corporations which locate in the region will not be very large. To the extent that the region's governments move toward the ideological center, this essentially ideologically based policy will become less controversial.

Finally, analyzing the process of adopting Decision 24 in Colombia once again illustrates the breadth of the Ministers' "espacio de iniciativa," of policy coordination within the government, and the low level of support for greater state intervention in the economy. The *gremios*' influence is apparently limited, but the importance of regional interests is increasing.

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[1]In 1970 the average of the Common Minimum Tariff was 43 percent compared to the 70 percent Colombian level. In 1974, the Colombian tariff was 30 percent. See Francisco Thoumi, "El Pacto Andino: acierto o desatino para Colombia?" Revista de planeación y desarrollo, 8:2 (August 1976), 265-67.

[2]Gail Richardson Sherman, "Colombian Political Bases of the Andean Pact Statute on Foreign Capital," Journal of Interamerican Studies and World Affairs, 15 (February 1973).

[3]François Lombard, The Foreign Investment Screening Process in LDCs: The Case of Colombia, 1967-1975 (Boulder, Colorado: Westview Press, 1979).

[4]Ibid., p. 55.

[5]Richardson, p. 113.

[6]Thoumi, p. 268. This point of view is more convincing than that of Mytelka, who asserts that: "Colombian and Peruvian concern over frightening foreign investors through the application of tough domestic regulations facilitated the negotiation process. It made these countries ready to agree to rules which would intensify the risks undergone by other countries which had already adopted national regulations." Lynn Krieger Mytelka, Regional Development in a Global Economy (New Haven: Yale University Press, 1979), p. 29. The reality is that Peru and Chile wanted to keep Colombia from receiving the foreign investment which was diverted from their countries. Nor does Mytelka's book reflect the Colombian opposition to Decision 24, nor the fact that this opposition was not due to the influence of transnational corporations but to serious considerations about macro-economic policy and to opposition to state intervention in the economy.

[7]"Propuesta sobre el Régimen Común del Tratamiento a los Capitales Extranjeros" (Jun/Propuesta 4/20 October 1970).

[8]For the Chilean position, see "Informe de la Comisión de Colombia a la IX reunión ordinaria de la Comisión del Acuerdo de Cartagena" (CDCE/Delegación /073/70).

[9]According to Decree 444, the Banco de la República manages the Foreign Exchange Office, which was in charge of approving all external flows and of registering foreign investment. The Planning Department was responsible for analyzing the economic impact of foreign investment and approving it.

[10]Reducing INCOMEX's monthly limit on imports was considered because of the drop in reserves in recent months. After much debate, the measure was not adopted. Since that period, there has been a continual increase in reserves.

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[11]This position was held by the Director of the Planning Department, Jorge Ruiz Lara, and his Chief of Industry, Roberto Junguito. This position was also supported by Germán Botero de los Ríos and the author from the Banco de la República. It should be remembered that both institutions participated in the Consejo de Comercio Exterior and in CONPES. The Minister of the Treasury did not agree with Decision 24.

[12]For the criteria used by the Planning Department in approving foreign investment, see Lombard, p. 105.

[13]ANDI's role in the debate over Decision 24 was described to me by Luis Prieto, Manager of ANDI in 1971.

[14]For example, Mytelka asserts that even in Colombia the multinational corporations were politically important during the period when Decision 24 was debated. See Mytelka, p. 34.

[15]Bruce Bagley, "Political Power, Public Policy and the State in Colombia: Case Studies of the Urban and Agrarian Reforms during the National Front, 1958-1974" (Ph.D. diss: UCLA, 1979).

[16]In March Valencia wrote a public letter to the President complaining about the lack of progress made on the reforms he had proposed. This type of letter is rare in Colombia and suggests that relations with the President were difficult. Valencia subsequently left the government.

[17]John J. Bailey provides evidence which suggests that the gremios were operating in a hostile environment. For example, survey data demonstrate that almost every group in the society thought the associations had too much influence. See Bailey, "Pluralist and Corporatist Dimensions of Interest Representation in Colombia" in James M. Malloy, ed., Authoritarianism and Corporatism in Latin America (Pittsburgh, Pa.: University of Pittsburgh Press, 1977).

[18]This reflects the high value placed on pragmatism in the Colombian political system and the low value given to ideological positions. In Colombia, the worst that can be said of a technocrat or a politician is that he is dogmatic.

[19]Lombard shows how the conservative newspapers were systematically opposed to Decision 24. Nevertheless, he is mistaken in identifying the exception created by Decree 2719 of 1973 with ANDI.

[20]Lombard, p. 74.

[21]The Minister of Finance explained the theory of "marchitamiento" before the Senate as follows: ". . . during President Lleras' administration, a decision concerning foreign investment in

financial intermediaries was taken. The decision was known among officials as 'marchitamiento.' It determined that the presence of foreign capital in the financial sector was to be frozen in the future and that the growth of this sector would be represented by increases in Colombian capital. Therefore, with the growth of the Colombian financial sector, the relative importance of foreign capital was to gradually decrease. Thus, the name 'marchitamiento' (fading) was chosen." See ANIF, "La colombianización de la banca" (Bogotá, Tercer Mundo, 1976), p. 89.

[22] For an illustration of the importance of those contracts, see David Morawetz, "Why the Emperor's new clothes are not made in Colombia," World Bank Staff Working Paper 368 (Washington, D.C.: World Bank, 1980).

ECONOMIC AND POLITICAL DETERMINANTS OF REGIONAL INTEGRATION POLICY IN COLOMBIA

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Introduction

Colombian policy makers dedicate little time and effort to international relations. For example, in the period from 1974 to 1977, international relations, other than those pertaining to Andean Group negotiations, were never discussed by the Council of Ministers or the Council on Economic and Social Policy (the two executive councils chaired by the President and which meet regularly). This does not mean that Colombia did not have a foreign policy. During this period, the President and the Minister of Foreign Relations were closely involved in the Panama Canal negotiations, and the nation signed various treaties delimiting continental shelf boundaries with neighboring nations. But decision making was concentrated in the Presidency, and it was not felt necessary to involve other agencies of the government.

In contrast, issues concerning Andean Group negotiations were often brought to the Council of Economic and Social Policy (CONPES) and sometimes to the Council of Ministers. In addition, the Consejo de Comercio Exterior met often to discuss in detail negotiating options and results. These meetings were attended by the Ministers of Development, Finance, and Agriculture, and the heads of National Planning, the Central Bank, the Coffee Federation, IFI, and Proexpo. In addition, special ministerial-level working sessions were organized to hammer out negotiating strategies, and negotiating teams sent to Lima were often composed of technicians from the Ministries of Development (represented by Incomex personnel), Finance, IFI, and the National Planning Department.

Colombian policy makers have thus felt that Andean Group decisions are important and that they affect the principal sectors of the economy, as represented by the economic ministries, in addition to the Foreign Ministry.

