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ABSTRACT

Latin America and the United States:
Changes in Economic Relations During the 1970s

This paper examines the economic strengthening of Latin America with respect to the United States in the 1970s. Gross national product, population, and development levels in Latin America rose comparatively during the decade.

The proportion of trade between Latin America and the United States decreased. The composition of Latin American exports also changed in favor of manufactures and petroleum. At the same time, intra-regional Latin American trade rose. In the area of finance, North American official bilateral flows relative to the total external financial flows to Latin America decreased dramatically. The same occurred with direct foreign investment. With regard to transnational corporations, the nationality of origin diversified, as did sectoral distribution. These factors have expanded Latin America's areas of maneuverability.

Nonetheless, an asymmetrical relationship has persisted. There is a gap between the greater economic weight of the region and its capacity to negotiate. This gap, together with the changes taking place in the international economic system, will affect Latin America's future economic relations with the United States.

Latin America will continue its pursuit of economic autonomy by providing additional stimulus to industrialization through sustaining exports and import substitution on a regional level. Latin America will seek a redistribution of economic power with the United States.

LATIN AMERICA AND THE UNITED STATES: CHANGES IN ECONOMIC RELATIONS DURING THE 1970s

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During the last decade, Latin America increased its economic strength with respect to the United States. This shift in relative power was reflected in the international economic policies of both the United States and Latin America as well as in hemispheric relations. Despite the relative strengthening of Latin America, however, asymmetry persists. A gap remains between Latin America's economic power and its negotiating capacity.

During the 1970s, Latin America increasingly came to channel its international economic policy efforts through multilateral forums, such as North-South dialogue. At the same time, the United States received less official attention than in the preceding decade. Since the 1969 CECLA conference in Viña del Mar and Latin American representatives' subsequent meeting with President Nixon, the region did not present a joint proposal to the United States.[1] This situation was partly the result of a number of significant changes occurring in both the inter-American and international economic systems. Latin America had acquired greater importance on a global scale; the larger countries now advanced broader international strategies; the private sector's increased predominance in the world financial system had reduced the significance of flows from official sources; European and Japanese multinationals emerged as vigorous competitors to the North Americans; trade relations had also diversified into a multi-polar framework; and finally, petroleum extended the power of some Latin American countries to a worldwide level.

At the same time, dependency theory lost influence. The dependency approach had underscored the structural nature of Latin American underdevelopment and its correlation to ties between Latin America and the U.S. economy. The initial emergence of dependency theories had provided significant stimulus to quantitative analysis. But in time, given their scarce capacity to engender policy formulations, these concepts lost some of their initial impact. Attention shifted to the study of the internationalization of capital as a global phenomenon without special reference to the role of North American capital in Latin America's development.

Accompanying the shift in focus from the hemispheric to the global was a reduced interest in keeping statistics on bilateral relations between Latin American countries and the United States. All of the multilateral organizations, even the Latin American ones, now classify information in international categories without differentiating relations with the United States, making inter-American economic relations more complicated to trace and analyze.

Despite this decline in their relative importance, economic connections between Latin America and the United States continue to be of great significance. Continuous investigation into them is indispensable.

The De-Linkage of the Latin American Economy from the United States

In the decade of the 1960s, certain authors made frequent mention of the supposed marginalization of the Latin American economy in relation to the North American.[2] This trend was evident in both finance and trade. A progressive decline was detected in reciprocal trade with the United States as a percentage of the region's total, and in the level of official U.S. lending as a percentage of Latin America's total foreign financing. Despite these facts, the United States' strategic importance to Latin America was maintained. The United States continued to be Latin America's principal importer and supplier. Latin America acquired from the United States a host of key manufacturing products and, in turn, supplied the United States to a large degree with an important group of primary products.

Did these trends continue through the 1970s? What were the new features that appeared in this period? In the decade of the 1970s, two new phenomena occurred. First, the process of "marginalization" slowed down in the commercial sphere--that is, the percentages of reciprocal trade in each region's total remained virtually the same. Second, the decline in the relative importance of official U.S. financing accelerated as did U.S. foreign investment in relation to the total gross external financing of Latin America.

