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ALFRED P. SLOAN SCHOOL OF MANAGEMENT

SOME STRATEGIC OWNERSHIP CONSIDERATIONS FOR FOREIGN INVESTORS IN THE ANDEAN PACT REGION

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June 1974 712-74

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ABSTRACT

Within the broad area of U. S. investment in developing countries, this study is limited to the countries of the Andean region - Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela. The investment opportunities considered are those available to U. S. firms which had facilities within the region prior to July 1, 1971, and now have the option of continuing to serve the national market or expanding to a regional mode.

This study investigates the reluctance of established firms to change from serving the national market to a regional approach. The initial postulate is that the reluctance on the part of the U. S. investors to regionalize is associated with an aversion to entering into the required partial divestment to local participants.

In-depth interviews were conducted with executive officers responsible for investment in the Andean region. The firms contacted were selected from a list of firms that had investments in more than one of the Andean countries.

As a result of the interviews, new factors are seen as having an important impact on the reluctance to change from the national to regional mode. For many reasons, the benefits flowing from the new regional market are not seen to offset the costs of change. So contrary to the initial hypothesis, U. S. investors do not view the regional market favorably. Such findings would imply the need for a new strategy for Andean regional planners. Changing the unfavorable evaluation of the regional opportunity would require the granting of benefits to firms that regionalize and/or penalizing firms that do not change from the national mode.

The implications for Andean planners and the distinctions made between minority participation in new joint ventures and the fade-out partial divestment of existing ventures may be some of the more useful concepts developed in this study.

ACKNOWLEDGMENTS

The stimulating suggestions and time of Professor Richard D. Robinson and Dr. Donald R. Lessard are especially appreciated.

The financial assistance provided by a grant under the direction of the Center For International Studies enabled me to interview the executives in the Miami Latin American headquarters. I very much appreciate this assistance and the opportunity it provided to work with Dr. Lessard on a project to develop detailed information about U.S. investors' perceptions of the new Andean regional market.

The candid observations of the executives interviewed provided many insights and made an important contribution to this project. Their time and assistance provided a useful perspective.

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Chapter 1

FOREIGN INVESTMENT CONSIDERATIONS FOR THE ANDEAN REGION

INTRODUCTION

Many nations have begun imposing restrictions on foreign investors as a method to increase indigenous control over the economy. Mexico, Brazil, Chile, Peru, Indonesia, India, Ceylon, Philippines, and Japan have all at some time had restrictions on the portion of a national enterprise that may be owned by foreigners.

Recently the member countries of the Cartagena Agreement (Bolivia, Ecuador, Chile, Colombia, Peru and Venezuela) codified common regional treatment for all foreign capital. Decision 24, a statute of the Cartagena Agreement, adopted July 1, 1971 (January 1, 1974 in Venezuela), sets forth rather specific guidelines for the treatment of established and for new foreign owned firms. "It was the first common policy toward foreign investment ever adopted by a group of nations and the first major test of a policy of forced divestment."[1]

The Cartagena Agreement is the underlying document initiating a customs union among its signatories. Decision 24 flows out of the creation of this regional market and is designed to prevent foreign investors from reaping all the economic benefits of regionalization.

Decision 24 restricts the benefits of lower intraregional tariff barriers to those firms which may be classified as

mixed or national enterprises. In this classification a mixed enterprise requires at least 51% local private ownership or 30% government ownership and the national enterprise requires at least 80% local ownership.

Firms established within the region before the enactment of Decision 24 may elect to retain 100% foreign ownership; however, they will not benefit from the lower intraregional tariffs. Decision 24 also requires any new firm (i.e., one entering the region after June 30, 1971) to comply with the divestment requirements of at least qualifying as a mixed company. In this case, the firm would also qualify for certificates of origin and would benefit from lower intraregional tariffs.

The reaction of the foreign investor to Decision 24 is important to the member countries of the region. As we see in Table 2, new foreign investment plays an important role in the balancing of the foreign exchange flow. From Tables 1 and 2 we see that there has not been a growth of new U.S. investment in this area since the implementation of Decision 24. This reduction in investment raises many interesting questions; however, this paper will be primarily limited to considering:

1. What is the evaluation of the new regional market by U.S. businessmen?
2. What is the feeling of U.S. businessmen toward the local ownership requirements of Decision 24?

3. How does the reaction to Decision 24 affect the decision made with regard to the regional market opportunities?

These questions are considered for firms which already had facilities in the market prior to Decision 24; but of course they also have the option of investing in new facilities.

PLAN OF STUDY

This study investigates the cost/benefit evaluations made by U. S. businessmen considering the change from a position of serving the national markets to serving the Andean regional market. A decision model is used to analyze the incremental nature of the move to regionalization and to draw conclusions from the interview data.

Chapter 2 is a discussion of the reactions of U. S. businessmen towards the new regional market. The data from this interview survey is reported and previous surveys are cited. The other surveys discussed primarily deal with the specific evaluation of the Andean regional market or attitudes towards minority joint ventures.

The conclusions in the final chapter state that the reluctance for firms to regionalize existing operations is associated with an unfavorable evaluation of the market

opportunities and not just an aversion to the partial divestment requirements.

INCREMENTAL NATURE OF REGIONALIZATION

As a generalization, the "established" firm that wishes to take advantage of the lower intraregional tariff benefits is faced with two differing requirements. First the firm must agree to an acceptable divestment program which would lead to qualifying the firm as a mixed enterprise. The next step would be the implementation of the business decision of servicing the regional market rather than just the national market. In most instances, this would require an increase in investment to expand production, to increase the supply and marketing coordination, and physically to move goods into new markets.

For the new firm the marginal nature of regionalization is not entirely clear. It seems that Decision 24 explicitly requires all new firms to be established as mixed enterprises, but there is some confusion as to the specific requirements imposed by Colombia and Venezuela.

Decision 24 requires that a foreign owned firm qualify as a mixed enterprise or have agreed to an acceptable program

to attain this status before it can benefit from the lower intraregional tariffs. There is no prohibition against a totally foreign owned firm shipping its goods within the region, but in such a case it is subject to national tariff barriers.

From an incremental view, the decision of the established firm becomes more complex. It would seem that the first consideration would be the evaluation of the regional marketing opportunities as contrasted to the present situation (i.e., what savings can be achieved and what will the costs be?). The established firm has certain fixed assets, sources of supply, management systems, marketing systems and trained employees. It is important to consider what changes need to be made in order to benefit from the regional market.

It would seem that the established firm would consider at least three questions in regard to the new regional opportunity.

1. What can be achieved in the regional market not achieved by the present arrangement? Here the concern is for the benefits which may accrue to the firm when going from servicing the individual national markets to treating the region as

a whole. What are the particular economies of scale that the company may realize? In terms of competition, one may consider what the firm will gain if it regionalizes production, and competition does not, and what the firm would lose if competition regionalizes and the firm does not. The competition question is seen by managers as being very important.

2. What will be the cost to the firm of changing from serving national markets to serving the market on a regional basis? This question would probably be considered in terms of the required changes within the business system (production, supply, marketing, management, employees) and the effect of the change in ownership to include local equity. The cost of the change in the business system is somewhat easier to evaluate, as many of the elements can be quantified. However, some of the costs involve people - by redefining jobs, changing management hierarchies, transferring employees, perhaps training new employees, and establishing new sources of supply and new market outlets. So it is not clear cut that business costs can in fact be quantified.