As will be shown in this paper, however, the Andean Group has not changed the tendencies of such economic variables as trade, foreign investment, or industrialization in a perceptible way. Nevertheless, this does not mean that the time and effort of Colombian policy makers has been misspent or wasted. A good case can be made for the proposition that the impact of the Andean Group on the Colombian economy will only show up in the long run, and that the amount of attention Andean Group affairs receives simply shows the interest Colombian policy makers have in long-term issues. This, in itself, is an interesting fact, given the short tenure of Ministers and a four-year presidential term. The attention given by policy makers to this and other long-term issues is surprising, but it may largely explain the apparent continuity in economic policy making.

The imperceptible short-term effects of the Andean Group on economic variables may, however, lead to a premature disappointment with the whole process. It may be that we are entering this phase now. For that reason, it is important to review the different mechanisms of Andean integration, and to try to evaluate the impact of the different aspects of this process up to now and the changes that the decisions now in force can have on the shape of Colombia's economy in the future.

Furthermore, the process of decision making in Colombia with respect to the Andean Group may serve to illustrate the way economic policy making is conducted, and how different interest groups influence such policies. This analysis can also suggest how the Colombian position with respect to the Andean Group will evolve in the future.

The main purpose of this essay, then, is to show how the effect of the Andean Group on Colombian trade explains the nation's negotiating position. Also, I suggest that the incompatibility between the philosophy of import substitution and greater government intervention (espoused by the Junta and Colombia's partners), and the export and open-economy policy started in 1967 made Colombia reluctant to allow progress to be made in the integration effort.

To summarize, trade liberalization has not affected Colombian foreign trade. This has meant that only very few private groups, and only those ideologically committed to integration within the bureaucracy, support compromises that have economic cost in Acuerdo negotiations. This "hard" Colombian position has not always been perceived by its partners, partly because superficial studies have suggested that Colombia does gain from trade liberalization. There is also a clear incompatibility between the protectionist strategy of industrial programming in the Acuerdo and in the common tariff proposals of the Junta and the export-promotion and more open-economy strategy which Colombia has followed with success since 1967. Private interests identified both with agriculture and industry, and well represented in the leadership of the political parties, can mobilize (and have done so) against attempts to increase protectionism within the framework of the Andean Group. In addition, there is little support among the political parties or the bureaucracy in Colombia for increasing public investment in industrial enterprises. This fact makes industrial programming unattractive, except in the two sectors dominated by state enterprises: automobiles and petrochemicals. This lack of support for state enterprises is surprising given their importance in most Latin American countries, but the explanation of this phenomenon is beyond the scope of this paper.

Finally, analysis of the decision-making process suggests that special interest groups (in this case the association of manufacturers--ANDI) can block very specific policies that may hurt them, but have little influence in shaping general policies. The latter are always initiated by the executive, and political support for such policies is often related to their identification with regional interests.

The Trade Liberalization Program

The major policy instrument of a customs union is trade liberalization between member countries within a common external tariff. The Andean Group has made progress in trade liberalization, but it has as yet only adopted a common minimum external tariff.

Recent research carried out at FEDESARROLLO shows, interestingly, that the liberalization program has, in fact, had very little influence on Colombian trade.[1] This contradicts a study by the Junta of the Acuerdo de Cartagena, and the commonly held view among Colombia's Andean partners. This mistaken view is the result of looking at the rapid growth of Colombian exports to Andean countries, without taking into account the increase in Colombian exports to third countries. When Luis Jorge Garay analyzed export growth at a very disaggregated level,[2] comparing export performance before and after 1970 (when trade liberalization started) and contrasting Colombia's trade with Andean countries to that with Central America and the Caribbean or that with ALALC or developed countries, his conclusion was that trade liberalization has not changed the flow of Colombia's commerce with its Andean partners. Since these results were unexpected among many Colombian policy makers, it is worth summarizing them.

In the first place, Colombian exports to the Andean countries grew less than, or at best similarly to, those to third countries during the first six years of trade liberalization. This contrasts with a greater-than-average growth at the end of the 1960s for exports to the Andean nations. Furthermore, there were no significant variations in the intersectorial structure of trade with the Andean Group between 1966-70 and 1971-76. This again suggests that the integration effort had no effect on industrial or trade structure. In addition, Colombian regional exports did not appear to be less concentrated than those to third countries, thus suggesting that the integration process has not created important markets for new exports. Although it must be admitted that the number of items exported to the Andean Group did grow more rapidly, the above result shows that the economic importance of this phenomenon (in value terms) was insignificant.

Looking at whether exports or imports were in the lists that gave some tariff advantage, the result obtained was that only 48 percent of exports (in value terms) benefitted from some type of Andean tariff preference, while 78 percent of Colombian imports from its partners did so. Furthermore, trade in items with preferential treatment did not grow faster after the preferences came into effect.

A justification often given for integration efforts is that regional markets may serve as an export platform--in the sense that when entrepreneurs learn to export even small quantities to neighbors who provide preferences, they can launch export drives to third countries. Studying the lag between exports to Andean countries and to other markets, there is no evidence that exports occur first to the regional markets. It does appear that for Andean exports, there _is_ a tendency to use the neighboring Venezuelan or Ecuadorian markets as export platforms, as shown by a lag between exports of various items to the Chilean, Peruvian, and Bolivian markets with respect to those to Ecuador and Venezuela. On the other hand, there is evidence that the Andean imports of Colombia do displace imports that previously came from third countries.

Finally, Luis Jorge Garay concluded that there had been no significant effect on trade creation or trade diversion in Colombia due to the Andean Group in its first six years of existence.

These results do not mean that trade with the Andean Group is unimportant for Colombia. The region receives 25 percent of Colombian exports (excluding coffee) and contributes 7.5 percent of the nation's imports. Furthermore, 42 percent of intermediate-goods and metal-and-machinery-goods exports go to the region, and 40 percent of processed food imports come from the region. These figures tempt one to conjecture that the importance of the region for sophisticated Colombian exports created support in Colombia for promotion of, and participation in, the Andean Group, but that in the short run the Group's mechanisms have not had the expected effect.

The interesting question, however, is: who in Colombia expected more tangible results? It can safely be said that many politicians and policy makers were bullish about the Andean Group, and were convinced that integration would contribute to industrial growth, particularly since it could make available the benefits of economies of scale. In addition, the sector of the Liberal party that was identified with the creation of the Andean Group (the Llerista faction), as well as the Pastrana faction of the Conservative party (which was identified with Decision 24 and the first years of the integration effort), had sold the Andean Group as a major policy innovation and had exaggerated the benefits of such a scheme. Integration was also attractive as a means of obtaining more independence from the major trading partners (the developed countries), and from the vicissitudes of commodity markets.

Interestingly enough, neither orthodox theory nor CEPAL put much emphasis on trade liberalization between underdeveloped countries. Orthodox theory because not much trade creation is expected among economies which are not complementary. Most of the member countries had similar industries at low levels of technological development, and agricultural goods were not generally given trade benefits. CEPAL, on the other hand, postulated that a simple liberalization of regional trade would not achieve the transformation of economic structures in the member countries. For that reason it recommended the programming of industry by sectors and a substantial amount of planning at the regional level to achieve real integration.