Let us look more closely at each of these changes. In the commercial sphere, from World War II to 1970 the United States was losing importance for Latin America. Exports to the United States, which in 1950 amounted to 48 percent of Latin America's total, dropped to 37 percent in 1961, and to 33 percent in 1970. In 1980, Latin American exports to the United States rose slightly, accounting for 34 percent of the continent's total. With regard to Latin American imports, however, the trend of the United States' declining importance as a supplier continued unabated. Imports from the United States underwent a considerable downturn, going from 50 percent in 1950, to 39 percent in 1961, to 35 percent in 1970. The gradual decline proceeded, and in 1980, Latin American imports from the United States represented about 30 percent of the region's total imports.

From the U.S. perspective, however, the 1970s brought stabilization and even a small recovery in the relative importance of U.S. trade with Latin America.

Table 1

LATIN AMERICA AND THE UNITED STATES:
SHARE OF RECIPROCAL TRADE
(% of Total Trade)

	United States		Latin America	
	Exports to L.A.	Imports from L.A.	Exports to U.S.	Imports from U.S.
1950	27.9	35.1	48.3	50.1
1961	18.5	24.5	36.7	38.6
1965	15.4	19.0	33.0	36.6
1970	15.2	14.1	33.2	34.9
1973	14.3	14.7	34.4	30.1
1975	16.1	18.0	35.3	28.8
1978	15.5	13.1	34.1	28.7
1979	15.8	14.2	35.3	29.8
1980	17.6	15.7	34.0	30.4

SOURCE: For 1950-1970, based on the United Nations Yearbooks of International Trade Statistics; United Nations Monthly Bulletin of Statistics; SELA (LAES) Ley de Comercio Internacional De Estados Unidos de América, June 1979, Cuadro II-2. For 1970-1979, University of Cambridge, World Trade and Finance: Prospects for the 1980s (Cambridge, England, December 1980), App. B. For 1980, U.S. Department of Commerce, Highlights of U.S. Exports and Import Trade (Washington, D.C., 1981) and UNCTAD Handbook of International Trade and Development, Supplement 1981 (New York, 1982).

As seen in Table 1, between 1950 and 1970, the proportion of U.S. exports to Latin America dropped from 28 percent to 15 percent of total exports. This level was maintained during the 1970s and then finally increased to around 18 percent in 1980.

The same trend is seen in relation to U.S. imports from Latin America. These dropped in relative importance from 35 percent of all U.S. imports in 1950 to 25 percent in 1960, and finally to 14 percent in 1970. During the 1970s, however, this percentage slowly rose, reaching 16 percent in 1980.

This tendency toward stabilization of the relative percentages of trade between the United States and Latin America was principally the result of oil. In fact, if petroleum exports were excluded from the calculations, exports from Latin America to the United States would have dropped to 25 percent of the total.[3] And the percentage of U.S. imports obtained from Latin America also would have decreased. If such were the case, the trend toward "de-linking" the two economies would have proceeded.

In the financial arena, a more substantial change was seen, accelerating a phenomenon that began after World War II. While foreign financing of the region rose spectacularly in the last decade, official U.S. government loans decreased in nominal terms. This situation signified an appreciable decrease in U.S. bilateral lending as a percentage of the net total external financing to Latin America. This percentage represented 40 percent in 1961 but had decreased to 20 percent by 1970. From that date on, the contraction became even greater, culminating at 3 percent in 1980.

Table 2

OFFICIAL BILATERAL FLOW FROM THE UNITED STATES TO LATIN AMERICA
(Millions of US$ and %)

	1961	1965	1970	1975	1980
Net Bilateral Flow from the US (1)	732.5	498.7	685.5	635.7	653.0
Total Net External Financing Inflow, Latin America (2)	1,834.2	1,571.1	3,494.9	12,227.0	22,100.0
(1) as percent of (2)	39.9	31.7	19.6	5.2	3.0

SOURCE: Inter-American Development Bank, External Financing of the Latin American Countries (Washington, D.C., December 1981), Cuadro 4.

U.S. direct foreign investment (DFI) also decreased as a percentage of Latin America's gross total external financing. According to the Inter-American Development Bank, these direct investments diminished from 20 percent of the total gross financing in the 5-year period 1971-1975 to 10 percent in the 1975-1979 period.[4] On the other hand, U.S. DFI as a percentage of total DFI received by Latin America remained more or less constant in the 1970s. Thus, the decline in U.S. participation was proportional to a decline in total DFI as a percentage of the region's total external financing.[5]

In increasing proportions Latin America turned to private international banks. The transnationalization of banking and its private ownership enormously reduced the importance of official flows coming from the developed countries, above all the United States. Nevertheless, this reduction was compensated for by an increasing reliance on private North American banks. Since it is difficult to identify the origin of private foreign loans by the nationality of the bank, data on the precise size of the change are not available. In any case, whatever the trend may be in this matter, reliance on the international market creates forms of dependency distinct from those posed by financial sources more directly controllable by the U.S. government.[6]

In sum, it can be asserted that in trade matters the "de-linking" or relative "marginalization" of the Latin American economy did not become accentuated during the course of the 1970s; this apparent stabilization was principally due to petroleum. Excluding oil, the de-linking trend would have continued. In the financial area, however, the de-linking proceeded rapidly.

