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LATIN AMERICA IN A CHANGING WORLD TRADE SYSTEM

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Latin America in a Changing World Trade System[1]

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This paper considers how long term trends of the global trade system in the 1990s are likely to affect the Latin American economies. In particular it examines how these trends shall influence different types of Latin American economies. This impact is likely to be differentiated because of both diverse trade structural characteristics and unequal success in creating stable macroeconomic conditions.

The paper is divided into four sections. The first section concentrates on the description of the structural characteristics of Latin American trade taking into account product composition, export destination and origin of imports. Based on these data, which show sharp contrasts between different Latin American economies, a provisional taxonomy is established.

Section 2 evaluates the effects of long term trends of the global trading system on Latin American economies. This includes not only an assessment of the ways the system is likely to change but also the varying importance of specific trends on particular economies or types of economies. The two main aspects taken into account are the developments related to trade bloc formation and the likely outcome of the Uruguay Round of multilateral trade negotiations in the GATT. The economic consequences of trade bloc formation are assessed in relation to further EC integration, to the formation of a free trade area in North America and to integration efforts such as the Mercosul. Alternative scenarios for the conclusion of the Uruguay Round are considered to serve as a basis for the assessment of impact on specific types of economies.

Section 3 considers alternative outcomes of stabilization cum liberalization/deregulation efforts and their relation to the structural trends considered previously. It is not unlikely that these reforming efforts prove to be difficult to implement or to sustain as political obstacles are very substantial. Polar cases would be, on one hand, the continued muddling through in the border of hyperinflation even if with some structural reforms and, on the other, a successful mixture of stabilization and structural reforms.

The concluding section reassesses, in the context of the considered in section 3 differentiated macroeconomic constraints, the taxonomies initially proposed in sections 1 and 2, based on structural trade patterns and the likely effects of bloc formation and the Uruguay Round.

1. The Structure of Latin American Trade

Latin America as a whole never recovered the importance it had in world trade before the economic depression of the late 1920s. In some cases such as Argentina the share in world total exports is now about a tenth of its 1928 level. This reflects distorted domestic policies in Argentina as well as rising protectionism in developed countries which affected markets for agricultural temperate products. In the case of Chile, Colombia and Peru the contraction was to about a third of this previous peak. Brazil's share of world exports is today only two thirds of its 1928 level but this of course partly reflects the outstanding growth performance of the economy until the early 1980s. It was only oil exporters such as Mexico and Venezuela which were able to maintain their share of global exports (see Table 1). But while Mexico's share show a relative stability over time there has been a marked decline in Venezuela's share since 1950. Given the concentration of exports in a few commodities, fluctuations of relative prices had an important impact on the definition of global market shares. The post Second World War commodity shock as well as the oil shocks in the 1970s come to mind as particularly relevant.

Trade as a proportion of GDP (on a current US dollar basis) is of variable importance for different Latin American economies. Most of the largest economies show export/GDP ratios around 15% with the major exception of Chile whose 35% ratio is more in line with what should expected in a small open economy (see Table 2 for comparative data in 1989). On the other hand Brazil - whose GDP is equivalent to those of Argentina, Chile, Colombia, Mexico, Peru and Venezuela put together - has a more closed economy as the export/GDP ratio is under 10% and the import GDP/ratio is around 5-6%, a reflection of its long term commitment to import substitution policies, only recently reversed, and of the size of its domestic market.

Table 1

Exports of Largest Latin American Economies as a % of World Exports

	1928	1950	1960	1970	1980	1989
Argentina	3.12	1.92	0.84	0.56	0.40	0.32
Brazil	1.45	2.22	0.99	0.87	1.01	1.14
Chile	0.72	0.47	0.38	0.39	0.23	0.27
Colombia	0.39	0.65	0.36	0.23	0.20	0.19
Mexico	0.74	0.86	0.59	0.41	0.76	0.76
Peru	0.38	0.31	0.34	0.33	0.19	0.12
Venezuela	0.36	1.91	1.90	1.01	0.99	0.43

Sources: League of Nations. Economic Intelligence Service. <u>Statistical Year-book of the League of the Nations</u>, Geneva, 1932; United States Conference on Trade and Development. <u>Handbook of International Trade and Development Statistics 1983</u>, United Nations, New York, 1984; United States Conference on Trade and Development. <u>Handbook of International Trade and Development Statistics 1990</u>, United Nations, New York, 1991.

Table 2

Openness and Size of the Largest Latin American Economies, 1989

	Exports/GDP	Imports/GDP	Total trade/GDP	Total GDP Brazil=100
Argentina	.139	.061	.200	18.4
Brazil	.092	.049	.141	100
Chile	.356	.283	.639	6.1
Colombia	.148	.129	.277	10.4
Mexico	.135	.130	.265	45.4
Peru	.174	.085	.259	5.7
Venezuela	.276	.166	.442	12.6

Source: computed from World Bank data.

Commodity composition of exports has been changing quite rapidly in favour of manufactures in the last 25 years but exports of food products (either tropical or temperate), ores or fuels maintain large export shares in all economies. As the share of manufactures in the largest economies increased significantly in the 1980s, reliance on commodity exports decreased accordingly (see Tables 3 and 4). The share of food products decreased very significantly in Brazil (tropical products) and less so in Argentina (temperate products). In Mexico, and much less markedly in Venezuela, it was fuel exports which made space for manufactured exports. In Colombia fuel exports squeezed food exports to produce a diversified commodity export structure if compared to those of the other large Latin American economies. In Chile, with the liberalization of trade and removal of export biases, food products gained ground in relation to ores. In Peru, the same happened in relation to fuels. Only Brazil, Mexico and Argentina can be said to depend significantly on exports of manufactures[3].