The requirement of local equity participation is even more difficult to evaluate. In considering whether or not to change from its present ownership arrangement the parent company may weigh the following:

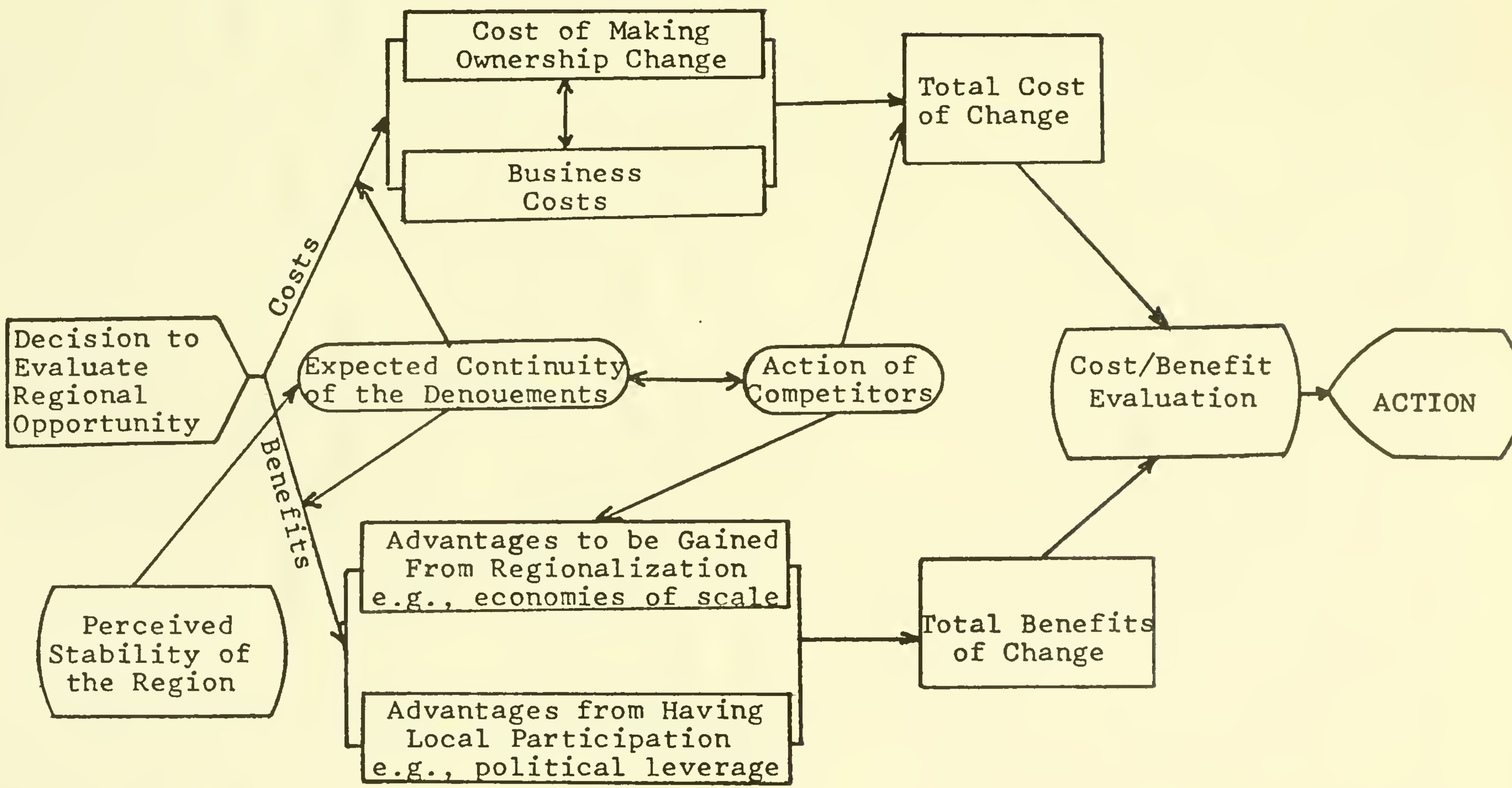
1) its past experiences in joint venture arrangements; 2) its impression of ability and integrity of local businessmen; 3) problems of subsequent transfer of ownership by local partners; 4) conflict of interest among the parent firm, the foreign partners, the joint venture and host government; 5) financial problems of local partners; and 6) costs and benefits attributable to the joint venture strategy.[3] Here again, there is no simple answer.

3. What are the prospects for continuity of the regional market, *i.e.*, how stable is the amalgamation of nations? There will be a concern regarding the expected period of time over which the cost of changing the organization to a regional basis can be amortized, and how long the regional benefits may be realized. Should the region dissolve, then it is likely that the firm would be in a much worse position than had it remained as producers for the individual national markets. It may be that the firm would now be faced with much higher levels of breakeven production which would require the exporting of products across tariff barriers. The same may be true if the step toward regionalization had involved rationalization of production.

A hierarchy of the decision chain of an established firm may be depicted as a flow of factors considered in a cost/benefit analysis. See Figure 1.

Figure 2

DECISION FACTORS FOR FIRMS REGIONALIZING EXISTING FACILITIES



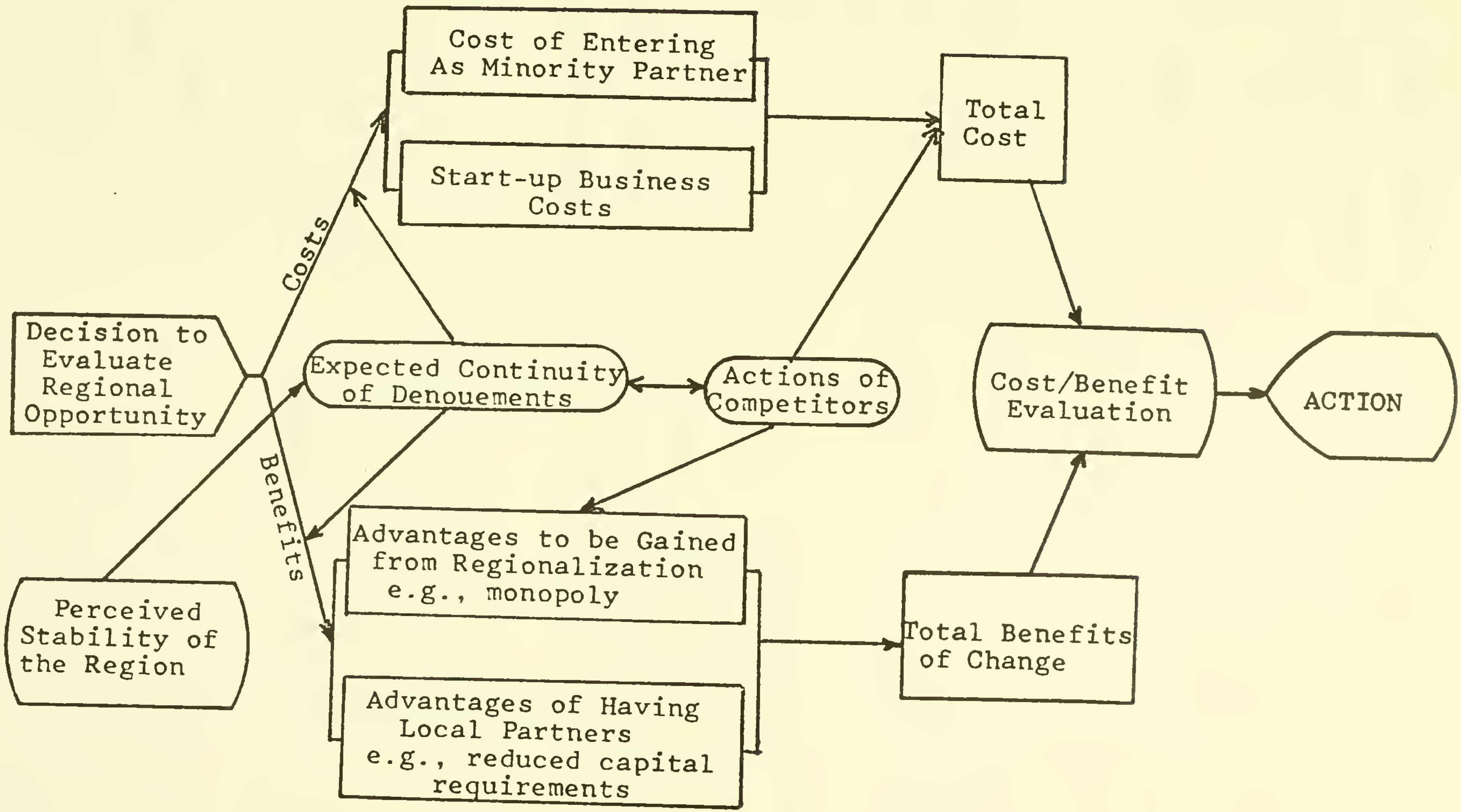
Ostensibly the decision chain for the new investor would be less complex, as he would not be concerned with the cost of change. In its place he would be concerned with the cost of entering into a venture as a minority partner and start-up business costs. This decision chain is depicted in Figure 2.