The Strengthening of the Latin America Economy in Relation to the United States

The concept of marginalization or de-linkage, in some measure, bears the connotation of weakness, and to a degree was used with the intention of denoting the lesser importance of Latin America for the United States. Nevertheless, the same figures, commonly used to support the de-linking argument, give rise to another assertion: that a strengthening of Latin America's position vis-a-vis the United States has occurred. Such a proposition, if valid, would offer a different perspective for interpreting present relations, and might promote their modification through new coordinated policies promoted by Latin American countries.

It can be argued that in the 1970s U.S.-Latin American economic relations were characterized by two basic features: (1) Latin America augmented its strength relative to the United States, and (2) a gap developed between the increasing economic strength of Latin America and its negotiating capacity. Let us look at some facts that tend to support both statements.

Latin America sustained a rate of growth superior to that of the United States. Its relative importance in terms of population, gross domestic product, and per capita product increased with respect to the United States as shown in Table 3.

Table 3

LATIN AMERICA AND THE UNITED STATES: RELATIVE ECONOMIC SIZE

	Population (millions)			GDP (bn current dol)			Per Capita GDP (current dollars)		
	1960	1970	1980	1960	1970	1980	1960	1970	1980
U.S.(1)	180.7	203.8	227.6	509.0	989.0	2,377.0	2,817	4,851	10,775
L.A.(2)	207.1	312.7	360.0	66.5	158.2	617.0	321	577	1,714
(1)÷(2)	.87	.74	.63	7.7	6.3	3.9	8.8	8.4	6.7

SOURCE: For 1960, United Nations, World Statistics in Brief (New York, 1976), 1st edition. For 1970 and 1980, United Nations, World Statistics in Brief (New York, 1981), 6th edition, various tables.

In 1960, U.S. gross domestic product was 7.7 times greater than that of Latin America, but by 1980 it was only 3.9 times greater. The difference in economic power between the United States and Latin America narrowed more rapidly during the 1970s.

The same change occurred in the manufacturing sector. Latin America raised its participation in world industrial production from 4.6 percent in 1964 to 5.7 percent in 1977, while U.S. participation fell from 29.4 percent to 22.4 percent during the same period. And while Latin America slightly reduced its share of world manufactured exports (excluding inter-regional trade) from 2.1 percent in 1964 to 1.9 percent in 1978, the U.S. share declined more rapidly, dropping from 30.1 percent to 20.3 percent during the same years.

In the commercial sector, the reduced relative importance of reciprocal trade to Latin America has been the result of a process of diversification in Latin American trade, which has given Latin America the maneuverability to expand trade relations with countries other than the United States.

Table 4

LATIN AMERICAN AND U.S. PARTICIPATION IN WORLD MANUFACTURING

	Participation in world manufacturing production			Participation in world manufactured exports		
	1964	1973	1977	1964	1973	1978
United States	29.4	23.9	22.4	30.1	22.5	20.3
Latin America	4.6	5.3	5.7	2.1	2.2	1.9

SOURCE: University of Cambridge, World Trade and Prospects for the 1980s, December 1980, Tables 1.14 and 1.12.

But while reciprocal trade became less important to Latin America, the proportion of total U.S. exports that went to Latin America remained the same. Latin America is the third most important market for U.S. products, following the European Economic Community and Canada.[7] The importance of this region to the export trade of the United States is frequently underemphasized.