Table 3

Commodity Composition of Exports of Largest Latin American Economies, 1980

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela
Food	65.0	46.3	14.9	71.8	12.4	15.6	0.4
Agricultural raw materials	6.2	4.0	10.0	4.7	2.3	3.6	-
Fuels	3.5	1.8	1.3	2.8	66.8	20.3	94.0
Ores and metals	2.2	9.4	64.1	0.2	6.5	42.3	3.9
Manufactures	23.1	43.9	9.1	19.6	11.9	16.7	1.7
Chemicals	4.9	6.6	4.0	2.3	3.3	2.5	0.5
Other	11.8	22.1	3.1	15.0	4.3	12.4	0.8
Machinery and transport equipment	6.4	15.2	1.9	2.3	4.3	1.8	0.4
Other	0.9	0.6	0.7	-	1.4	-	-

Source: United States Conference on Trade and Development. Handbook of International Trade and Development Statistics 1990.

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3 Growth in the share of manufactured exports may in some cases, such as that of Brazil, reflect policies which cannot be maintained in the context of stabilization due to fiscal restrictions.

Table 4

Commodity Composition of Exports of Largest Latin American Economies, 1988

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela
Food	59.6	29.2	26.6	37.4	12.3	22.5	0.9
Agricultural raw materials	4.7	3.8	11.6	4.8	2.0	3.7	0.1
Fuels	1.7	3.6	0.3	32.4	33.9	12.8	82.8
Ores and metals	2.4	11.5	51.0	0.1	6.9	42.5	7.9
Manufactures	31.4	51.1	7.6	24.8	44.9	16.2	8.2
Chemicals	7.3	5.5	2.1	3.4	6.7	2.2	2.2
Other	18.0	25.6	4.6	20.1	13.8	12.7	5.1
Machinery and transport equipment	6.1	20.8	0.9	1.2	24.4	1.2	0.9
Other	0.1	0.8	2.8	0.5	-	2.3	0.2

Source: United States Conference on Trade and Development. Handbook of International Trade and Development Statistics 1990.

A few general trends are quite clear in relation to the destination of Latin American exports until the early 1980s: the continuous contraction in the importance of European markets, the growing importance of exports to formerly marginal markets such as those in Eastern Europe and Asia as well as to Latin America itself. In the 1980s, as the US economy recovered and the economic crisis affected Latin America, the Latin American share of Latin American exports declined sharply and was roughly compensated by a rise in the importance of the US market (see Table 5). This is being rapidly reversed in the recent past.

Table 5

Destination of Latin American Exports (% of total exports)

	1928	1963	1980	1989
North America	35	38	38	46
Japan	-	4	4	5
Western Europe	55	35	23	21
EC			21	19
EFTA			2	2
Other developed economies	-	-	-	1
Central and South America	9	15	21	12
Other developing economies	-	2	6	7
Eastern Trading Area*	-	5	7	7
Unspecified	-	-	1	-

Sources: League of Nations and GATT.
* In 1928: USSR only.

Some of the large Latin American economies depend very importantly on North American markets (see Tables 6 and 7): Mexico (more than 70%), Venezuela (around 55%) and Colombia (around 45%). The US market is less important for Brazil (less than 30%) and much less so for Argentina (around 15%). These other large Latin American economies still depend on European markets (25-30%) as well as on markets in Eastern Europe and other developing economies (especially Argentina). The share of exports to Latin America itself is largest in Argentina (22%) and between 12% and 18% in the other large Latin American economies. With the exception of Peru in all the largest Latin American economies the share of exports absorbed by the US market increased very substantially in the 1980s. This was mainly at the expense of the share of developing economies including those of Latin America.

Table 6

Destination of Exports of Largest Latin American Economies, 1980

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela
Developed economies	45.0	59.9	65.7	76.8	82.1	68.8	59.8
EC	27.6	27.2	38.4	32.6	9.8	20.9	12.9
Other Europe	4.5	6.8	4.6	11.8	2.7	5.1	6.3
USA and Canada	9.5	18.6	11.5	28.6	63.1	33.3	37.0
Japan	2.6	6.1	11.1	3.7	4.8	8.7	3.6
Other	0.8	1.2	0.2	0.2	1.6	0.7	-
Eastern Europe	22.4	6.5	0.5	3.6	0.3	2.6	0.1
Other Socialist	2.4	0.4	2.2	0.1	1.1	0.6	-
Developing economies	30.2	31.9	30.4	19.5	16.5	26.4	39.1
America	24.5	18.1	24.7	17.7	15.1	22.3	37.2
Africa	2.4	6.0	0.2	1.5	0.1	0.4	1.1
West Asia	2.1	4.4	2.5	0.1	0.4	0.6	-
South and SW Asia	1.2	3.4	3.0	0.2	0.9	3.1	0.9

Source: United States Conference on Trade and Development. Handbook of International Trade and Development Statistics 1990.