It may be helpful in the evaluation to describe more fully some of the elements of the models. In the model for the established firm the "cost of making ownership change" would include the effort made to locate a suitable partner, various conflicts that would arise, the possibility of losing proprietary knowledge, a sharing of scarce resources, a reduction in profits, etc. The "business costs" would involve such things as building new facilities, developing new markets, training new people, assimilating the national groups into a regional group, establishing new sources of supply, coordinating production and distribution, etc. One can see possible interactive effects of these two costs which would increase the total cost.

Some less certain factors which will impact on the cost/benefit analysis include: the action of competitors, continuity of the denouements or complex outcomes, and the perceived stability of the region. If one result of regionalization was the gaining of a monopoly position, one might be encouraged to make the move; but the action of competitors and the expected continuity of the monopoly position would influence the cost/benefit evaluation. It may be that the

Figure 3

DECISION FACTORS FOR FIRMS BEGINNING NEW VENTURES ON REGIONAL BASIS



regional market would dissolve and the monopoly position would be lost, or perhaps competitors or host governments would take action to discontinue this favorable situation.

The perceived stability of the region directly influences the expected continuity of benefits or costs incurred. If there is little hope for a stable regional market, then there will be a very low value of expected benefits. However, many of the costs will not only continue, but will be exacerbated by a failure of the region. So uncertainty would have a detrimental effect on the evaluation of the regional market opportunities.

Actions taken by competitors may eliminate an advantage gained through regionalization, while inaction may encourage further inaction as no one is pressed to take risk. The action chosen seems to be greatly influenced by the stability of the regional market. Inaction may be perceived as less uncertain.

The new firm differs from the established firm in not having to consider a cost of change. Its costs will be those of entering into a venture as a minority partner and start-up business costs. It does not consider the problems of established facilities.

Since there is less pressure for action, it may be that a new venture can be composed of partners whose harmony of interest will tend to reduce conflicts. Start-up business costs can be more regulated, as some crucial factors of the

type of technology to bring to the venture and the amount of scarce resources contributed can be more nearly controlled. So a new venture is seen from a different perspective than partial divestment of the present operation.

A PRIORI ASSUMPTIONS

In the case of the established firm considering whether or not to regionalize its existing facilities, it would seem the first step would be to make a cursory examination of the potential advantages for the firm. If there seemed to be some advantages, then serious consideration would be given to the cost of change and especially how the expected continuity might affect the cost of change.

The expected advantage gained or lost to the competitors would influence the continuity consideration. The advantage gained may be for a short time or the disadvantage incurred may be inconsequential in the long run.

The consideration of changing ownership is directly affected by the anticipated continuity of the advantages obtained, and in a sense may be seen as the license required to do business on a regional basis. If there is no advantage to be gained from the regional market, then the local equity requirement may be viewed as a very expensive license to do business.

The firm considering a new investment in the region will probably make an initial evaluation of the economic oppor-

tunities available for their product within the region. If there are economic advantages the firm will probably make a thorough evaluation of the expected continuity of those advantages. Should these factors be favorable, there would be some consideration of the cost of becoming a minority partner and the start-up business costs.

This decision chain assumes that the new venture must meet local ownership requirements, so it would automatically give initial consideration to the regional market. If a new firm may elect whether or not to take in local equity, then there would also be a decision of whether to go only into the individual national markets or treat the region as a whole. This paper will not attempt to deal with the entry decision of firms considering new ventures, but will present some of the considerations of established firms in deciding whether to remain as national producers or expand into regional marketing.

It is apparent that the depicted decision chains are open for criticism, and it would be fully agreed that the system presented may not be complete. The system presents a particular flow of considerations. It may be that this is an improper relationship; there may be more or less interrelated factors, and it may be that the factors are considered simultaneously and not sequentially. However, at our present state of knowledge the information regarding this decision process is not known. So in the face of not having absolute knowledge,

the model is proffered to be tested as to its predictive powers and usefulness.

METHODOLOGY

The interview was the principal method used to gather information from U.S. businessmen regarding the three questions posed in the introduction.

1. What is the evaluation of the new regional market by U.S. businessmen?
2. What is the feeling of U.S. businessmen toward the local ownership requirements of Decision 24?
3. How does the reaction to Decision 24 affect the decision made with regard to the regional market opportunities?

It was felt that in-depth interviews structured around the questions of interest could be a more effective means of gaining a penetrating perspective than would result from a questionnaire. The opportunity to explore various nuances of policy and impression proved to be very rewarding.

The interview method restricted the number of firms that could be contacted, but perhaps the detail of information compensated for the reduced number of firms. The effectiveness of the interview method was increased by carefully selecting the executives to be interviewed.

The objective of the interview was to meet with the executive officer of the firm who had primary responsibility

for making investment decisions in the Andean region. The companies that were contacted were drawn from a list of U.S. firms that had investments in more than one country in the Andean region.

As a means of coordinating the interview effort, it was decided to concentrate on contacting those firms which had their Latin American headquarters in the Miami area. It was thought that on a regional basis, one would find the executive officers to be much more knowledgable about the specific opportunities and requirements in the Andean region; hence, the information would tend to more accurately reflect the response of the firm.

The Miami area serves as the Western Hemisphere or Latin American headquarters for more than sixty-nine U.S. multinational firms, so it was not too difficult to arrange interviews with officials representing a broad spectrum of industries. Pharmaceutical, petro-chemical, food, beverage, finance and construction were the industries contacted. The objective was to maximize the number of interviews within the time constraints. The offices of the firms of the aforementioned industries were so located as to reduce travel time, and thus they became a convenient sample.

Seventeen interviews were arranged. Of this number, ten involved the chief executive officers. Two interviews were held with the person responsible for the new business analysis for the firm and the other five interviews involved area sales

managers. The data reported was gathered from twelve of the seventeen firms contacted.

The specific responses of individuals will not be associated with any company in accordance with the wishes of the companies. The information referred to in this report comes from the discussion with the twelve officers, and the information gained from the interviews with the sales personnel was primarily used to direct more meaningful questions to the executive officers. The seventeen companies contacted were: California Pellet Mill, Inc., Bemis, Inc., Dow Chemicals - Latin America, Ralston Purina International, Abbott Universal Ltd., Gulf Oil Company, Seagram Overseas Sales Company, Pfizer Latin America, Rohm & Haas Company, Borden - Latin America, Coca-Cola Latin America, Cargills America, The Protane Corporation, Chicago Bridge & Iron Company, Ltd., Deltec International Ltd., Goodyear International Corporation, and Goodrich International, Inc.

HYPOTHESES

Tables 1 and 2 depict a general reduction in the growth of new investment for the members of the Andean region, even in face of the expanded market opportunities of the region. The information in Table 3 would lead one intuitively to conclude that the combining of these nations into a regional market would increase the economic attractiveness. So how does one explain the lethargy of foreign investment? Perhaps

the requirement for local ownership is seen as sufficiently onerous to cause foreign investors to forego the market opportunity, or perhaps there is concern about the anticipated continuity of benefits.

My a priori assumptions related to the initial questions were:

1. The new regional market is seen by U.S. businessmen as being of greater economic opportunity than the national markets. Implicit in this statement is an expectation for an acceptable continuity of the benefits.
2. The local ownership requirement violates U.S. business policy regarding method of operation and investment.
3. As a result of the local ownership requirement, U.S. businessmen would not regionalize their present operations in the Andean region.