It could be argued, however, that the propagandizers of economic integration did not often spell out the limited effects such efforts would have in the short and medium run. On the contrary, integration was often recommended as the solution which might get the Latin American economies back on the path of accelerated industrialization. Therefore, the enthusiasm of politicians and policy makers for the Andean Group was understandable. The small impact which integration efforts have had on the Colombian economy in the last decade, however, should have signaled to policy makers that the importance of the Andean Group should not be overestimated. What follows is an attempt to explain why integration remained a high priority on the agenda of policy makers.

Economic Integration and Private Interests

As Guillermo Perry has shown in his recent survey of Colombia's exchange and foreign-trade policies,[3] the tariff structure has been fairly constant since the 1930s, and those industries which obtained high protection at the start of industrialization are the ones which today still have the highest levels of protection. Furthermore, Perry has concluded that there has been a close relationship between levels of protection and growth of industry by sector, a result which implies that tariff structure does affect profits and industrial structure.

The constancy of the tariff structure suggests that there are powerful interests which make rationalization of tariffs difficult. Throughout the 1960s, agricultural interests were conscious that high protection for consumer-goods industries discriminated against agriculture, and since 1967 most economists have recommended lowering protection levels on traditional industries, since the infant-industry justification for such protection cannot be justified for industries protected for more than 30 years. The attack on protection was spearheaded by Alfonso López, leader of the MRL throughout the 1960s, and effectively propagandized by Indalecio Lievano, also of the MRL. Their outlook became a relevant variable in 1974 when López became President and Lievano his Minister of Foreign Affairs.

Despite the apparent political and economic strength of the forces opposing protection, however, the tariff structure did not change significantly during the 1960s or even after 1974, although the government occasionally attempted to rationalize the protective structure.

The impression one gets is that in the Colombian system substantial opposition can be mobilized to oppose concrete measures which harm a specific interest group that is already strong. For example, the López government was unable to eliminate infinite protection for textiles (import controls), due to the effective opposition of the interested parties, often working with the middle echelons of the bureaucracy, but there was no effective opposition to the Development Plan, which postulated the restructuring of protection. The national plan, however, has no immediate effect until implemented in concrete measures. The plan was not attacked for its anti-import-substitution bias in Congress or at the political level, because--among other reasons--rural and agricultural interests are quite strong in Congress. Most active politicians liked the strategy presented in the plan.

The exceptions were the politicians of Antioquia, where Colombian industrialization began and where the industries originally protected were located. There, everything the López administration did was considered harmful. Not only was the general economic policy of the government apparently harmful to the region's industries, but a very progressive tax reform passed in the first 100 days of the administration produced hostility among Antioquia's powerful industrial and cattle groups. In other areas of the country, such as Valle, national industry was less protected and agricultural groups did not find López's economic philosophy unattractive. In the rural areas of the coast, the tax bite was compensated by increased administrative responsibility for the costeños, less emphasis on land reform, and a government dedicated to promoting development in that area of the country.

But the political and economic coalition in Antioquia--supported by the National Association of Industry (ANDI), which is based in Antioquia and is dominated by Antioqueño industry--made the political cost of dismantling protection too high. For the Liberal party, loss of electoral support in Antioquia is serious. Furthermore, it can be argued that in Antioquia, where the Liberal party traditionally was more closely identified with the urban economic elite than in other areas, the political elite logically turned against the progressive López government. Thus, the industrialists, supported by ANDI and given strength by the anti-López political coalition in Antioquia, were able to avoid a change in traditional protectionist policies.

The above suggests that in Colombia tariffs are a policy area where the stakes are high. It is not surprising, therefore, that policy with respect to the Andean Group has high priority for the government, since in a sense most Andean Group decisions in some way affect the levels of protection.

The effect of the Andean Group on Colombia's economy has not been large up to now, however, because the minimum external tariff adopted by the Group is very similar to that existing in Colombia. Furthermore, since most imports from the Andean Group countries which use the Group's tariff preferences are natural-resource-based goods,[4] the Andean Group has not yet implied additional competition for local producers. Any future progress which is made within the Andean Group mechanisms will, however, imply changes in the structure of protection. It is for that reason that Andean Group decisions continue to be important.

An analysis of the direction in which the Andean Group is moving provides an idea of where support and opposition for integration are to be found in Colombia. There appears to be a consensus that the philosophy behind the Andean Pact is that propagandized by CEPAL in the late 1960s, when the import-substitution strategy was no longer producing clear benefits in various countries of Latin America and CEPAL decided that only by extending import substitution to a regional level could the industrialization momentum be kept alive. Ernesto Tironi quotes the Junta del Acuerdo de Cartagena to show that one of the major postulates of Andean integration is that economic growth in the member countries should be based: "fundamentalmente en un nuevo modelo de industrialización factible mediante la integración y apoyado tanto en una política subregional de sustitución de importaciones como en la ampliación de los propios mercados internos."[5]

Luis Jorge Garay also analyzed the CEPAL theory on economic integration in detail,[6] and ex-president Carlos Lleras, although refusing to credit CEPAL with paternity for the idea, confirms that the founders of the Andean Group thought its main purpose was to make regional import-substitution viable.[7] Lleras is careful to point out, however, that:

> Colombia adopted the Grupo Andino idea so that within this arrangement a greater degree of competition for the benefit of consumers be achieved in those sectors not the object of special programming commitments, giving importance to the preference margin implicit in a customs union but without thinking that that margin can or should be maintained at levels which will promote at the sub-regional scale the most obvious distortions that national protection has caused in those cases in which it has been maintained for a longer time than is reasonable.[8]

This quote, by one of the founders of the Andean Group, shows clearly that, in Colombia in 1979 (and probably in 1968), even the most interested partisans of the Andean Group (President Lleras clearly supports the Pact by conviction but also because it is one of the major achievements of his administration) cannot subscribe to an extreme import-substitution theory of integration. The other major achievement of the Lleras administration was the foreign-exchange and trade regime established in 1967 (Decree Law 444), in which Colombia started in earnest on an export-promotion development strategy. A more open economy, in which exports to developed and developing countries are to play an important role, is incompatible with an extreme import-substitution strategy of the CEPAL variety. For that reason, Lleras implicitly suggests that the Common External Tariff should be lower than the present level of the national tariffs.

The attitude of the Venezuelan and Peruvian governments and Chile before Pinochet was quite different. Peru and Chile were not particularly interested in trade liberalization, but were ideologically committed to industrial programming and not letting the market determine industrial structure.[9] Venezuela, on the other hand, had made the commitment to "sow its petroleum." This meant investing the revenues from oil in industry, so that when petroleum reserves were used up the country would have an industrial base to sustain its economic growth. For that reason, Venezuela emphasized the programming aspects of the Andean Group during the initial negotiations, since it wanted to invest in capital-intensive industries which needed a regional market to reach efficient economies of scale.