Table 7

Destination of Exports of Largest Latin American Economies, 1988

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela
Developed economies	50.9	65.9	73.1	78.3	90.1	65.8	78.1
EC	30.0	27.7	36.8	25.7	11.5	22.9	12.3
Other Europe	1.0	1.6	2.6	3.1	0.6	1.8	4.2
USA and Canada	14.2	28.4	20.5	44.7	71.2	30.8	56.4
Japan	3.6	6.7	12.5	4.4	5.7	10.0	5.2
Other	2.0	1.5	0.7	0.5	1.1	0.3	-
Eastern Europe	11.7	3.1	1.1	3.9	0.3	5.1	0.1
Other Socialist	4.0	2.1	1.4	-	0.5	1.8	0.5
Developing economies	33.4	25.2	23.7	17.1	9.0	26.0	17.6
America	22.6	12.1	13.1	16.0	7.6	17.7	16.5
Africa	2.9	2.7	0.3	0.1	0.4	0.9	0.2
West Asia	2.7	4.1	2.1	0.1	0.1	1.3	0.3
South and SW Asia	5.0	6.1	7.1	0.9	0.9	4.8	0.7

Source: United States Conference on Trade and Development. Handbook of International Trade and Development Statistics 1990.

Differing import/GDP levels (see Table 2) partly reflect quite heterogeneous import regimes. Among the largest Latin American economies Brazil is still the more protected economy with a weighted aggregate tariff of around 25% in 1991, that is roughly double those applying in most of the other large economies: Argentina, Chile, Colombia and Mexico. It is unclear, however, to what extent non tariff barriers have been removed. In Brazil, for instance, non tariff barriers such as minimum national content requirements to qualify for public long term credits remain significant[4].

Latin American economies can be classified in terms of the commodity composition of imports in four major groups (see Tables 8 and 9): importers of oil and manufactures; importers of food (mainly but not exclusively temperate agricultural products) and manufactures; importers of food, oil and manufactures; importers of manufactures mainly. Brazil is the more significant example of the first group as Chile to a much lesser extent; Peru, Mexico and Venezuela of the second; many of the smaller economies of the third; Argentina and Colombia of the last. The long term fall in oil prices in the 1980s was a major factor explaining the decreasing share of fuels in the total exports of those economies depending on energy imports.

Import commodity structures to a large extent define the origin of imports (see Tables 10 and 11). So oil dependent economies such as Brazil purchased and tend to purchase a lower proportion of its imports in developed countries and a larger share in West Asia. The concentration of purchases of food importers in North America is high especially so in the case of Mexico which is a very poor importer from Latin America.

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4 Winston Fritsch and Gustavo H.B. Franco, "The Progress of Trade and Industrial Policy Reform in Brazil", mimeo, Rio de Janeiro, 1991.

Table 8

Commodity Composition of Imports of Largest Latin American Economies, 1980

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela
Food	5.7	9.6	15.0	11.7	16.1	19.8	14.5
Agricultural raw materials	3.7	1.3	1.8	2.8	3.0	2.8	2.7
Fuels	10.3	43.1	18.4	12.2	2.0	2.4	1.6
Ores and metals	2.9	5.1	1.7	3.2	4.0	2.2	2.1
Manufactures	77.3	40.8	59.6	69.4	74.9	72.6	79.1
Chemicals	12.3	13.9	8.8	15.1	11.0	16.5	11.4
Other	24.8	7.5	17.4	16.7	20.7	15.6	24.8
Machinery and transport equipment	40.2	19.5	33.4	37.6	43.1	40.5	42.8
Other	-	-	3.5	0.7	-	0.2	-

Source: United States Conference on Trade and Development. Handbook of International Trade and Development Statistics 1990.

Table 9

Commodity Composition of Imports of Largest Latin American Economies, 1988

	Argentina	Brazil*	Chile	Colombia*	Mexico*	Peru	Venezuela
Food	3.8	5.1	5.3	6.9	16.5	22.2	12.2
Agricultural raw materials	3.6	3.0	3.1	3.9	4.6	3.3	4.6
Fuels	9.4	30.1	12.3	4.9	4.1	10.1	1.4
Ores and metals	5.3	5.2	1.8	4.5	3.9	2.0	4.6
Manufactures	77.8	56.5	75.5	77.4	70.3	62.4	76.4
Chemicals	23.9	17.0	15.1	23.5	13.7	21.4	15.8
Other	19.1	10.6	19.5	17.9	22.9	14.9	13.8
Machinery and transport equipment	34.8	28.9	40.9	36.1	33.6	26.0	46.8
Other	0.1	-	2.1	2.3	0.7	-	0.7

Source: United States Conference on Trade and Development. Handbook of International Trade and Development Statistics 1990.
* 1989.

Table 10

Origin of Imports of Largest Latin American Economies, 1980

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela
Developed	68.9	47.8	57.7	75.8	92.4	79.1	86.7
EC	29.7	16.4	19.2	20.4	16.0	23.0	22.9
Other Europe	4.8	2.9	2.3	3.8	2.3	5.6	2.1
USA and Canada	23.6	22.5	27.1	41.8	68.0	38.0	52.8
Japan	9.3	4.8	8.1	9.3	5.7	10.4	8.0
Other	1.6	1.2	0.9	0.5	0.4	2.1	0.9
Eastern Europe	0.9	1.2	0.1	2.5	0.4	1.6	0.2
Other Socialist	0.3	1.1	0.5	-	0.4	-	0.4
Developing	29.9	49.9	38.6	21.7	6.8	19.3	12.6
America	21.4	12.5	28.6	20.5	5.7	16.0	10.7
Africa	0.9	3.8	5.1	-	0.1	-	0.4
West Asia	4.5	32.5	1.4	-	-	-	-
South and SW Asia	3.1	1.1	3.3	0.9	1.0	13.2	1.5

Source: United States Conference on Trade and Development. Handbook of International Trade and Development Statistics 1990.