Table 1, part 1

U.S. DIRECT INVESTMENT IN ANCOM
($ millions)

	1963				1968			
	Total	Mnfg.	Petro.	Mining	Total	Mnfg.	Petro.	Mining
Chile	768	27	-	503	964	68	-	586
Colombia	465	120	246	-	629	193	324	-
Peru	448	64	56	240	692	96	39	421
Venezuela	2,808	202	2,166	-	2,620	376	1,780	-
Latin America	9,891	2,213	3,636	1,303	12,989	3,990	3,643	1,875

Source: Business International, Nov. 20, 1970; Nov. 26, 1971, Dec. 29, 1972; Nov. 23, 1973.

Table 1, part 2

U.S. DIRECT INVESTMENT IN SEVERAL LATIN AMERICAN COUNTRIES
($ millions)

	1969				1970			
	Tot. Book	Mfg.	Petro.	Additional	Tot. Book	Mfg.	Petro.	Additional
Argentina	1,244	789	n.a.	88	1,288	777	n.a.	42
Brazil	1,633	1,112	100	149	1,843	1,247	121	207
Chile	846	65	n.a.	-116	748	66	n.a.	-99
Colombia	684	220	342	52	691	229	334	7
Mexico	1,631	1,108	35	165	1,774	1,191	33	134
Panama	1,071	90	239	152	1,233	117	258	161
Peru	704	97	n.a.	12	691	89	n.a.	-30
Venezuela	2,668	416	1,771	41	2,696	456	1,734	33
CACM	630	113	154	35	624	73	160	-6
Latin America	11,667	4,077	3,079	634	12,201	10,050	3,167	507

Table 1, part 2 (cont.)

U.S. DIRECT INVESTMENT IN SEVERAL LATIN AMERICAN COUNTRIES
($ millions)

	1971				1972			
	Tot. Book	Mfg.	Petro.	Additional	Tot. Book	Mfg.	Petro.	Additional
Argentina	1,353	813	n.a.	69	1,391	836	n.a.	38
Brazil	2,066	1,419	145	198	2,490	1,745	169	424
Chile	720	50	n.a.	-27	621	47	n.a.	-99
Colombia	744	256	345	47	739	262	327	-5
Mexico	1,838	1,268	30	54	1,993	1,385	32	155
Panama	1,450	144	262	210	1,423	162	265	-27
Peru	674	92	n.a.	0	714	90	n.a.	40
Venezuela	2,690	510	1,633	-6	2,683	593	1,546	-7
CACM	668	78	179	38	646	110	159	-22
Latin America	15,789	4,999	4,195	1,003	16,644	5,565	4,267	855

Source: *Business International*, Nov. 20, 1970; Nov. 26, 1971, Dec. 29, 1972; Nov. 23, 1973.

Table 2

INTERNATIONAL MONETARY TRANSACTIONS

(in millions of U.S. dollars)

	1966	1967	1968	1969	1970	1971	1972
BOLIVIA							
Central Bank Reserves	41.2	37.9	39.5	42.0	45.5	54.3	59.7
Goods & Services Balance of Pay.	-33.0	-42.0	-56.0	-51.9	-23.5	-44.5	-38.7
Imports, c.i.f.	138.4	151.0	152.9	165.0	158.5	181.4	185.4
Direct Investment	.5	4.0	11.2	-75.5	2.3	2.1	-
Investment Income pay.	-4.5	-19.4	-25.1	-31.5	-27.6	-21.2	-
CHILE							
Central Bank Reserves	172.1	126.4	208.4	343.5	388.5	221.2	-
Goods & Services Balance of Pay.	-108.	-102.	-180.	6.	-114.	-	-
Imports, c.i.f.	750.6	722.4	742.7	907.1	930.8	980.0	-
Direct Investment	-39	26	48	-	-	-	-
Investment Income pay.	-88	-101	-92	-	-	-	-

Table 2 (cont.)

INTERNATIONAL MONETARY TRANSACTIONS

(in millions of U.S. dollars)

	1966	1967	1968	1969	1970	1971	1972
COLOMBIA							
Central Bank Reserves	77	83	173	221	206	203	325
Goods & Services Balance of Pay.	-290	-89	-191	-213	-329	-458	-218
Imports, c.i.f.	674.2	496.9	643.3	686.	754.6	857.5	836.5
Direct Investment	37	39	49	54	42	43	-
Investment Income pay.	-86	-106	-116	-167	-215	-203	-
ECUADOR							
Central Bank Reserves	61.1	69.1	57.3	65.0	83.2	64.7	143.4
Goods & Services Balance of Pay.	-23.1	-41.0	-79.7	-138.6	-138.5	-214.8	-152.1
Imports, c.i.f.	174.1	214.2	255.5	241.8	273.8	340.1	326.5
Direct Investment	16.0	16.4	29.2	79.1	97.7	170.4	-
Investment Income Pay.	-25.2	-24.9	-27.9	-31.2	-36.9	-38.6	-

Table 2 (cont.)

INTERNATIONAL MONETARY TRANSACTIONS
(in millions of U.S. dollars)

PERU	1966	1967	1968	1969	1970	1971	1972
Central Bank Reserves	154.9	125.8	111.2	167.0	329.4	240.2	460.4
Goods & Services Balance of Pay.	-253.	-319.	-59.	-30.	119.	-68.	-122.
Imports, c.i.f.	804.8	818.4	613.7	604.1	603.3	747.9	791.4
Direct Investment	29	-18	-20	7	-76.	13.	-
Investment Income Pay.	-132	-144	-156	-200	-144	-112	-
VENEZUELA							
Central Bank Reserves	777	872	922	933	1,021	1,522	1,732
Goods & Services Balance of Pay.	107	244	-126	-121	-44	110	-29
Imports, c.i.f.	5,816	6,403	7,455	7,660	8,361	9,317	10,709
Direct Investment	-241	-4	199	241	-27	13	-
Investment Income Pay.	-726	-811	-963	-912	-751	-898	-

Sources: International Monetary Fund, Financial Statistics, Vol. XXVII, No. 1, Jan. 1974; International Monetary Fund, Balance of Payments Yearbook, Vol. 21, 1964-1968, and Vol. 24, 1968-1972.

FOOTNOTES

Chapter 1

1. John T. Lindquist, The Merits of Forced Divestment: The Experience of the Andean Group, mimeo, (Princeton, N. J., 1972), p. 4.

2. Ibid., p. 40.

3. R. D. Robinson, International Business Management: A Guide to Decision Making, (New York, 1973), p. 344.

Chapter 2

THE REACTIONS OF SOME U.S. BUSINESSMEN

INTERVIEW RESULTS

When confronted with the question of regionalization, only three of the twelve officers interviewed indicated that their firms were considering some type of regionalization. For two of the firms this move would involve the production of a product they were not now producing in the region and establishing a new venture. In both cases, the product itself required high volume to achieve competitive economies of scale and was a high value to volume product. In both instances the interviewed officers expressed the opinion that the firm could achieve a monopoly production position and be very profitable behind the tariff barriers. Both firms had plans to enter the market as an acceptable mixed enterprise rather than be subject to a "fade-out" divestment.

It is interesting that the officer of only one firm suggested the possibility of his firm regionalizing their present facilities. This was a commodity product with low value to volume. The product had a very narrow profit margin which could not be competitive going across tariff barriers.

All of the officers interviewed indicated that their companies were continuing to invest in the facilities already established within the region. This was even true in Peru where higher profits meant a more rapid transfer of equity to

the "industrial community". However, some of the firms interviewed had discontinued operations in Peru.

The question of whether or not a firm would accept local equity participation through the divestment program of Decision 24 is incumbered with complexity. Only three of the twelve firms would be willing to consider establishing an acceptable mixed enterprise in the area. One firm already had a mixed enterprise. However, ten of the twelve firms were currently involved as minority interests in joint ventures with local participation somewhere in the world or would consider becoming so involved.

The complexity of this local ownership question arises in trying to reconcile the two positions, i.e., the acceptance of a minority position elsewhere, but reluctance to consider such for the Andean region.