Along with this shift in the relative importance of reciprocal trade, a change in the composition of trade can be observed. The Latin American market has served as a primary destination for U.S. industrial products. In 1978, only 67 percent of U.S. world exports were industrial products. In that same year, however, 78 percent of its exports to Latin America were manufactured goods. Furthermore, 45 percent of U.S. exports to Latin America were machinery and equipment. In the face of ever stiffer

The situation is similar from the Latin American perspective. Latin American exports of primary products are not heavily dependent on the North American market, even when it comes to some of the most frequently traded products. For example, in 1977, Latin America sent 53 percent of its coffee, 21 percent of its sugar, 79 percent of its cacao, and 53 percent of its bananas to the United States. It sold only 16 percent of its copper exports to the United States, 16 percent of its iron, 38 percent of its tin, and 11 percent of its bauxite. In sum, a dependent market relationship does not exist in either of the two directions.[9]

Latin American intra-regional trade has grown more rapidly than the extra-regional. At the end of the 1970s (1977-1979) intra-regional exports accounted for 15.9 percent of total exports, compared with 8.4 percent at the beginning of the 1960s (1961-1963). In the same way, intra-regional imports constituted 16.9 percent and 10.7 percent of total Latin American imports, respectively, in the two periods.[10] This fact, although it may not have any direct bearing on global economic relations, does have indirect influence by opening up an autonomous channel of growth, reducing the region's vulnerability in periods of economic recession in the industrialized countries.

The average figures previously cited do not render an account of an important phenomenon: the differences in U.S. trade by countries and sub-regions. Although the trend toward a reduction in the relative importance of trade with the United States is evident for practically all countries, significant differences exist among them. Geographical proximity constitutes perhaps the most important variable in explaining these differences. In 1977, for example, Mexico sent about 70 percent of its total exports to the United States, while for countries of the Southern Cone that percentage fluctuated around 10 percent. The countries of Central America and the Caribbean, the Andean Group, and Brazil fell into categories between the two extremes, with Brazil's percentage closer to that of the Southern Cone countries.

Table 8

LATIN AMERICAN EXPORTS TO THE UNITED STATES BY COUNTRIES AND SUB-REGIONS, AS PERCENTAGE OF TOTAL EXPORTS

	1970	1977
Mexico	70.3%	67.3%
Central America (including Panama)	39.3	38.3
Caribbean (excluding Cuba)	44.1	47.8
Guyana-Surinam	33.2	25.8
Andean countries (Bolivia, Peru, Ecuador, Colombia, Venezuela)	36.5	33.6
Brazil	24.7	17.7
Argentina, Chile, Uruguay, Paraguay	10.8	11.2

SOURCE: United Nations, 1979 Yearbook of International Trade Statistics, op. cit.

It is indispensable to evaluate the economic and political implications of these regional differences, as well as their effect on the possibility of assuming common regional positions regarding relations with the United States.

Changes in Direct Foreign Investment and in External Financing

Economic relations conducted through transnational corporations (TNCs) and direct foreign investment (DFI) also underwent significant changes during the 1970s. DFI of North American origin continued to account for nearly two-thirds of the total received by the region in that decade. Although the U.S. share did not vary, DFI diminished in importance as a foreign financial source and in its share of gross investment in the region.[11] These reductions were a consequence of the diversification of financial markets and the increase in other sources of savings. But even though the U.S. share of DFI did not decline, the intensification of international competition between U.S. multinationals and their European and Japanese counterparts provided more opportunity for Latin America to obtain better conditions from transnational corporations.

From the U.S. perspective, Latin America was a preferred area for direct investment. In 1978-1979, the region accumulated 20 percent of North American direct investment stock and 80 percent of U.S. investment in developing countries.[12] The fast growth of the region, the magnitude of its market, and its potential share in world industrial production further enhanced Latin America's importance in the eyes of the United States.

The most significant change in DFI coming from the United States was in its sectoral make-up. Between 1967 and 1979, its activity in petroleum dropped from 18 percent to 12 percent, and in mining from 14 percent to 5 percent. It rose in industry from 30 percent to 36 percent, preferentially growing in chemicals and machinery. The most notable turnaround was in the financial sector. Direct investments through multinational banks rose from 1 percent in 1967 to 31 percent in 1979 of total investment in Latin America and the other developing countries of the Americas.[13]

This change is indicative of a rapid switch from primary products to the banking sector and from the production of goods to services. The new situation demonstrates the greater profitability and growth potential of the financial-services sector in U.S.-Latin American relations, and makes evident the need to study this phenomenon.