Table 11

Origin of Imports of Largest Latin American Economies, 1988

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela
Developed	58.7	58.0	59.9	74.5	91.3	64.2	84.5
EC	27.0	20.3	21.5	19.3	12.4	23.2	28.0
Other Europe	4.9	5.1	5.1	4.3	2.6	4.8	3.6
USA and Canada	17.4	25.4	23.5	39.6	72.0	28.1	45.8
Japan	7.3	6.2	8.3	9.4	3.7	4.4	5.4
Other	2.1	1.0	1.5	1.9	0.6	3.6	1.8
Eastern Europe	2.5	1.7	0.7	1.4	0.5	0.6	0.5
Other Socialist	0.4	0.5	1.2	-	0.9	0.1	-
Developing	37.7	39.7	37.6	23.4	6.8	35.1	14.7
America	33.1	20.8	28.9	22.2	4.4	32.2	12.1
Africa	0.6	1.9	3.6	-	0.3	0.4	0.2
West Asia	0.6	14.9	0.2	-	0.1	0.1	-
South and SW Asia	3.4	1.9	4.8	1.0	1.9	2.4	2.2.

Source: United States Conference on Trade and Development. Handbook of International Trade and Development Statistics 1990.

The contours of a somewhat crude Latin American trade taxonomy start to take shape, the number of categories being, however, rather large: a warning against generalizations.

Mexico and Venezuela have many common characteristics, in spite of the larger size of the former. Both rely on oil exports (Venezuela much more so), are significant food importers and have trade very much concentrated with the US. In contrast with Venezuela, however, Mexico has become a significant exporter of manufactures.

Argentina, a mid size to large economy in the regional context, has export interests concentrated in temperate agricultural exports and to a lesser extent in manufactures. Geographical market diversification is a consequence of its export structure as it is partly in competition with the exporting interests of the US and Canada. Uruguay has similar agricultural interests but is of course a much smaller economy where the development of tertiary activities may play a decisive role in terms of economic performance.

Chile is the paradigm of a small open primary commodity exporter economy involved in significant efforts to diversify its exports both in terms of commodity composition and of markets. Peru has many structural trade similarities if compared to Chile. The Chilean case indeed seems akin, from the point of view of trade structure, to that of a number of smaller Latin American economies.

The larger Colombian economy is characterized by a more diversified commodity export composition with consequent implications in market concentration as the US market tends to be less relevant than for Mexico or Venezuela. The obviously important role of illegal trade in narcotics introduces, however, a crucial element of uncertainty in any consideration on Colombian trade.

Brazil stands alone as a really large economy in the regional context, rather closed to the world economy - especially from the point of view of import penetration - dependent on exports of tropical products, ores and manufactures, still relying on fuel imports and with consequently geographically rather diversified export and import markets.

2. New Trends of the Global Trading System and their Impact on Latin America

Many current developments in trade diplomacy are likely to have important long term implications for Latin American economies. A first group of such developments relate to trade bloc formation and includes: arrangements which do not include Latin American economies but are likely to affect them such as Europe 1992 and access of Eastern Europe to the EC market; negotiations which shall affect only one Latin American economy directly, Mexico, but could have important implications for the others mainly through trade diversion such as those related to the North American Free Trade Area; the US Initiative for the Americas, which shall eventually include all the continent, and economic programmes at least partly related to it such as the formation of Mercosul, a common market including Argentina, Brazil, Uruguay and Paraguay. In the multilateral arena, on the other hand, either results of the Uruguay Round of multilateral trade negotiations or the lack of them shall have important consequences on Latin America. These consequences are, of course, bound to be of very unequal significance depending on the Latin American country under analysis.

Bloc formation

Latin America should reap benefits of increased growth in Europe which will result of a more fully integrated market: trade creation generated by increased growth[5] is counterbalanced by trade diversion, especially affecting manufactures. Indeed Europe 1992 in some scenarios could involve a net contraction of Latin American manufactured exports to the EC[6]. While the EC is a much less important market for Latin American manufactures than the US it is

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5 See European Economy, 35, March 1988 and Richard Baldwin, "The Growth Effects of 1992", Economic Policy, 9, October 1989 for estimates of static and dynamic growth gains.

6 See, for instance, Sheila Page, "Some Implications of Europe 1992 for Developing Countries", mimeo, OECD, Paris, 1990.

of significance especially for Brazil. For commodities such as bananas Europe 1992 shall, barring the introduction of new methods of intervention, divert very significantly imports from ACP countries to Central America[7].

The unfavourable impact of Europe 1992 on Latin American exports of manufactured products is likely to be compounded by the consequences of German unification and improved EC market access for Central and Eastern European products. Once again Brazil is thought to be the main loser, especially in its shoe exports[8]. Comparison of trade structures of Central and Eastern European economies with those of developing countries suggest that the Latin American countries likely to face stiffer competition are Brazil and, to a much lesser extent, Mexico[9].