Regional programming opened up this possibility, in part because the other countries did not have the capital to carry out the investments this required. Bolivia and Ecuador also supported industrial programming since only through that mechanism could they hope to create capital- and technology-intensive industries.

In the first years of the Pact, the emphasis in negotiations was thus on industrial programming and regional import substitution. The tendency was toward a level of protection in the Common External Tariff above the levels of the Colombian tariff, and toward a degree of state intervention in the economy that was not considered practical or desirable by Colombian policy makers. The Andean Group was therefore viewed as a threatening phenomenon by the policy makers, who saw that unless progress was kept at a very low rate, decisions concerning the Andean Group would contradict the main lines of Colombian macro-economic policy.

The Colombian attitude toward the Andean Group has not been constant. In the years following the exchange crisis of 1966-67, trade policy had elements of protectionism and import substitution that seemed to dominate export-promotion efforts. On the books, Decree Law 444 was very protectionist, the majority of imports either required special licenses or were prohibited, strict exchange controls were established, and import-substitution strategies were being followed in the automobile and petrochemical industries. Initially, the Andean Group import-substitution strategy coincided with what appeared to be the economic policy prevalent in Colombia. In that early period, which included the negotiation of the Acuerdo de Cartagena, Colombia's active support for integration reflected the lack of contradiction between the philosophy of regional import substitution and internal economic policy. Actual economic policy between 1967 and 1970, however, did not follow the protectionist rhetoric of Decree Law 444, or of the older generation of Ministers who took that rhetoric seriously. President Lleras took the initiative to devalue in real terms through a crawling-peg system, substantial support was given to agriculture and exports, and the financial system began to be liberalized. By 1970, Colombia had opened up its economy to a surprising degree, and few people in or out of government wanted a return to import substitution. With a lag, Incomex negotiators started to take tougher stands in Lima. In the period 1974-78, Colombia clearly found itself in disagreement with most of the protectionist positions taken by the Junta, Peru, and Venezuela.

While the main thrust of policy in Colombia after 1970 was to downplay import substitution, Venezuela, Ecuador, and Bolivia wanted to try such policies. While in Venezuela, Chile, and Peru state participation in industrial projects was becoming more important, in Colombia there was widespread disappointment with the industries which had been promoted by the state development bank (IFI). While Peru and Chile were increasing the direct participation of the state in the economy, Colombia did not want to increase such participation significantly.

In other words, one of the four main postulates of Andean integration was not very attractive to Colombia. The Junta saw that the first postulate on which there appeared to be agreement when the Acuerdo de Cartagena was formed was that: "al estado le corresponde un papel decisivo, más importante que el que le había cabido tradicionalmente a la conducción general del proceso de desarrollo. Esa mayor ingerencia debe expresarse a través de la planificación y de la inversión directa en algunos sectores estratégicos."[10] In Colombia there was support for only a very mild version of this postulate, in which more planning only meant the rationalization of public investment.

The contradictions between the development strategies of Colombia and its partners have been mentioned because at the Junta del Acuerdo de Cartagena, at the Foreign Offices of the other countries, and in the literature, it is generally thought that Colombia was the country that could always be counted on to support the Andean Group, since regional integration would clearly be beneficial to it. For example, to Colombian policy makers the matrix published by Tironi on degrees of support by country to the various integration mechanisms is very surprising. Colombia appears (see Table 1) in favor of all mechanisms, while in reality it consistently rejected both programming (PSDI) and the high level of common tariffs (AEC) proposed by the Junta.

Although one could argue with some of the non-Colombian lines in the matrix (for example, by underlining PSDI for Venezuela and probably for Ecuador and Bolivia), it is clear that the image of Colombian support is misleading. First, one should underline the trade-liberalization column for Colombia and change PSDI to rejection or doubt both on economic and ideological grounds. Decision 24 could be characterized by D, when the letter denotes indifference or non-dogmatic support. It is important to emphasize, however, that within Colombia and even in the government circles concerned with Andean Group negotiations, support has not been as widespread as is thought by the other member countries. Probably a good explanation for this situation can be found in the Garay study, which clearly shows that, to the present, trade liberalization has not had any perceptible benefits for Colombia. Since PSDI (industrial programming) is considered undesirable for economic as well as ideological reasons, the less-than-enthusiastic support is understandable. Garay's results are also confirmed by the fact that private industry has shown little interest in becoming involved in Andean Group issues. For example, Luis Prieto, an ex-president of ANDI, told the author that except for Decision 24, industrialists showed no interest concerning Andean Group negotiations.

The policy makers' attitude toward the Andean Group must also be seen in the perspective of what has been happening in the Colombian economy during the last decade. In the first place, one must take into account that both informed opinion and the economic literature seem to agree that the gradual opening up of the economy since 1967, and the shift from a mild import-substitution strategy to a mild export-promotion strategy, has made possible a significant acceleration of

TABLE 1

MATRIX OF ATTITUDES OF THE ANDEAN COUNTRIES WITH RESPECT TO THE DIFFERENT PROGRAMS OF THE SUBREGIONAL INTEGRATION PROCESS

Country Strategies	Trade Liberalization	Common External Tariff	Industrial Programs (PSDI)	Decision 24	Net Balance
Mixed Economies					
Colombia	A	A	A	A	A
Venezuela	A	D	A	A	A
Ecuador	A	D	A	D	A
Bolivia	D_e	R_e	A	D	D
Planning Strategy					
Peru	D	R_i	$\underline{A}_i$	A_i	D_i
Neo-liberal Strategy					
Chile	A	$\underline{R}_i$	D	R_i	R_i

A = support
D = doubt
R = rejection

Subindex $_e$ denotes economic reasons, while $_i$ denotes ideological reasons.

Underlined letter indicates this item has the highest priority for the country in its development strategy.

SOURCE: Ernesto Tironi, ed., Pacto Andino: carácter y perspectivas (Lima, I.E.P. Ediciones, 1978), p. 284.

economic growth. In other words, the Colombian economic model has been performing well, except perhaps in the area of inflation, and it is clear that greater protectionism will not affect prices in the right direction. Therefore, Colombian policy makers are very reluctant to let the Andean Pact emphasis on high tariffs and regional import substitution bring about a change in what appears to be a successful growth strategy.

The Colombian model has performed well in terms of GNP growth, but it has also solved some of the more serious unemployment problems envisaged in 1967. Furthermore, a good case can be made for the proposition that income distribution in Colombia has become less equal in periods of substantial import substitution,[11] and that the bias against agriculture in most of the proposals of the Junta del Acuerdo de Cartagena will, in relative terms, decrease the rural population's participation in total income, a result which clearly harms the poorest sectors of society.

Given the problems which a return to greater protectionism would cause, the economic benefits from trade liberalization would have to be very large in order to obtain serious support for the Andean Group in Colombia. The only constituency the CEPAL integration model could have would be among industrialists. But the industrial programming decisions cover industries to be established, while trade liberalization does not benefit the traditional industries of the textile and consumer-goods sectors, since most countries excluded these items from the list of goods that would receive tariff preferences. Only the capital-intensive state enterprises and multinationals could possibly get involved in large investment, and neither group is popular in Colombia or capable of mobilizing politically relevant groups in their favor.