External financing is the area where the most notable changes occurred. As stated earlier, the share of U.S. official loans to Latin America decreased as a percentage of total external financial inflows. At the same time, total U.S. financing extended to Latin America changed in composition: private net flows increased from 59 percent in 1970 to 91.7 percent of the total in 1979.[14]

The relative decline in the weight of official U.S. financing and the diversification of sources afforded the region new room to maneuver during

Table 9

LATIN AMERICA:[1]
GROSS RECEIPT OF EXTERNAL FINANCING, 1961-1979

	1961-65	1966-70	1971-75	1976-79
I. Gross official flow	56.0	42.9	28.0	15.4
A. Multilateral	19.4	18.0	15.3	9.4
1. Development	12.8	13.8	12.2	7.0
2. Compensatory	6.6	4.2	3.1	2.4
B. Bilateral	36.6	24.9	12.7	5.9
1. United States	31.0	21.3	8.1	2.6
2. Other countries[2]	5.6	3.6	4.6	3.3
II. Private Gross Flows[3]	44.0	57.1	72.0	84.6
A. Suppliers	12.5	16.6	9.2	7.5
B. Banks	13.2	17.3	40.1	59.7
C. Bonds	4.0	3.7	3.8	6.5
D. Direct Investment	14.3	19.5	18.9	10.9
TOTAL	100.0	100.0	100.0	100.0

[1]Member countries IDB and sub-regional organizations.
[2]Socialist countries and OECD member countries, except United States.
[3]Includes credit for nationalizations.

SOURCE: Inter-American Development Bank, Necesidades de Financiamiento Externo de América Latina en los Años Ochenta (Washington, D.C., May 1981), p. 29.

the 1970s. The new international financial system has brought about a lower degree of political interference on Latin American governments.[15] To this is added the more active presence of European, Japanese, and Arab banks in the recycling of surplus resources. The critical financial situation that emerged in 1982 restricts the fluidity that prevailed before, but will not necessarily alter the relative position of the various actors.

The Persistence of an Asymmetrical Relationship

Despite the strengthening of the region's position with respect to the United States, economic relations with that country retained an asymmetric and unfavorable character that had prevailed at the beginning of the decade. The deficit in the current account of Latin America's balance of payments with the United States continued to rise, from $1,466 million in 1970 to $7,260 million in 1979. This situation derived in large part from payments for services, since in the 1970-1980 period, Latin America achieved a surplus in the commercial account with the United States.[16]

The North American economy has steadily increased the weight of the service sector.[17] Its future development will continue in this direction,

Table 11

LATIN AMERICA: TERMS OF TRADE
(Index: 1970=100)

	1970	1975	1980
Latin America	100	114	123
Petroleum-exporting countries	100	181	243
Non-petroleum-exporting countries	100	86	76

SOURCE: CEPAL (ECLA), Las Relaciones Econômics Externas de América Latina en los años 80, p. 51, Table 11 (See Spanish original for data).

Furthermore, Latin American exports to the United States, especially in manufacturing, have been discouraged by U.S. protectionist policies. The Generalized System of Preferences applies to a limited group of products, and is subject to numerous unilateral and discriminatory applications that limit the region's potential to expand exports to the United States. Aside from the growing non-tariff protective measures, effective protection in the United States as it applies to Latin American products reveals a discrimination against manufactured goods. While U.S. effective protection for raw textiles reaches 14 percent, for clothing and other textile products it leaps to 42.5 percent. For industrial products, even the EEC sets protection levels lower than those of the United States.

The principles of graduation and reciprocity advanced by the United States act to Latin America's disadvantage. The first tends to reduce the commercial and financial preferences enjoyed by the countries that have already launched and implemented export-oriented strategies with some success. The second, reciprocity, is totally ill-suited to the Latin American countries because, unlike Japan, their problem is not the arbitrary restriction on imports, but rather the unavailability of foreign exchange with which to pay for them.[19]

Table 12

UNITED STATES AND EUROPEAN COMMUNITY:
EFFECTIVE PROTECTION ON IMPORTS FROM LATIN AMERICA
FOLLOWING THE TOKYO NEGOTIATIONS (in %)

	United States	EEC
Primary Agricultural Products	10.0%	15.0%
Processed Foods and Others	20.1	69.0
Textile Primary Materials	14.0	22.0
Finished Textiles and Clothing	42.5	40.0
Minerals	10.0	10.0
Light Industry	18.1	13.0
Heavier Industry	10.0	8.4

SOURCE: CEPAL (ECLA) op. cit., p. 17, Table 4.