Negotiations on the inclusion of Mexico in the US-Canada free trade agreement have been, of course, of paramount political importance in Mexico and also in Latin America. This is explained by the expectation that Mexican economic performance shall improve reflecting greater market access in the US, access to imports

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7 Free trade in bananas would increase consumption in the EC by 9%, decrease imports from favoured origins by 46% and increase exports from other markets by 12%. See Brent Borrell and Maw-Cheng Yang, "EC Bananarama 1992", World Bank Working Paper, WPS 523, Washington, 1990.

8 See Page, "Some Implications of Europe 1992".

9 See W. Mobius and D. Schumacher, "Eastern Europe and the EC : Trade Relations and Trade Policy with Regard to Industrial Products", DIW, Berlin, October, 1990 quoted in Parvin Alizadeh and Stephany Griffith-Jones, "European Integration and its Implications for LDCs' Strategic Responses", mimeo, IDRC, 1991.

enhances efficiency and investment flows are substantially increased. The developments in the trade area need to be examined in the context of substantial Mexican success in its structural adjustment and stabilization policies (more on this in section 3).

Interest in Latin America concerning NAFTA is to be mainly explained by the assessment that it would be in principle desirable also to have access to preferential treatment concerning trade and investment. Mexico's likely encroachment in market shares of other Latin American suppliers through trade diversion in the US especially for manufactures has also brought anxiety to competitors such as Brazil[10].

The generalization of NAFTA - whatever the shortcomings of the final agreement in comparison with present wishes - which is indeed the trade element of the Initiative of the Americas entails very substantial difficulties for the majority of the other relatively large Latin American economies. The Mexican trade

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10 While the initial estimates of trade diversion effects on Latin American countries are very low, most of the estimated diversion affects Brazilian exports, see Refik Erzan and Alexander Yeats, "Free Trade Agreements with the United States: What's In It for Latin America?", World Bank Working Papers, WPS 827, Washington, 1992, p. 44. These estimates are particularly fragile for countries such as Brazil whose exports are significantly affected by NTBs as much hinges on which scenario will apply for their removal in NAFTA: it is crucial for these estimates to what extent NTBs are going to be preferentially removed. Measurement of "export similarity" for Latin American economies in the lines suggested by Finger and Kreinin place the Brazil-Mexico pair at the top of the list (47 in a scale up to 100). See Erzan and Yeats, "Free Trade Agreements", p. 14.

structure in terms of commodity composition and geographical distribution is ideally suited for a free trade arrangement with the US. For Latin American countries which are exporters of food products and/or importers of oil and/or have diversified import and export markets and/or have a relatively high tariff (the case of Brazil, certainly, and Argentina, at least to some extent), the attractions of a free trade area with the US are much reduced[11]. However, the interest of countries such as Venezuela and many of the small Central American economies has a much sounder economic justification than that of the larger South American economies. In any case it does not appear to be unduly pessimistic to doubt that developments in hemispheric integration will be very meaningful for a long time especially for the larger economies.

Argentina-Brazil bilateral integration initiatives, which gained strength mainly due to political reasons since 1986, have developed into Mercosul, a more ambitious effort, aiming at a customs union also including Paraguay and Uruguay. There is an obvious asymmetry of interests in the initiative. The smaller economies', including Argentina's, economic grounds for favouring the idea are sound. However, their worries concerning Brazilian unwillingness to follow their pace in trade liberalization are well grounded as well given the great disparity in sizes of respective

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11 See Winston Fritsch, The New Minilateralism and Developing Countries in J.Schott (ed.), Free Trade Areas and U.S. Trade Policy, Washington D.C., Institute for International Economics, 1989.

domestic markets. Brazil, on the other hand, welcomes increased muscle in future negotiations following the Initiative for the Americas long term proposals of a continental free trade area.

The Uruguay Round

The impact on Latin American economies of results of the GATT multilateral trade negotiations depends on which scenario prevails in the end of the present round. It seems still[12] reasonable to concentrate attention on a "success" scenario which would have been considered very modest indeed some time ago. The "failure" scenario, fully reflecting the impossibility of reaching agreement on a minimalist liberalization agenda, would entail the deterioration of bilateral trade relations in a climate of lack of credibility of the GATT which is extremely difficult to forecast precisely and not easy to accept as an acceptable outcome of the negotiations.

The more likely outcome of the negotiations would include: a modest reduction of domestic support, protection and export subsidies in the agricultural sector[13]; not very exacting commitments by developed countries to discontinue the MFA and bring

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12 Early June 1992.
13 See GATT document Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, 20.12.91, L, part B. Proposed reductions in the 1993-99 period are of 36% in protection (base 1986), 20% in domestic support (base 1986-88) and 36% and 24% for outlays and quantities related to export subsidies.

textiles and clothing back to GATT rules and disciplines; tariff reduction by all contracting parties including in the case of tropical products; modest developments in rule-making which could include rules on antidumping circumvention, introduction of non-actionable subsidies and safeguard quota modulation (a thinly disguised "selectivity"); a new agreement on services with many sectoral MFN exemptions but probably with significant initial liberalization commitments; refined rule-making and improved disciplines in intellectual property.