If lack of support for the Andean Group is so prevalent among interest groups, it is interesting to consider why Colombia did not leave the Group. There are probably four reasons for this:

1) As was mentioned before, trade growth with the Andean countries was substantial before 1970. Although the Andean Group has not significantly improved the situation, leaving the Group could be harmful. Trade is not negligible, and, in particular, exports of certain technologically advanced goods are important.

2) Within Colombia's political structure, factions of both the Liberal and Conservative parties are programmatically committed to the maintenance of the Andean Group. The creation of the Group was one of the major achievements of the Lleras administration, and the first years of life of the Acuerdo are considered a triumph of the Pastrana administration. This makes withdrawal from the Andean Group a difficult partisan issue with a political cost. Paralyzing progress in the negotiations, however, has little cost.

3) Given the boundary problems with Venezuela, leaving the Pact also has a cost in terms of Colombia's major foreign-policy problem: relations with Venezuela.

4) There is a certain ideological commitment on the part of intellectuals and policy makers to the idea of becoming less dependent on trade with the developed world. This, and the idea of a greater unity among Latin American countries, has substantial power for mobilizing support. It must be remembered that Colombia has little interest in foreign affairs, since it can have little influence on what happens in the world. In these circumstances, economic integration seems to be the only policy option in the foreign-affairs area.

Some brief comments on the relative strength of these four reasons may be useful. The influence of firms presently exporting to the Andean Group is somewhat limited by the fact that a not-insignificant amount of manufactured-goods exports are made by foreign firms.[12] These companies find it difficult to influence government policy.

The importance of the political factor should not be ignored. Developments since 1970, however, have weakened the weight of the Lleras faction in the Liberal party, and the fact that the Andean Group is very much identified with Lleras helped to make President López less than enthusiastic about integration. Given the dominance of the anti-Lleras groups within the Liberal party, the majority political party's commitment to integration is not as strong as it could be.

The issue of relations with Venezuela is crucial, but support of the Andean Group for ideological reasons is a consideration which must also be taken into account by policy makers. The benefits of economic integration have been so propagandized by its partisans that any break with the Andean Group would require a very active campaign of explanation.[13] On the other hand, the issues being negotiated are so complicated that a stand-still in integration is much easier than a break. Furthermore, as the economic process of integration is coming to a stand-still, the member countries have found that a common Andean position has some impact on Latin American affairs. Although it is hard to see how such a common position can be translated into concrete benefits for Colombia,[14] the new-found importance of foreign policy acting through the Andean Group is an additional incentive for governmental policy makers to make sacrifices in order to keep Colombia in the Pact.

It is ironic that the Andean Group started to develop a common foreign policy only when it became obvious that integration could have only a marginal economic effect. As in the case of Latin American governments, there is a negative correlation between internal economic success and foreign-policy activity.

Colombia: The Gaullist Member

The above analysis would suggest that Colombia would follow a policy of hindering the progress of Andean Group mechanisms, particularly after the original promoters of the idea left government. Until then, the policy makers who helped create the Acuerdo could only diminish their political stature if the Pact failed, and therefore they were willing to negotiate the sacrifice of some Colombian interests, among other things because it was clear that the costs would only appear in the long run. With time, however, the Colombian export model became more successful, and the import-substitution strategy became less and less popular, even in its regional version. Furthermore, political power within the majority Liberal party seemed to shift away from pro-industry to pro-agriculture politicians, and the 1960s school of Colombian economists who began to become active in government in the 1970s was also quite anti-CEPAL. All of this made the Colombian growth strategy more and more incompatible with the import-substitution and pro-industry bias of the Andean Group as reflected in its charter, in the philosophy of the Junta staff, and in the role Peru and Venezuela envisaged for the Group.

The result was that Colombia supported the trade-liberalization scheme, which coincided with its export-promotion efforts, but tried very hard to avoid decisions which would imply greater protection through changes in the Common Tariff or through ambitious negotiations of industrial programs.

Industrial programming in particular seemed dangerous to policy makers. First, it implied very high tariffs for the products negotiated, and second, there was no assurance that Colombia would be able to produce the goods negotiated. It appeared that only capital-surplus Venezuela could make all the investments assigned to it in an ambitious industrial program, and that in many of the capital-intensive industries programmed, only transnational corporations or the government could mobilize the investment capital. Since the Colombian government had no surplus funds, had many social programs to finance, and had shown itself to be an inefficient industrial entrepreneur, it was not logical to support industrial programming. The exception was automobile programming, since the government was already heavily involved in the industry, an industry in which it was felt that any nationalization would improve productivity.[15] It is telling, however, that programming should make significant progress only in areas where state intervention is strong in Colombia, such as automobiles and petrochemicals. In all other industrial areas, the state plays a limited role and one would therefore expect Colombia to be reluctant to allow progress in the industrial programming effort.

In summary, Colombian policy makers dedicated much time and effort to shaping policy with respect to the Andean Group, primarily in order to keep the dynamics of integration from modifying Colombia's implicit post-1967 economic strategy. Both industrial and agricultural interests support that strategy, and have done well by it. On the other hand, organized urban labor, which has done less well in the 1970s, saw no particular advantage in, or even fully understood, the integration issues. Therefore, the programming mechanisms which were so important to Venezuela, Peru, Bolivia, Ecuador, and Allende's Chile, had few friends in Colombia. For that reason, Colombia has often found itself in accord in the Andean Group with Chile under Pinochet, who has wanted to downplay programming and protectionism.

The Effect of Individuals and Institutions in Integration Policy

General analysis should never ignore personalities. Jorge Valencia Jaramillo, President Lleras' representative in the original Andean Pact negotiations, was the Minister in charge of Andean Group matters at the start of the Pastrana administration. For personal political reasons, he was interested in having the Pact survive, and he was therefore more willing to compromise than were his successors--a crucial fact given the importance of the decisions taken in the first years of the Acuerdo. Also, during the second half of the López administration, Antonio Urdinola was one of the few economists in government who did not believe in freeing trade and who favored greater public investment in industry. This influenced the degree of compromise Colombia was willing to achieve in the Andean Group. In a sense, it is inevitable that pro-integration people should staff the agency in charge of Andean negotiations, since such an attitude makes Colombian foreign relations less difficult and this makes partisans of integration appear to be successful negotiators. For example, Urdinola's predecessor had reflected Colombian opposition to the Pact too bluntly, and this complicated presidential foreign policy in other areas considered important.[16]

The institutional framework for policy-making has also had an effect on policy outcomes. The establishment of a decision-making board (the Junta) with permanent country-representatives meant that in each of the countries concerned a specific government entity separate from the two traditionally strong ministries of foreign relations and finance was given the coordinating and negotiating role for Andean Group affairs. The result was that the agency in charge of integration had a vested interest in avoiding any breakdown in the process. In addition, many of those ideologically and personally committed to integration took refuge in these institutions. This was certainly the case in Venezuela, where in the first years of the Pact there was substantial opposition to integration from the private sector and even within government, but the flame was kept alive at the Instituto de Comercio Exterior.