Of the firms that were not interested in considering local equity nor regionalization, five of these expressed strong feelings that the regional market would dissolve. One of the three companies that would accept local equity had already done so, but it did not plan to regionalize its production because of the feeling that the regional market would not last. One of the firms that was considering a new facility for the regional market also expressed doubts about the stability. So seven of the twelve firms expressed doubts about the long run stability of the region; five that did not plan to enter into a partial divestment program, one firm

that already qualified as a mixed enterprise but did not plan to regionalize, and one firm that was considering a new regional venture.

Eleven of the firms not willing to take in local equity in their present facilities mentioned that they were now arranged to serve the individual national markets and saw no incremental advantage to regionalization.

Two firms, not included as part of the survey report as they were represented by their sales managers, indicated that the market opportunities were not sufficient to warrent regionalization. One of these firms already had a company in which it held the minority position with local equity in the majority. The other firm's representative had indicated the company did take a minority position in some cases, so it may have made more than just a cursory evaluation of the market.

As a result of the depth of questioning attained in the interviews, it may be that the paradox of willingness to enter into minority joint venture positions but the avoidance of such in the Andean region can be explained at least in part.

A willingness to enter as a minority partner in a joint venture does not mean the firm is willing to give up nor share proprietary knowledge or technology, nor anything else which gives the firm its competitive edge in the world market.

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As a result of the depth of questioning attained in the interviews, it may be that the paradox of willingness to enter into minority joint venture positions but the avoidance of such in the Andean region can be explained at least in part.

A willingness to enter as a minority partner in a joint venture does not mean the firm is willing to give up nor share proprietary knowledge or technology, nor anything else which gives the firm its competitive edge in the world market.

It was my conclusion that the willingness to enter a joint venture was more in the realm of an investment arrangement and did not indicate a sharing of such scarce resources as trained people, management, crucial patents or technology. This explanation could reconcile some of the findings of the Meeker[1] study. He found most firms willing to enter joint ventures but not favoring partial divestment of an established venture.

While the generalization that firms are extremely reluctant to enter into joint ventures with their own proprietary technology may not be universally true, it would certainly be reasonable to suspect such a requirement would only be overcome by a higher level of market inducement. Here the implicit Japanese requirement for majority local ownership and the general willingness of U.S. firms to enter the market comes to mind. The Brazilian case may be another good example.

IMPLICATIONS DRAWN FROM THE MODEL

Only one firm was even considering the possibility of regionalizing its present operations. Two firms were considering new ventures which would be regionalized. But another firm which would qualify as a mixed firm was not considering taking the additional steps necessary to regionalize production.

Figure 4

INTERVIEW DATA

Actions being considered		Acceptability of majority partners		Willingness to enter into ANCOM divestment program		Views of regional market: Multiple reasons for action considered	
Regionalize						Why not change present operations:	
Present operations	1	Yes	10	Yes	3	unstable region	7
New venture	2	No	2	Already have	1	unfavorable existing asset structure	11
Nothing	9			No	8	poor market	2*
						Regionalization:	
						Present operation -	
						to remain competitive	1
						New venture -	
						to gain monopoly	2

*This statement made by two of the sales managers interviewed.

Based on the actions considered by these four firms, one may infer that the cost of change from national to regional firms generally exceeds the advantages to be gained, as the only firm considering it was pressed with the prospect of being forced out of business.

For the two firms that were willing to regionalize a new venture but not the present operations, one may conclude that the business cost to change the present facilities exceeded the expected gains, and a joint venture per se was not a prohibition. The firm that had a major production facility in a qualified mixed enterprise status but was not regionalizing production, further implicates the business costs or lack of benefits as an impeding factor, rather than the cost of ownership change.

In addition, eleven of the twelve firms mentioned that their fixed assets were now deployed to better serve the individual national markets rather than the regional market. They too may be indicating that the business costs exceed the expected benefits of regionalization.

In the evaluation of a profitable opportunity, one would expect fixed assets and other expenses to be viewed as a sunk cost, but for a profit center there may be a profit and loss adjustment for write down in assets. So it would seem the consideration may be condensed to the trade off of expected benefits to be earned from regionalizing and the balance sheet loss incurred in phasing out assets. This latter point

will be very important to regional centers that are evaluated on their profit.

In the case of established firms, it may be much safer for the firms to stay with the national units rather than risk the instability of the regional market. This instability problem would increase the resistance to local equity as any decrease in profits would be very detrimental to the expected value of an income flow of uncertain length.

It appears that stability is the key to the regional investment question, and seven of the twelve respondents specifically stated some major doubt as to the survival of the regional union. Only two respondents mentioned the region as being an unsatisfactory market; however, both of these respondents were sales personnel, so they may have been more attuned to that consideration.

Based on the twelve interviews one may conclude that the slow development of investment on a regional basis within the Andean region can be primarily attributable to the lack of confidence in the survival of the region or in the continuity of the regional regulations. Should this situation be rectified, it still may be that the market opportunities are not sufficient to clear the local ownership hurdle. But I do not believe that a local ownership requirement would generally prohibit a company from entering the market if it offered sufficient levels of return. The exception to this may be

firms in the category of General Motors or IBM, etc. (*i.e.*, firms whose products are more necessary to the country than vice versa).

Contrary to the original expectations, the interview results, when structured in the framework of the model, do not necessarily lead one to accept the hypothesis that the new regional market is seen as economically preferrable to the national markets. The data tends to indicate that the instability or uncertainty of the continuation of the regional association of the member countries plays an important role in the reluctance of interviewed executives to regionalize investments. When viewed in the context of already being in the market on a national basis, the incremental advantages of regionalizing do not seem to exceed the associated costs.

The instability factor is seen as operating in several realms. A dissolving of the regional association would probably have adverse effects on the expected income flow. Instability of regulations could also be seen as impacting on various costs. As was previously mentioned the "license fee" of divestment may become very expensive if there is no regional market. Should the regulations change and some firms be allowed to enter the regional market without the local equity participation, then those firms that already divested may view themselves at a competitive disadvantage. As another example the action of competitors can adversely affect the

stability of expected benefits if one loses a monopoly position.

So the influence of the instability questions makes it difficult to determine if the market is economically attractive. It seems we can conclude that for the established firm the expected returns of the market are not sufficient to justify the "cost".

Considering the affect of the divestment requirement on the investment decision is also perplexing. The interview responses indicate a difference in the willingness to enter as a minority partner in a new joint venture and the willingness to make a partial divestment of a going operation. Ten of the twelve firms would consider entering a new joint venture, and only one of the twelve was giving consideration to partial divestment of its present operation.

One would expect the requirement of divestment, as contrasted to the opportunity of a new venture, to have very different effects on the decision makers who are rewarded on the basis of their performance. The continuation of the national market arrangement would be seen as less risky than would incurring the cost of regionalization with an uncertain return.

The third hypothesis that the negative influence of the divestment requirement impedes regionalization on the part of the established firm is not a necessary conclusion of the data. In fact the one firm that already qualified as a mixed

venture with a major production facility but was not considering regionalization tends to indicate the business costs of regionalization exceed the expected benefits.

From this study we conclude that to effectively pursue a regionalization program for established firms, the Andean planners need to make regionalization more attractive or remaining in the national mode as less attractive. At the present time it seems less risky for the established firms to do nothing.

INFORMATION FROM OTHER STUDIES

Investor Outlook Prior to Decision 24

A survey reported by Business International in their monograph The Andean Common Market, December 1970, cites a general optimism among U.S. businessmen. Many industries and specific companies within those industries were excited about the possibility of serving the new regional market.

In the chemical industry several firms planned increased investments to expand existing facilities or build new plants to serve the regional market. There was special interest in the industrial chemicals in phosphate and PVC. The rising incomes and increasing demand were seen as positive factors for consumer demand and the need for higher farm productivity was seen to stimulate the agricultural chemical potential.

Dow was described as taking steps to rationalize its production of polystyrene in its Chilean and Colombian plants, was gearing up to serve an export market and was changing its previous strategy of the national market to the regional market view.

The contingency considerations at this stage were the need to achieve profitability even if the regional market did not develop and the political problems of making sure that the regional production rights on your products were granted to the nations where you were located.