In the attempt to try to gauge the impact of GATT on the Latin American economies it is important to make a distinction between countries which have for a long time been contracting parties, Argentina, Brazil, Chile, and those which became members of the GATT more recently such as Mexico and Venezuela. Before the 1980s it was extremely inexpensive, in terms of tariff bindings, to become a member of the GATT. So the "founding father" or "early entrant" group were able to maintain quite high import tariffs and had in any case their domestic market more or less continuously protected by the continuous or frequent invocation of Article XVIIIb as a basis to control imports through licensing. New members in the 1980s, on the other hand, were willing to pay quite high entrance tickets in terms of tariff bindings. Indeed, some suggest that GATT membership was sought by governments such as those of Mexico and Venezuela basically to improve their political leverage at home to advance in the direction of trade liberalization.

Up to the mid-1980s a few large or mid sized Latin American countries, especially Brazil, but also to a lesser extent, Peru and Argentina, based on the assessment that the new round should concentrate on the so called "backlog" of traditional issues (agriculture, textiles, market access and rule-making issues) left unresolved in previous rounds, rather than consider new themes (services, intellectual property, trade related investment measures), in relation to which they were not likely to be demandeurs, exerted considerable efforts to obstruct the adoption of the mainly US inspired new agenda. Since the launching of the Round, and especially since the GATT Mid-Term Review in the end of 1988, practically all Latin American countries tended to adopt a really constructive stance in the negotiations. Latin American members of the Cairns agricultural coalition which are significant exporters of temperate agricultural products, and especially Argentina and Brazil, have played a decisive role in the process of conditioning advances in other negotiating groups to significant advance in agricultural liberalization. This stance was crucial in the process of blocking the conclusion of a round without reasonable results in agricultural liberalization. This stand was a newly found enthusiasm in the case of Brazil, eager to abandon its previously defensive stance, but could be detected in the Argentinian position even before Punta del Este. Both countries however had been members of the Cairns agricultural coalition from the beginning.

Latin American concrete economic interests as demandeurs in the Uruguay Round are concentrated in agriculture, textiles and tariffs (including tropical products)[14]. Agricultural liberalization would have a very favourable impact on most of Latin America, but especially on Argentina and Brazil due to their size both in net export and welfare terms. These two economies, possibly together with China and India, are the main gainers with agricultural trade liberalization of temperate products among developing countries. Net food importers such as Mexico, Venezuela and many of the smaller Central American and Caribbean economies could, however, be less well off[15].

While estimates of the impact of reduction in textile and clothing protection are known to be unstable recent work has tended to show that some of the large Latin American economies could benefit from it rather dramatically: overwhelmingly so Brazil and Colombia and to a lesser extent Mexico[16].

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14 See Marcelo de P. Abreu, "Developing Countries and the Uruguay Round of Trade Negotiations", Proceedings of the World Bank Annual Conference on Development Economics, 1989, for a comprehensive discussion of the interest of developing countries in the Uruguay Round of trade negotiations which is still valid.

15 See Kim Anderson and Rodney Tyers, "How Developing Countries Could Gain from Agricultural Trade Liberalization in the Uruguay Round" in Ian Goldin and Odin Knudsen (eds.), Agricultural Trade Liberalization, OECD/The World Bank, Paris, 1990.

16 See Irene Trela and John Whalley, "Unraveling the Threads of the MFA" in Carl Hamilton (ed.), Textiles Trade and the Developing Countries. Eliminating the Multi-Fibre Arrangement in the 1990s, The World Bank, Washington, 1990.

Tariff liberalization, especially affecting tropical goods, is perhaps the issue of more general interest among Latin American economies due to the large number of small commodity exporting economies. But some of the largest economies as Brazil and Colombia also have an interest in the matter. Rule-making and especially issues related to countervailing subsidies, antidumping and safeguards are mainly of interest for those relatively large economies such as Brazil, Mexico, Argentina, Colombia and Chile, which have manufactured exports supply capability.

From the mid-1970s Latin American manufactured exports have faced increasing difficulties concerning access to the markets of developed countries. This was particularly acute in the US at least until the mid-1980s as US policy became much more active than it had been previously. As it should expected those countries with effective supply capability were more affected. There is, however, some evidence based on UNCTAD/World Bank data that the rising trend of protectionism in developed countries affecting exports of developing countries may have stabilized since the mid-1980s.

In relation to the new themes the stance of Latin American economies is bound to be even less homogeneous. Given supply response difficulties in developing countries it was unlikely that they would be significant demandeurs in services. It is, of course, true that liberalization of services shall improve the competitiveness of developing country exports, as it would enhance economic efficiency, but this an altogether different argument which has to do with economics and not with negotiations in the GATT. GATT negotiations are based on the reciprocal exchange of concessions: that is, it is accepted that a country concedes something when it liberalizes. The determination of the demandeur interests of developing countries in negotiations involving intellectual property is still more difficult. Latin American stands in the GATT have thus tended to try to maximize the gains entailed by a move towards service liberalization which is inevitable rather than to lose much time in assessing a possible balance of concessions according to GATT usage. The relatively more developed economies have tended to show more interest in the negotiations as they are potentially more significant service suppliers than the smaller economies and could thus face competition from foreign suppliers. Since services and intellectual property negotiations refer to domestic markets and not only to traded goods and services their inclusion in the agenda tends to enhance the potential importance of big closed markets. The entanglement of trade and foreign investment issues is obvious and significance of common measures of openness tends to be qualified.