In Colombia, it was decided to centralize integration coordination in the Consejo de Comercio Exterior, which is in fact the Board of Directors of Incomex, the import-control agency administratively dependent on the Ministry of Development. This agency was created to control imports at the time of the 1967 exchange crisis. By 1970 Colombia had sufficient foreign exchange, and the import-rationing function of Incomex was no longer very important. In these circumstances, its role in the Andean Pact negotiations became its major justification, and one would expect Incomex employees to be very pro-integration.

Since the agency's other function is import control, it is structurally biased toward protectionism, which again makes it pro-Andean Group. This protectionist bias is reflected even in the sources of income of Incomex, which gets no budget money to finance its operations, but depends exclusively on a fee charged on the sale of documents required to obtain import licenses. Furthermore, export promotion is the function of another autonomous agency (Pro-expo), and that agency is closely connected to the Central Bank and therefore also to the Ministry of Finance. There are, then, within Incomex no bureaucratic divisions dedicated to export promotion or trade liberalization.

In addition, Incomex seldom reports to the Minister of Foreign Affairs, and deals mostly with the Ministry of Development, which is the most protectionist Ministry in Colombia and the place where industrialists take their complaints concerning "unfair" competition.

In summary, the institution in charge of Andean Group negotiations would lose all importance, which is substantial at present, if "integration" is not pursued actively. Incomex is now one of the major policy-making forces in Colombia as a result of the impact of the decisions taken within the Acuerdo de Cartagena. If the integration process stopped, Incomex would become a statistical office dedicated to registering imports and exports, since the strong reserve position of the country makes unnecessary its role in the quantitative control of imports. The Incomex staff is thus more pro-integration than any other sector of the bureaucracy. This has had two effects. On the one hand, it has made Incomex negotiators willing to compromise in order to avoid a crisis in the Andean Group, and on the other hand, it has led negotiators from the other countries, whose main contact is Incomex, to think that Colombians have a greater interest in the Andean Group than is in fact the case. (In the same way that other countries, through their contacts with Incomex, have been misled into believing that Colombia supports the Andean Group more strongly than it in fact does, Colombian negotiators--and the author--may have taken too seriously Peruvian and Venezuelan support for high protection levels and industrial programming. While Peru's Secretaria de Integración took strong positions in favor of high tariffs and programming, other agencies may have had more liberal policies. In Venezuela, the Ministry of Finance, trying to control inflation, was much less protectionist than those in charge of integration policy. In other words, studies similar to this one, carried out in the other countries of the region, may also show a pattern of support for the various instruments of integration somewhat different from that which appears in the official pronouncements and which is reflected here. Such studies would probably show greater similarities than are implicit in the official negotiating positions, particularly after recent shifts in economic policy in Peru. In that case, the possibilities for progress in the process of integration are greater than in the 1974-78 period.)

Conclusion

The Andean Group model of economic integration supposes an enhanced role for the state and planning activities, and its major purpose is to achieve industrialization through import substitution at the regional level. Both of these postulates imply a reform of the economic model followed successfully by Colombia since 1967, and therefore Colombia could not logically support accelerated progress in the integration process. On the other hand, the political costs of leaving the Andean Group were not negligible. This logically led to a policy of delaying decisions in areas which went against the interests of the country, particularly in the areas of industrial programming and a common (and high) external tariff.

The lack of short-term benefits from trade liberalization documented here also made policy makers increasingly reluctant to compromise on tariffs or PSDI in return for continued progress or the maintenance of trade liberalization. Furthermore, the limited opportunities for export created by the Acuerdo account for the fact that no important national group was mobilized in its support.

The economic failure of the Peruvian experiment and of some of Venezuela's publicly owned industries has led to shifts in economic policy in these countries in the direction of the Colombian position. In the future, Peru and Venezuela may put less emphasis on industrial programming and on a high common external tariff to promote regional import substitution.[17] If this is the case, one would expect greater progress toward a customs union in the near future.

With respect to the decision-making process in Colombia, the conclusions suggested by this case study are:

1) Specific interest groups such as ANDI have the power to avoid changes in policy which affect their interests in a significant way, particularly if they manage to obtain regional political backing for their position. This suggests that regional special interests can be quite influential in policy making. These interest groups, however, cannot initiate policy.

2) Individual government policy makers have substantial "initiative space." If the initiative does not produce a veto from an important interest group, it will probably be implemented. The veto, however, will only be effective against an earnest executive when the interest group can translate its opposition into political opposition from some group within one of the two traditional political parties.

3) There is a substantial current of feeling against state industries and public investment in productive enterprises in Colombia.

The first proposition can be demonstrated by analyzing the role of the National Industrial Federation (ANDI) in Andean Group decision making. Although the Acuerdo de Cartagena protectionist strategy should be attractive to industrialists, ANDI never mobilized effective support for the Junta's tariff proposals. On the other hand, ANDI has been able to block government attempts to lower tariffs, and its veto in this area has been made possible by identifying its position with that of the Antioquia region. A showdown with respect to tariffs would therefore involve the government in a serious political clash with the antioqueños in both political parties.

The second proposition can be demonstrated by observing the amount of influence individual policy makers have had on policy. A Minister can initiate policy without consulting the political parties, the interest groups, or his Cabinet colleagues.[18] If there is no substantial opposition, he can pursue his policy by administrative means, even if he has little support from the President, the parties, or Congress. Jorge Valencia, for example, was able to make substantial commitments for Colombia which will affect future trade and industrial structure, even if these commitments would not have obtained the majority support of his Cabinet colleagues or of Congress. When he proposed policies which would affect specific private interests or basic principles in a very direct way, he was defeated. This was the case when he committed Colombia to more state industry in the negotiations concerning Decision 24, and when he ran into frontal conflict with the construction interests over his proposed urban reform. This last episode is well documented by Bagley.[19]

The large "policy space" of an individual policy maker is also illustrated by the change in trade policy brought about by Antonio Urdinola. He downplayed the opening up of the economy favored by the President and most of his Ministers. He was able to do this because no single measure he took hurt the agricultural partisans of lower protection, but he did get support from the industrialists and the Andean Group negotiators.[20]

The third proposition is derived from various parts of the story presented here. For example, although ANDI had an interest in promoting the Andean Group's pro-industry and protectionist policy, it did not support the Group actively because the philosophy of the Junta implied a greater degree of government intervention. The detailed planning involved in industrial programming could only diminish private industry's freedom of action. ANDI's opposition to Decision 24 also concentrated on eliminating the clause which gave government the first option to the stock of foreign companies that divested. ANDI, in fact, supported the divesting clause. There has also been little support for industrial programming due to the awareness that such a policy can be effective only with a massive increase in public investment in industry.

It is surprising, however, that public-sector production companies should be so unpopular in Colombia. Public-sector companies of this type are popular and have grown rapidly in Brazil, Mexico, and Venezuela. The lack of support for a growth strategy based on public companies is, however, a subject for another paper.