In the pharmaceutical industry previous operations had been geared to the national market, but most producers were relatively efficient anyway, due to national price controls and a maintenance of current technology. However, there were economies in rationalization and Pfizer is cited as moving in that direction. Pfizer was also considering a regional production of antibiotics behind a protective tariff.

In the glass industry, Corning expressed an interest in beginning production in technical glass and fiberglas within the region. Over one-fourth of Corning's Latin American sales came from the Andean region, primarily export sales.

In the metallurgical industry, Phelps Dodge had already begun exporting copper products from Chile to Colombia, Bolivia and Ecuador. And in telecommunications, I.T.T. was trying to establish joint ventures with various governments of the region to produce communication equipment.

At the time of the survey, Decision 24 had not been promulgated and the main problem seen was the possibility of the regional market not being realized. In face of the losses sustained by many investors who had expected more rapid progress by LAFTA, such a failure of regionalization was a real concern.

The Investors View After Decision 24

The enactment of Decision 24 seemed to cast a chill over the initial feeling of optimism of investors. March 22, 1971, a letter was sent to various Andean governments by the Council of the Americas, whose 210 corporate members represent over 85% of the U.S. private investment in Latin America, registering strong opposition to Decision 24. They noted that as a result of Decision 24, 84 investment projects were being held in abeyance and that the 1971 investment in Latin America by U.S. investors would drop 5% below the 1970 level.[2]

In a questionnaire survey of 50 MNC's by Pincus and Edwards[3], they found Decision 24 to have very detrimental affects on the plans for new foreign investment. Those contacted saw a substantial decline; many felt the fade-out provisions, profit restrictions and political uncertainty within the region to far outweigh any potential profitability. However many respondents felt they would maintain their present facilities but not improve nor expand them at present, as they felt there would be some modification to Decision 24.

Other respondents felt immediate withdrawal, even at a loss, to be the best action.

The survey by Business International reveals a great deal of optimism and some concern about the expected stability of the market. The survey subsequent to Decision 24 portrays a strong adverse reaction by U.S. businessmen. The fade-out provisions, profit restrictions and political uncertainty were seen as negatively affecting the profits of regionalization. The proportionate weight of these factors in the decision to reduce investment in the region is not determined, but once again the factor of instability plays an important role.

The Meeker Study

In a MBA thesis exploring the acceptability of the fade-out joint venture principle, Guy Meeker[4] received 90 responses. Of this group, 36% indicated that a fade-out joint venture (FOJV) may be an acceptable mode of investment under certain conditions. The remaining 64% are not considered to be opposed to the idea even though they did not respond favorably. Meeker seems to feel a large portion of the lack of favorable response is due to a misunderstanding of what the FOJV involves.

He concludes that 70% of those responding to his questionnaire are potential candidates although 36% indicated favorable consideration under certain conditions. He had an

accompanying response that 87% of the firms accept joint ventures as a matter of policy and 62% "accept minority positions as a general policy." He seems to equate the willingness to enter into a minority joint venture as tantamount to willingness to accept a FOJV. He then indicates that those who accepted a minority joint venture but did not accept a fade-out were inconsistent and did not understand the fade-out. Therefore, the original 36% of the respondents indicating a willingness to accept a fade-out is increased by those who would enter into a minority joint venture, raising the proportion to 70%.

This type of analysis and the way his questions were worded tend to reduce my confidence in the conclusion he draws as seeing the fade-out joint venture as a workable and feasible program for foreign investors as well as for host countries.

He concludes that the acceptability of the FOJV "is conditioned by individual company policy more than anything else. An emotive barrier such as this could be changed under competitive pressure."[5] He believes that a partial fade-out agreement, supported by a multilateral guarantee, would attain an aura of certainty and coupled with "fair" compensation would overcome any reluctance to participate in a FOJV. Such a conclusion would seem to rely on the assumption that the local profit criterion is the overriding concern of the foreign investor.

Meeker does foresee that the adoption of the FOJV principle by a host government would impede the flow of foreign investment, but it would soon resume if the policy was consistent. He sees the FOJV as helping to assuage nationalistic fervor and also developing nations to "channel foreign private investment according to the priorities of a predetermined development plan, rather than adjust domestic policies to the dictates of foreign capitalists."[6]

It seems the Meeker data could be given to another interpretation. Willingness to enter into a minority joint venture does not necessarily imply a willingness to partial divestment in a FOJV. Entering into a new venture may be seen as an opportunity while the FOJV is a sharing of what one already has. This is not intended as a judgmental statement regarding foreign ownership or nationalistic pressures, but is an attempt to clarify the attitude that may be held by the executive as he approaches one of these situations.

In the new venture the prospective minority partner has many freedoms, including the freedom to select the technology, financing and other scarce resources to be committed to the project. In other words there is the opportunity to be selective of what assets are brought to the partnership and what benefits are to be received.

Another conclusion that may be disputed is that the impeded flow of foreign investment would resume once there was a perception of consistency in the FOJV requirement. It may

be that the reduction in the expected stream of profits, resulting from the joint equity requirement, has raised the level of earnings required and so changed the evaluation of the market potential. Perhaps a joint venture that required the same level of scarce resources as a wholly owned operation, but did not yield the same return would not appear as attractive as the wholly owned operation.

Ferguson Study - Strategic Problems of the FOJV

In a thesis exploring the strategic business implications of the FOJV, Terry Ferguson[7] has pointed out three major problems for the foreign investor. He foresees difficulty in the location of local capital under conditions which would permit a satisfactory negotiation and sale. The limitations on the freedom to choose the correct timing for the negotiation would reduce the assurance of a fair exchange. And of course, the difficulty in establishing a fair way to evaluate the equity for divestment is a major problem.

Ferguson sees the initial problem of limited local capital in developing countries to be adversely influenced by the high degree of perceived risk due to inflation, currency devaluation, political instability and the volatility of economic activity. An investor confronted with a high level of perceived risk requires a high rate of return and so would not be willing to pay as much for a stream of income as a foreign investor might.

From his interviews he concludes that companies are learning to live with the fade-out requirements in the Philippines and the Mexican restrictions.

Reasons for this are given by Ferguson as follows:

1. misunderstanding of what the phase-out requirement really means (i.e., a lessening of equity position and not necessarily a 100% divestiture);
2. it apparently is possible to negotiate an acceptable agreement in some cases;
3. there are many advantages to having a local partner, once the entrepreneur is satisfied that his local partner is very competent and is doing a better job than he could under the circumstances, it may become more acceptable to take a minor equity position.[8]

Ferguson indicates that the FOJV requirement is not an absolute prohibition preventing the firm from considering the investment opportunities of the market. The implications of this report and Ferguson's conclusions are seen as compatible as the reluctance to enter into a FOJV may be seen as a matter of degree, highly influenced by the perceived benefits of the market, the stability of the flow of benefits and the action of competitors. However, the FOJV and a minority joint venture are not being equated, as some firms will not share certain proprietary technology.

Franko - Is the Joint Venture Workable?

Lawrence Franko[9] reports that his study dealt with the broader question of the success and failure of joint ventures between U.S. investors and host country nations. He

concludes that success or failure of the arrangement is heavily influenced by the type of management organization of the U.S. firm. If the U.S. firm has decided to meet overseas price competition by concentrating on a limited product line abroad then it will tend to develop inflexible, centralized decision making organization which does not have room for consideration of the minority or local interest. Contrariwise, firms choosing the strategy of foreign product diversification do not tend to centralize their decision making, so the local national owner can be readily tolerated.

While this study and the Franko survey investigate two very different aspects of joint venture relationships, it may be that the data from the Franko study could be structured in the models presented and shed further light on the proprietary knowledge and technology question.

CONCLUSIONS

From the interview data one may conclude that the new Andean regional market is not seen as having sufficient incremental advantage, as compared to the continuation of the national market mode, to merit a change. The model indicates and the data confirms that the uncertainty of the continuity of benefits gained or costs incurred in regionalization tends to make it less risky to do nothing than to change existing national operations to a regional operation.