For countries such as Brazil and, to a certain extent, Argentina, the interest in the multilateral trade negotiations is enhanced by the potential difficulties of their integration with the US economy. This is reinforced by the geographical diversification of their trade, by the large potential gains of agricultural liberalization and, in the case of Brazil, to its ample agenda. All the largest economies have strong interests in access issues and functioning of the system. Smaller economies demand from the GATT the usual package: special and differential treatment, MFN access to markets as well as surveillance and dispute settlement facilities.

3. Structural Adjustment and Stabilization Policies: a Spectrum of Outcomes

It is important to place trade policy in a proper perspective given the rather complex macroeconomic situation in which many Latin American economies have been placed since the early 1980s, partly as a result of their policies, partly of developments in the world economy.

Any balance of payments direct impact of trade liberalization needs to have its relative importance compared to the consequences of fluctuations in the real exchange rate in a high inflation environment or the payments of foreign debt service (even if significantly reduced through negotiations with creditors). The increase in exports generated by total liberalization in developed countries for a country such as Brazil is roughly equivalent to half contractual interest payments. The impact of import liberalization is particularly difficult to gauge given the importance of non-tariff barriers before 1990 and the widespread use of special import regimes which reduced tariffs on a discretionary basis.

By the mid-1980s most Latin American economies were deeply immersed in economic crises which involved a combination in varying doses, depending on the specific economy and the point in time, of balance of payments difficulties, fiscal disequilibrium, high inflation and economic stagnation. As a rule these economies were characterized by the heavy presence of a generally inefficient state sector both as a regulator and as a provider of goods and services. Economic policies tended to discriminate against exporting activities and fostered inefficiency by indefinitely maintaining high or even infinite protection of the domestic market.

This is not the place to examine the comparative history of the implementation of structural adjustment and stabilization policies in Latin America but it is obvious that in this connection also it is impossible to consider Latin America as a homogeneous whole (see table 12 for data on inflation and foreign debt).

Of the largest economies Chile led the way in terms of structural adjustment and stabilization efforts still in the 1970s but these were severely disrupted by the debt crisis in the 1980s. A second wave of structural adjustment privatized (and reprivatized) state controlled concerns, deregulated and liberalized foreign trade. Contemporaneously public finances and inflation were brought reasonably under control. Success in structural adjustment and stabilization made possible renegotiation of the foreign debt followed by the attraction of new financial flows. The Chilean experiment has been hailed as a path to be followed by other Latin American economies. Elements of fragility remain, the most important being the (diminishing) commodity concentration of exports in ores and especially copper.

Table 12

Largest Latin American Economies: Macroeconomic Data, 1991

	Yearly Inflation Rates (Consumer Price Index, Dec. to Dec.)	Monthly Inflation Rate(CPI latest)	Foreign Debt/ Exports 1990	GDP Growth 1991
Argentina	84.0	1.3%*	4.36	4.5
Brazil	493.0	20.1%*	3.44	1.0
Chile	18.4	1.0%**	1.58	5.0
Colombia	29.2***	1.0%+	1.81	2.0
Mexico	18.8	2.3%++	2.58	4.0
Peru	185.4+++	3.7%++	4.30	2.0
Venezuela	27.9+++	1.0%++	1.96	8.5

Sources: IFS; CEPAL, Balance Preliminar de la Economia de America Latina y el Caribe 1991, Santiago, 1991; Fundación Mediterránea Newsletter, May 1992; Conjuntura Econômica, May 1992; United Nations, ECLA, Economic Panorama of Latin America, Santiago, 1991.
Notes:
* April 1992. ** January 1992. *** 12 months to October.
+ October 1991. ++ December 1991. +++ 12 months to November.

The Mexican experience is also a history of success since the economic solidarity pact in the end of 1987 and its extensions as credit restrictions, fiscal discipline and wage control brought the inflation rate quite rapidly under 1% a month. At the same time trade liberalization proceeded rather rapidly and foreign debt reduction was agreed by mid-1989. GDP contraction was reversed as well the direction of capital flows which are playing a crucial role in financing a rapidly increasing trade deficit. Privatization of important state companies has proceeded and played a modest role in deficit financing. Negotiations have started on economic integration with the US and Canada which has become a crucially important political and economic objective. Trade liberalization initiatives are also proceeding with the involvement of Venezuela and Colombia, Chile and Central American countries.

Colombia was never really as much affected as the other large Latin American economies and in the 1980s had a much better performance than the average in terms of both growth and inflation. But the pace of structural reform has been quickened and at least in relation to trade liberalization is now in line with initiatives in the other Latin American economies with the exception of Brazil.

In the pecking order of success of stabilization cum structural reform in the largest Latin American economies Argentina stands next. The adoption of the Cavallo Plan early in 1991 and its strict monetary expansion rules led to a sharp fall in monthly inflation to levels below 1%. A not insignificant Austral overvaluation has been accumulating recently. While much has been done towards the generation of a substantial primary surplus in government accounts (especially through increased revenues), the fulfillment of this objective has still partly depended on sales of public assets and is below targets agreed with the IMF in the negotiations concerning access to a stand by facility of over US$ 1 billion. Foreign debt negotiations have followed. Structural reforms have proceeded but with rather more success in connection with the removal of antiexport biases than in connection with privatization in relation to which the record does not look good both in terms of the relatively ad hoc methods adopted and the nature of nature of the new controlling interests[17].