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[2]In most of the paper, analysis is carried out for at least 276 export items and 104 import items.

[3]Guillermo Perry, "Política cambiaria y de comercio exterior: revisión de la experiencia histórica y propuesta para la próxima década," in Economía colombiana en la década de los ochenta (Bogotá: FEDESARROLLO, 1979).

[4]Garay, p. 7. After reclassifying slightly-processed industrial goods as belonging to the agricultural or mining sector, he concludes that 58 percent of Colombia's imports from the Andean Group are resource-based.

[5]Ernesto Tironi, ed., Pacto andino: carácter y perspectivas (Lima: I.E.P. Ediciones, 1978), p. 249.

[6]Luis Jorge Garay and Diego Pizano, El grupo andino: objetivos, estrategia, mecanismos y avances (Bogotá: Editorial Pluma, 1979), pp. 21-40.

[7]Carlos Lleras Restrepo, "Prólogo" to Garay and Pizano, op. cit.

[8]Ibid., p. iv.

[9]Personal interview with Francisco Thoumi, the negotiator for Colombia of the minimum external tariff, relates that at the end of the Frei government, Chilean tariff ranged from 0 to 10,000 percent, and that the first proposal of the Chilean delegation for the minimum tariff was a 300 percent average level, with a range from 0 to 1,000 percent.

[10]See Tironi, p. 244.

[11]See M. Urrutia and A. Berry, La distribución de ingreso en Colombia (Bogotá: La Carreta, 1975).

[12]In a CEPAL sample of firms that export to the Andean Group, the percentage of total exports covered by foreign-owned firms was somewhat higher than 50 percent. See CEPAL, Las exportaciones colombianas de manufacturas a los paises del Grupo Andino (Bogotá: CEPAL Subsede Bogotá, 1979).

[13]It is interesting to note that in principle most newspapers and commentators are for integration. One can think of no public figure with on-the-record opinions against integration.

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[14]Venezuela and Ecuador can derive clear benefits by acting through the Andean Pact, since this counteracts the negative reactions of the United States and other Latin American nations generated by the OPEC affiliation of these countries. The recent U.S.-Andean Pact agreement gave Ecuador and Venezuela access to the U.S. generalized tariff preferences, which had been denied to OPEC members by the Trade Act. On the other hand, Colombia's support of the Nicaraguan insurgents through the Andean Group was altered into a sea platform-border problem instigated by the new government. Furthermore, Peru voted against Colombia's candidacy for the U.N. Security Council and in favor of Cuba.

[15]It is interesting that according to Luis Prieto, ex-president of ANDI, the only private-sector interest in the Andean Group was shown by the only private auto-maker. That company clearly felt that in negotiations for the Automotive Program in the Andean Group it would probably lose out to the two government-supported auto-makers. The government auto-makers, on the other hand, were represented by IFI, which believed in industrial planning and therefore liked the Andean Group scheme.

[16]The other delegations went to the extreme of letting the Colombian government know that they would not go to the sessions of the Junta which would have to be chaired by Alberto Galeano. Thus occurred a veto of a Colombian chief negotiator who was following instructions, although perhaps with less diplomacy than desirable. Personalizing the conflict was useful, since Colombia then named Urdinola, who was more protectionist than the rest of the government.

[17]Venezuela's balance-of-payments and government-finance problems also make less interesting the strategy of investment in government-owned and capital-intensive import-substituting industries.

[18]This same aspect has been documented by Bagley in his case studies on decision making. See Bruce Bagley, "Political Power, Public Policy and the State in Colombia: Case Studies of the Urban and Agrarian Reforms during the National Front, 1958-1974" (Ph.D. diss.: UCLA, 1979).

[19]Ibid.

[20]Antonio Urdinola, who kindly read this paper and made perceptive comments which will be extremely useful for a more complete analysis of the way pressure groups operate in Colombia, remarked that within the Andean Group his negotiating position was made easier by the fact that his colleagues were aware that he had a more pro-industry and protectionist position than most of the people in the government he represented. Clearly Urdinola influenced negotiating results by giving greater weight to his own ideological viewpoint, but being both a very able negotiator and very knowledgeable about the Colombian economy, he probably very effectively defended the fundamental economic model of Colombia.

[The latter essay formed the basis of a February 14, 1980 colloquium sponsored by the Latin American Program of the Woodrow Wilson International Center for Scholars. The author's presentation was followed by commentaries from Lynn Mytelka (Carleton University, Ottawa) and Bruce Bagley (School for Advanced International Studies, Johns Hopkins University). The following summarizes the remarks made by the commentators and members of the colloquium audience.]

Commentator Lynn Mytleka, who said that she found herself cast in the role of defender of the Andean Group, agreed with Urrutia that no country's across-the-board support for the Andean Pact should be taken for granted. She thought, however, that Urrutia's perspective was idiosyncratic and that the discussion should be set within the context of integration schemes in general. Colombia's position within the Andean Pact is similar to that of more industrialized countries in any integration plans. These countries place less emphasis on planning and more on liberalization because they will profit from an open economic system. Colombia, however, has not adopted a position opposing all planning, and thus differs from the more industrialized countries in other integration schemes who have consistently taken this stance. Only an extension of Urrutia's framework would allow one to explain this phenomenon.

Mytelka questioned two of Urrutia's arguments. In the first place, she said, Urrutia asserted that the philosophy underlying the Andean Group is simply an extension of CEPAL (Economic Commission for Latin America) doctrine. Mytelka pointed out that this doctrine was prominent in the 1950s and was exemplified in the 1958 Central American integration treaty. The drafters of the Acuerdo de Cartagena, however, were aware of this model's limitations and knew that it was impossible to protect their own markets indefinitely while inviting foreign capital in to industrialize their economies. In the second place, she countered Urrutia's assertion that Colombia has not benefitted from the Pact. It is almost a truism to say that analyzing the costs and benefits of integration is a highly political matter, she stated, since there are no constant, universally accepted standards of measurement. But there are other statistics available which indicate that there have been benefits; whether or not these benefits are a direct result of the Pact is impossible to prove.

Finally, Mytelka argued, there are subtle differences among different Colombian groups' positions regarding the Andean Pact, which Urrutia's essay overlooks. For example, there are different merits and therefore different groups of supporters for selective as opposed to overall protectionism. In addition, those who support planning are not necessarily the same groups opposing protectionism; one needs to differentiate between these two issues because their dynamics are not at all the same. Industrialists are not necessarily unequivocally opposed to all planning; their position depends on the kind of planning and the type of firm--its size, competitiveness, etc. Industrialists have, for example, expressed interest in the development of the automobile and petrochemical industries.

COMMENTARY

Commentator Bruce Bagley picked up some of Mytelka's points and elaborated them further. He suggested that consideration of possible benefits from the Andean Pact had been construed too narrowly by focusing exclusively on trade. Nevertheless, Colombia has traditionally had a significant amount of trade with the Andean Pact countries, and it had to join the Pact in order not to jeopardize this trade. Secondly, the Pact was never intended to be a purely economic enterprise. It always had a major political dimension. Colombia wanted to increase its political bargaining power with respect to the United States and other large countries. In this respect, it has been quite successful.