From the model, one can see three areas of action that may lead to firms moving from the national to regional mode. An increase in perceived stability of the benefits gained or costs incurred may raise the expected value of income flows or losses incurred. At present it seems less risky to do nothing, so some incentive to change to regionalization or some penalty for remaining as a national firm may be effective. The action of competitors also influences investment decisions, so some program of encouraging defensive investment may be useful.

It is difficult to generalize about the partial divestment program or fade-out joint venture FOJV). However, there are some firms that refuse to participate in any type of joint arrangement in production of the firm's primary products. It may be (and was confirmed in the interviews) that a firm with such a policy may be willing to be a minority partner in some venture not involving proprietary knowledge.

The data does seem to support the conclusion that the fade-out joint venture is perceived to be very different from the <u>opportunity</u> to enter a new venture as a minority partner. The acceptability of a fade-out joint venture arrangement seems to be influenced by expected benefits of the market and actions of competitors.

The reluctance of firms to regionalize their present national operations seems to be more associated with the instability of the region and uncertainty of the denouement

stream than with the local equity requirement. However, the regionalization decision may be a hierarchical evaluation with instability one of the early considerations, and the ownership question at a higher level.

FOOTNOTES

Chapter 2

1. Guy B. Meeker, "Fade-Out Joint Venture: Can It Work For Latin America?," Inter-American Economic Affairs, (Spring 1971).

2. Joseph Pincus and Donald E. Edwards, "The Outlook for United States Foreign Direct Investment in the Andean Pact Countries in the Seventies," Journal of International Business Studies, (Spring 1972), p. 89.

3. Ibid.

4. Meeker, (Spring 1971).

5. Ibid.

6. Ibid.

7. Terry Douglas Ferguson, Corporate Strategy Considerations of the Phase-Out Joint Venture As a Form of Direct Foreign Private Investment, (S.M. Thesis, M.I.T., June 1972).

8. Ibid., p. 66.

9. Lawrence Franko, Strategy Choice and Multinational Corporate Tolerance for Joint Ventures With Foreign Partners, (DBA Dissertation, Harvard University Graduate School of Business Administration, 1969).

Chapter 3

CONCLUSIONS

PROSPECTS FOR REGIONALIZATION OF EXISTING FACILITIES

The interview data structured within the framework of the model in Chapter 1 leads one to believe that under the presently perceived conditions of uncertainty, there will be little regionalization of existing U.S.-owned facilities. One element of risk to the businessman is uncertainty, and in this situation the consequences of doing nothing apparently seem less risky than the prospects of regionalization.

The cost of changing from servicing the national market to regionalization is segmented into two broad categories - the business cost, and the cost of the change in ownership structure. Chapter 1 provides some ideas of what considerations may fall within each.

The interview data suggest that the unfavorable comparison of business cost with the expected advantages (the term is used in the anticipatory and probabilistic senses) of regionalization constitute a major factor impeding some firms from regionalizing. So the hypothesis that the regional market is favorably evaluated would be rejected.

The influence of the cost of change in ownership structure is also important; in fact for some firms it is prohibitive. In this latter case it was suggested that

proprietary technology and the sharing of scarce resources were important considerations. These elements also offer strong logical support for there being a difference in the willingness of a firm to enter into a new venture as a minority partner and its willingness to partially divest its current holdings to gain the right to share in an uncertain income stream. The ownership requirements are restrictive in some cases but not in others; so hypothesis two is not universally true. The reluctance to act is influenced by the evaluation of the market opportunity and to some extent, by the partial divestment requirements; so hypothesis three was incomplete.

As an additional consideration, the executive officers interviewed expressed a different attitudinal view of the FOJV and the opportunity of the new venture. A profit center with an allocation of assets is evaluated against the earnings of those assets. So a situation of continuity may seem much less risky than an uncertain income stream that requires significant organizational change, i.e., doing nothing may be less uncertain than partial divestment. The anticipated earnings flow from change would need to be quite favorable to overcome the adjustment of uncertainty. Hence, a FOJV is seen as an uncertainty, while a minority interest in a new venture is seen as an opportunity.

IMPLICATIONS FOR ANDEAN PLANNERS

From a Machiavellian perspective, some incentive is required to get the established firms to change from serving the national market to regionalization, or some penalty imposed on those which remain in the national mode. In the latter case the imposition of taxes or other unfavorable treatment of the firms in the single nation mode would make a change to regionalization seem more beneficial. However, such penalties may have unfavorable long run implications and complex interactions.

On the positive side, granting tax advantages, income stabilization behind "guaranteed" tariff barriers, a perceived stabilization in the regulations, and some revocable divestment arrangement may be inducement factors established investors are interested in.

A problem posed by some of the respondents was the possibility of the company agreeing to an acceptable divestment agreement, but then not finding any local capital willing to make the investment. It was suggested that a plan be considered whereby the foreign company could create an escrow to hold the stock certificates until a buyer was found. Such a program would allow the foreign company to comply with the divestment requirement without being forced to sell at a bargain price.

The question of the revocable divestment agreement is an interesting consideration, although this may not be in harmony with the long run goals of the host governments. Divestment seems to be an area of uncertainty that could be somewhat stabilized.

It is my impression from the interview responses, that U.S. investors are not in favor of having foreign partners on a fade-out joint venture basis. A high degree of uncertainty as to the stability of the region, coupled with the prospect of being tied to a partner in an unfavorable economic situation, makes changing to regionalization almost intolerable. However, it seems that this contingency can be mitigated. A buy/sell agreement where both parties agree either to buy or sell at some price that is determined by the guidelines of the agreement could lessen the long term impact of divestment.

Perhaps this buy/sell agreement could be part of the initial divestment agreement whereby the local investor acquires equity at a price determined in accordance with the procedure of the agreement. The local buyer would have the option of buying down to a certain level of equity, probably the minimum requirement. The foreign owner would have the option of selling additional equity beyond the minimum required; on the basis of this method or under certain conditions he could buy back the interest of the local

investor. Such a buy/sell agreement could be very beneficial in reducing this area of uncertainty.

SUGGESTIONS FOR FURTHER STUDY

In this attempt to be descriptive of a very small segment of the decision process, we have only touched some very interesting questions. It was suggested that the model of the study may be useful in evaluating the Franko data to gain a better understanding of the nature of proprietary technology and utilization of scarce resources.

The descriptive question of what might be considered scarce resources and how their limitations might affect an investment decision would be a useful study, as would a detailed development of the behavioral considerations of the FOJV as compared to the opportunity to enter as a minority interest in a new venture.

A complementary study of the nature and influence of control on the investment decision process would be an important element in constructing a decision.

A major normative question underlying the whole area is the conflict between foreign ownership and nationalistic needs of self direction.

Philosophically the free enterprise system and international trade concepts give strong support to an investor entering a market and developing it to his economic benefit.

However, many people feel a laissez faire system may not work for the long run good of the majority.

In a similar sense, Hirschman presents three major objections to foreign investors.[1] He concedes that foreign investors may make positive contributions by supplying one of several missing factors of production (capital, entrepreneurship, management, etc.), and such is truly beneficial if these are scarce resources. The teaching function of foreign investors exposing the local market to new methods and technology may also serve to improve the quality of the local factors of production. His first objection would be that this inflow of foreign investment could be seen as a stunting or impediment to what might otherwise be vigorous local development of the so-called missing or scarce factors of production. Concomitantly, the host country would be concerned about becoming specialized in certain factors of production, e.g., low skilled labor.

The second problem with allowing foreign investors to have significant control in the economy is their lack of firmness in demanding certain actions which are necessary for the long run economic growth of the country. To build up infrastructure for industrialization, there is a need for large amounts of overhead and educational capital to be generated from taxes, new domestic markets need to be opened, foreign markets made more attractive, institutions

hampering growth reformed, and powerful social groups antagonistic to development neutralized. Such changes are facilitated if the new industrialist speaks with a strong, influential and even a militant voice. Hirschman is saying there needs to be more insistence on development in order to accomplish it.