Brazil was late in the road of structural reforms and progress in this direction has been to a certain extent made more difficult by the failure of the two stabilization efforts in early 1990 and early 1991. Monthly inflation rate, now in the region of 22% a month, is in sharp contrast with the success of other Latin American stabilization schemes. Government policies have relied on demand control through expenditure cuts and extremely high real interest rates to achieve a muddling through path while Congress considers a new fiscal package which shall make fiscal adjustment feasible in 1993. While foreign debt negotiations were being concluded with private creditors in mid-1992 Brazil had failed to meet fiscal targets agreed with the IMF. Some observers doubt whether the government will have the political clout to sustain its extremely recessive policies for a necessarily long period but this pessimism is partly sobered by the lack of credibility of shock treatments after such a long list of failures in the recent past.

Recent structural reforms have included a failed reform of public administration, much effective deregulation, substantial

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17 Much of the strength of arguments in favour of privatization is dissipated if the process involves the transformation of firms controlled by the domestic government into firms controlled by foreign governments as has happened in the privatization of airlines and telecommunications.

trade liberalization and a relatively ambitious privatization programme. Trade liberalization decisions were reluctantly adopted in the beginning of the Collor administration and its pace is slower than in the other Latin American economies: only in 1994 the average tariff shall be below 15%. But much progress has been made: import prohibitions were removed, article XVIIIb disinvoked, national content requirements reduced, many sectoral NTBs either removed or eased. Trade liberalization was at least partly the result of efforts to bring domestic prices under control through the competition of imports. In addition, the Collor administration, interested in enhancing political links with the US, and with the foreign debt negotiations in mind, emphasized the need to reduce commercial frictions with the US both in the bilateral and in the multilateral fora by substantially advancing trade liberalization.

Brazilian reluctance to part with import substitution policies has a good explanation besides the strength of well established rent-reaping interests: the sustained adoption of import substitution has produced extremely good results until the early 1980s: Brazilian GDP per capita stood in 1913 at 10% of the level of Argentina's, 30% of Chile's and 40% of Mexico's. In the end of the 1980s Brazilian GDP per capita was similar to those of the other large Latin American economies[18].

Privatization of important public enterprises has been decided and implementation began affecting notably Usiminas, the largest steel producer in Latin America, and petrochemical companies. Foreign interest in the process, however, has been extremely limited and the role of pension funds of employees of state companies in acquiring such assets has been embarrassingly important.

4. Conclusions: different paths, different paces, different outcomes

The taxonomy proposed in section 2 needs to be complemented by taking into account the sharp differences of success in the implementation of both stabilization and structural reform policies in different Latin American economies as described in section 3. It is not unlikely that these reforming efforts prove to be difficult to implement or to sustain as political obstacles are very substantial. Polar cases would be, on one hand, the continued muddling through in the border of hyperinflation even if with some structural reforms and, on the other, a successful mixture of stabilization and structural reforms.

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18 Estimates can vary dramatically depending on the source: according to the World Bank Brazil's GDP per capita in 1989 was above that of all other countries mentioned; IDB estimates put Brazil's GDP per capita under those of Argentina and Chile. The substance of the argument, however, is not affected by these

Economies which have advanced further faster in the path of stabilization (inflation and debt) and structural adjustment are also those which are either relatively small (Chilean style) or have a (mainly) bilateral interest as the driving force of their commercial policy (Mexican style). It does not seem difficult, in spite of some important difficulties already mentioned, to foresee the Mexican, Venezuelan, and Central American economies as benefiting from further integration with the US and Canadian economies provided the US interest is materialized in significantly improved access for Mexican exports in politically controversial sectors such as steel, textiles and motor cars. There is room for optimism concerning a sustained return in the 1990s to reasonable growth on a sound macroeconomic basis as compared with the dreadful 1980s.

In the big economies in the Southern Cone, and particularly in Brazil, the position is more complex, underlining the fact that there is no single paradigm concerning paths of adjustment. Progress in stabilization and foreign debt negotiations has been much more odest. The very nature of Brazil's trade structure and orientation as well as its size makes it difficult to center commercial policy objectives on bilateral integration. The impact of integration efforts elsewhere on its exports - to Europe, the US, Latin America

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discrepancies.

- is not unlikely to be unfavourable. Both Argentina and Brazil are bound to have a keen interest in the MTNs with Argentina's interest being more focused - on agricultural temperate products - and likely to lead to frustration in both cases. Argentinian reported enthusiasm with the Mercosul faces Brazilian foot dragging.

These two economies account for more than half the region's GDP. It is impossible to speak meaningfully of changed conditions in Latin America without their involvement. There are reasons to be optimist as there is undoubtedly a wind of change in these countries: this may constitute a basis for economic recovery provided it is not expected that adjustment shall necessarily follow predetermined paths based in the experience of other countries. Recent developments in Argentina indicate that this change has occurred. Similarly, in the case of Brazil, the increased substance and realism of reforms coupled with the improvement in bilateral relations with the US as well as with the relevant multilateral organizations enhance quite significantly the chances of reaching the proposed stabilization objectives.

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