The Urrutia essay's major asset, Bagley said, is its emphasis on linkages within the Colombian government. It represents a major step forward in understanding the Colombian decision-making process. The essay, however, has three problems, according to Bagley. In the first place, Urrutia is too sweeping when he argues that there was no support for increased state intervention in the economy. The Llerista faction, for example, was interested in expanding the state's role and therefore proposed constitutional reforms and emphasized the planning process. One needs to look at the separate groups as well as the system as a whole. After 1970, when the Conservatives took office, there were major shifts in economic policy. Urrutia could extend his analysis and help explain the changes which took place between the 1960s and the 1970s.

Secondly, Bagley mentioned the role of private-sector associations in the policy-making process. It is true, as Urrutia argued, that major interest groups can block policies which are detrimental to them. At the same time, however, Urrutia emphasized the substantial political space or autonomy enjoyed by the President and his Ministers. These two statements seem to be contradictory. Bagley suggested that there was no general rule and that the degree of autonomy should be defined for each issue area. Urrutia does not explore this sufficiently in his discussion of differences of opinion between ANDI and the government.

Thirdly, not enough attention is focused on the costs, political and social, of the export-growth model. It is evident from Urrutia's analysis that rural groups, the poor, the working class, and others do not participate in the decision-making process. The experience of other countries which have followed export-led growth models leads one to ask about the long-term implications of this strategy for income distribution, labor organization, etc.

Questions and comments from the audience focused on four issue areas: Colombia's position within the Andean Pact and changes in its policy over time; the benefits of integration (or lack thereof); the social costs of export-oriented policies; and the interaction between the Pact's recent political activism and economic considerations.

A member of the audience challenged Mytelka's assertion that Colombia's policies can be understood in light of Colombia's position as one of the most industrialized countries in the Pact. In 1970, for example, Colombia's level of industrialization did not differ greatly from that of Chile or Peru, but the three countries' policies varied substantially. The structure of the Colombian industrial sector, however, was quite different. It was more diversified, was not as heavily based on natural resources and basic industry, and had a more active private sector.

Another member of the audience pointed out that Urrutia asserted that the Colombian industrial sector, like the Venezuelan, opposed integration. But while the Venezuelan industrialists' opposition stemmed from their fear of competition, the Colombians took the opposite position and also opposed protectionism. What explains this difference? Urrutia answered that Colombian industrialists did not oppose the Andean Pact--they simply became indifferent. They were afraid, however, that raising tariffs would destroy third-country exports. The administrative branch of the Junta, on the other hand, favored protectionism because restrictive policies would maximize their own power. Urrutia was surprised that the Andean countries agreed on a common external tariff of 80 percent in early February. Colombia's tariff was less than half that amount. When asked who supported this measure, Urrutia responded that it was not the technocrats, who are more reasonable, but the Junta. Urrutia argued that a lower tariff would be beneficial not only for Colombia, but also for Venezuela and Peru. Agreeing that some protectionism is necessary in order to keep Bolivia and Ecuador in the Pact, he advocated the protection only of narrowly defined sectors for short periods of time.

Urrutia also explained that Colombia's position on protectionism has changed over time. When Colombia took the initiative to create the Pact in 1966, it had not defined its own economic model. The crucial law adopted in 1967 provided for a mixed economic model which included both protectionism and export promotion. The second aspect subsequently dominated Colombia's development, so that the Colombian position had changed considerably by 1972. Future progress in the integration process will be jeopardized if the member countries do not perceive the limits within which negotiation is possible. In this context, the 80 percent common external tariff is a cause for concern.

There was no agreement among those present on the benefits for Colombia from integration. One member of the audience doubted that the benefits had been substantial and noted that exports to other regions had expanded more rapidly than those to the Andean countries. He admitted, however, that it is difficult to identify the causal factors behind this, since the change in Colombia's overall economic policy which was adopted in 1967 began to have an effect in the early 1970s, at the same time as the Andean Pact was gaining ground. Bagley responded that Colombia expanded its exports to the Central American countries in the late 1960s and early 1970s at a time when it was difficult to export to the Andean countries because of the upheavals which they were experiencing. He added that, although Colombia was less protectionist than Chile and Peru in 1972, it was more protectionist than it had been earlier, contrary to what others have implied. Mytelka responded that even if trade with Central America increased more rapidly than trade with the Andean countries, the Pact could still have been beneficial. The audience member agreed that the Andean markets were important, but argued that according to his investigations most Colombian products have not benefitted from the Andean Pact arrangement.

Another member of the audience asked whether the lack of benefits was not simply because the integration process has not gone very far yet. Urrutia agreed that the potential for benefits exists. But immediately after adopting the liberalization policy, most of the countries put their most important products on the exception list (as Colombia did with textiles). During the 1980s, however, the exceptions will be phased out. The potential benefits for Colombia are clear, especially from trade between Venezuela and Colombia, because their economies are complementary. But the fact that the other Andean partners are not aware of Colombia's indifference to integration is a serious cause for concern.

Finally, another member of the audience thought that Colombia's membership in the Pact had been beneficial because of the Pact's impact on direct foreign investment and on trade in intangible intermediate goods such as technology. In other words, the Pact has helped Colombia appropriate more of the gains from these activities by improving its bargaining position and access to information. Of course, it is difficult to quantify this benefit. Urrutia did not agree with this analysis, even though Colombia has taken a tougher stance on foreign investment in recent years. He argued that even if this policy is due to the influence of the Andean Pact, whether the effect has been positive or negative is debatable.

Bagley was asked for concrete information on the social costs of particular trade policies. He responded that he did not have specific information but that most of those present are aware of the problems which Colombia has been having recently. He raised this issue as a factor which Urrutia should investigate further. When asked if these social problems were a significant factor in Colombia's difficult political situation, Urrutia responded that they were not. He said that Colombia has two political problems: selecting the next President and terrorism. Neither of them is related to trade policies. He also pointed out that Colombia's income distribution did not worsen between 1964 and 1979, and that absolute income levels rose during this period.

The final question concerned the impact of the Andean Pact's recent international political initiatives on the economic side of the integration process. Urrutia responded with an axiom: in Latin America, when the economy is doing badly, the government decides to get involved in foreign policy. It is therefore possible that the political involvement of the last year (e.g., in Central America) is an indication of economic problems in the region. Urrutia thought that the Pact already had enough problems and that adding the political component could only complicate its future. The Andean countries are trying to find their minimum common denominator. In international politics, it is questionable whether one can be found between an OPEC country such as Venezuela and an oil-importing country, such as Colombia (to which Venezuela refuses to sell oil). This added dimension will not help resolve the region's economic problems. Politicization can be used as a bargaining chip, but the question is to what end? It may be valid to use it to strengthen the Andean countries' bargaining position with the United States, but it should not be used to help the United States in Nicaragua.

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