Finally, even if the foreign investor realizes the need to insist on changes being made to enhance development, he is also aware, as are the policy makers, that it is politically unsound to force nationals to sacrifice when the benefits are accruing to foreigners.

Table 3

IMPACT OF EXPORT ITEMS ON GNP, 1971

	BOLIVIA	CHILE	COLOMBIA	ECUADOR	PERU	VENEZUELA
GNP	$1.09B	$4.25B	$7.15B	$1.67B	$5.35B*	$10.9B
Value export items	$268MM	$962MM	$686MM	$237MM	$891MM	$3.3B
Population	5.06MM	8.99MM	21.79MM	6.30MM	14.01MM	10.65MM
GNP/capita	$215.	$474.	$329.	$266.	$380.	$1035.
% $\frac{\text{Export}}{\text{GNP}}$	24.6%	22.6%	9.7%	14.2%	16.7%	30.3%

*GDP was given; net factor payments estimated to get GNP figure.

Source: International Monetary Fund, International Financial Statistics. Vol. XXVII, No. 3, March 1974.

Table 4

BASIC DATA ON THE ANDEAN COUNTRIES AND OTHER LATIN AMERICAN REPUBLICS, 1969

	Andean Countries	Venezuela	Argentina	Brazil	Mexico	Central American Common Market	Other Republics[a]
Population (Mill)	64.0	10.0	23.9	90.8	48.9	14.5	24.0
Area (Mill km^2)	5.5	0.9	2.8	8.5	2.0	0.4	0.9
GDP (Bill \$)[b]	27.3	7.3	21.6	30.7	31.7	5.0	8.0
GDP per capita (\$)[b]	427	731	902	338	649	340	340
Exports (Bill \$)	5.4	2.4	1.6	2.3	1.5	1.0	1.2
Imports (Bill \$)	4.5	1.8	1.6	2.3	2.1	1.1	1.7
Mining Output							
Coal (Mill Tons)	4.8	..	0.5	4.5	2.6	..	..
Iron (Mill Tons)	26.8	13.0	0.1	18.2	2.1	..	..
Copper (Thous Tons)	906.7	..	..	4.3	66.2	4.4	13.2
Lead (Thous Tons)	185.6	..	30.5	22.2	170.9	14.5	..
Zinc (Thous Tons)	391.7	..	30.8	..	253.4	17.0	..
Tin (Thous Tons)	30.1	..	1.9	1.6	0.5	..	..
Crude Oil (Mill M^3)	229.8	208.5	20.7	10.2	26.8	..	..

Table 4 (cont.)

	Andean Countries	Venezuela	Argentina	Brazil	Mexico	Central American Common Market	Other Republics [a]
Agricultural Output							
Rice (Mill Tons)	1.6	0.2	0.3	6.4	0.5	0.2	0.8
Maize (Mill Tons)	2.7	0.7	6.9	12.7	8.5	1.6	0.7
Wheat (Mill Tons)	1.5	..	7.0	1.4	2.3	..	0.4
Sugar (Mill Tons)	2.4	0.4	1.0	4.6	2.6	0.5	5.2
Cocoa (Thous Tons)	100.2	23.5	..	211.2	24.0	9.4	45.7
Coffee (Mill Tons)	.7	0.1	..	1.3	0.2	0.4	0.1
Cotton (Mill Tons)	0.2	..	0.1	0.7	0.5	0.2	..
Wool (Thous Tons)	43.9	..	180.0	30.5	8.5	..	78.0
Tobacco (Thous Tons)	67.7	9.5	52.0	250.2	62.0	7.8	88.7
Beef and Veal (Mill Tons)	1.0	0.2	2.8	1.7	0.4	0.2	0.7
Pork (Mill Tons)	0.2	..	0.2	0.7	0.2	..	0.1
Milk (Mill Tons)	5.1	0.8	5.1	7.3	3.2	1.2	1.8
Hen Eggs (Mill Tons)	0.2	..	0.2	0.5	0.2	0.1	0.1

Table 4 (cont.)

	Andean Countries	Venezuela	Argentina	Brazil	Mexico	Central American Common Market	Other Republics [a]
Industrial Output							
Industrial output as per cent of G.D.P.	18.7	15.0	30.7	23.8	23.0	17.0	18.0
Electricity** (Thous KWH)	28.9	8.9	16.5	35.3	20.9	2.4	7.9
Hot-rolled Steel (Mill Tons)	1.3	0.4	2.0	3.9	2.8	..	..
Steel Ingots (Mill Tons)	1.9	0.8	1.7	4.9	3.5	..	..
Pig Iron (Mill Tons)	1.4	0.5	0.6	3.7	2.1	..	..
Cement (Mill Tons)	7.7	2.4*	4.3	7.2	6.1*	0.6	1.8
Sheet Glass (Mill M^2)	6.8	..	7.0++	11.5	13.8*	..	0.9
Caustic Soda** (Thous Tons)	52.0	10.0	83.0	76.0	110.0	..	1.6
Soda Ash** (Thous Tons)	46.0	..	..	85.0	140.0	..	..

Table 4 (cont.)

Industrial Output (continued)	Andean Countries	Venezuela	Argentina	Brazil	Mexico	Central American Common Market	Other Republics[a]
Sulphuric Acid** (Mill Tons)	0.3	..	0.2	0.3	0.6	..	0.2
Tubes (Mill Units)	2.4	1.0*	3.3	3.4	1.6*	..	..
Tires (Mill Units)	3.3	1.5*	3.9	6.9	3.2	..	0.1
Paper and Board (Mill Tons)	0.7	0.2	0.5	0.9	0.8	..	0.1
Pulp (Mill Tons)	0.5	..	0.2	0.8	0.4	..	..
Synthetic Fibers (Thous Tons)	26.4	5.4	23.0	31.1	33.5	..	1.0
Beer (Bill Liters)	1.4+	0.3+	0.3	0.8	1.3*	0.1	0.2*
Gasoline (Mill M^3)	15.8	9.6	5.2	8.3	7.3	..	0.8**

Table 4 (cont.)

	Andean Countries	Venezuela	Argentina	Brazil	Mexico	Central American Common Market	Other Republics [a]
Growth Rates (1960-69)							
Population (per cent p.a.)	3.4	3.4	1.6	2.9	3.6	3.5	2.5
G.D.P. (per cent p.a.)	5.1	4.5	3.5	5.5	6.9	6.0	3.5
G.D.P. per capita (per cent p.a.)	1.7	1.1	1.9	2.6	3.3	2.5	1.0
Growth Rates (1961-67)							
Industrial output (per cent p.a.)	6.9	7.5	3.7	4.5	8.4	9.0	4.0
Agricultural output (per cent p.a.)	3.7	6.9	3.8	2.6	4.2	5.0	2.0
Prices (G.D.P. deflator per cent p.a.)	11.8	2.6	23.8	52.1	3.0	1.0	6.0

Table 4 (cont.)

Sources: Morawetz, David. Economic Integration Among Less Developed Countries with Special References to the Andean Group. Ph.D. Thesis, M.I.T., June 1972.

Taken from: Growth rates (1960-69) are from E.C.L.A. Economic Survey of Latin America, 1969, part 1, Table 2. Growth rates (1961-67) and data on industrial output as per cent of G.D.P. are from I.B.R.D. World Tables, mimeo, Jan. 1971. Figures for electricity, caustic soda, soda ash, and sulphuric acid are from C.F. Diaz-Alejandro, "The Andean Common Market: Gestation and Outlook", Yale Economic Growth Center Discussion Paper No. 85, Bulletin for Latin America, VIII, 1, March 1971.

Notes:
(a) Paraguay, Uruguay, Cuba, Haiti, Panama, Dominican Republic

(b) At 1960 prices

* Refers to 1968

+ Refers to 1967

** Refers to 1966

++ Refers to 1963

.. Less than 0.05

FOOTNOTES

Chapter 3

1. Albert O. Hirschman, How To Divest In Latin America and Why. (Princeton, N.J.; International Finance Section, Department of Economics, Princeton University, 1969).

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