North American transnational corporations play a very important role in the commercial exchange between Latin America and the United States. For numerous industrial products, TNC subsidiaries located in the region account for a large part of total imports, and they conduct that trade through intra-company channels. The same occurs with exports. In 1978, 85 percent of the exports of TNC subsidiaries operating in Latin America were sent to their headquarters in the United States.[20] This actuality leaves control of the foreign markets in the hands of the multinationals, making it possible for them to use restrictive practices and price transfers over which Latin American governments have no control. Thus, the market does not operate as a regulatory mechanism. In this context, presumed commercial liberalism clearly favors the multinationals, which operate in an oligopolistic market and take control of an important part of it by carrying out transactions between parent company and subsidiary.

The TNCs that operate in Latin America have shown a high propensity to import and a weak one to export. They show a clear preference to operate in closed markets and to supply the internal consumption of the countries in the region. Moreover, their propensity to export is declining. In 1966, 10 percent of industrial sales of the multinational subsidiaries based in Latin America were exports. In 1976, however, this amount was reduced to 6 percent. Comparative studies on national and foreign enterprises that operate in the same sector also revealed that the coefficient of imported inputs was higher in the case of the foreign enterprises.[21] In this way, the multinational sector has contributed to the deficit in Latin America's current account.

In turn, TNC subsidiary payments for profits, technical services, and royalties have grown. Measured in relative terms, as a proportion of the accumulated value of investments in the region, these payments reached 12.6 percent in 1976 and 15.2 percent in 1979.[22]

In financial terms, Latin America's conditions deteriorated. Between 1970 and 1980, the average amortization period of official and private loans decreased from 14.3 years to 10.7 years. The average rates of interest on private loans rose from 7.1 percent to 11.5 percent.[23] Given the mounting importance of private indebtedness, this decline in conditions has increased the burden to the region. These general changes also applied to financing originating in the United States.

The mounting interest rates caused increasing outflows of resources from the region. If Latin America's foreign debt is estimated to be on the order of $230 billion in 1980, and 35 percent of it is from North America, private or public, the debt to the United States for the region in that year would be somewhere on the order of $80 billion.[24] An increase of 1 percent in the annual average interest rates on public and private U.S. loans to Latin America would be equivalent to $800 million additional dollars, a figure greater than the $650 million that the United States granted Latin America that year in net official bilateral loans.[25] Thus a mere 1 percent variation in interest rates on the debt obliges Latin America to pay the United States as much as the total of that country's official bilateral lending to the region.

Lastly, the ongoing world industrial restructuring which will mean the shift of mature-technology industries to the Third World has been far too slow. Aside from this, the orientation of the process, which has been directed by the TNCs, does not coincide with the industrial-development objectives of Latin America. The region has exercised little influence in orienting this process, despite its capacity to do so.

In conclusion, a review of economic relations between Latin America and the United States shows that while the region's position should have improved, unfavorable relations persist. It can be said that there exists a gap between Latin America's greater strength and its weak negotiating capacity. The new economic situation should affect and change the existing form of ties in the future. Latin America is in a better position to negotiate and obtain a larger proportion of the benefits derived from reciprocal relations.

Prospects and Options: To a Special Relationship or to Greater Autonomy?

It is probable that the trends of the 1970s still continue, indicating a greater relative strengthening and broader diversification of the region's external economic ties. Different forecasts for the region's growth in the 1980s suggest that it will surpass that of the United States, both in the industrial sector as well as in general terms.[26] On the other hand, the financial requirements of Latin America in the present decade will demand an advance in three directions: greater use of funds from private international financial markets and multilateral institutions, increased exports, and an accelerated rise in intra-regional trade. Whatever the mix of these three courses of action may be, the dynamic unleashed in order to realize them will probably increase Latin America's relative autonomy from the United States.[27]

Whether or not these trends continue will greatly depend on the evolution of the developed economies, particularly the United States, and the foreign policies their governments decide to carry out. Faster growth in the industrialized countries could reduce protectionism and force a greater opening for the Latin American economies. Slower growth, on the other hand, will induce more inward-oriented growth as Latin America tries to compensate for its vulnerability abroad. It is also likely that the competition between the United States and Europe and Japan will sharpen, making possible Latin America's economic diversification and the lessening in importance of its ties to the United States.[28]

Trade within the region as well as with other countries of the Third World has led to greater diversification. Intra-regional trade has grown at a faster pace than total trade of Latin America. South-South trade has also increased. In both cases, manufactured products played an important role. Moreover, intra-regional trade allows the exchange of capital-intensive and technologically-advanced products. In contrast, trade with developed countries tends to involve more labor-intensive products. This thwarts the efforts of Latin America to alter its position in the international division of labor.[29]

The financial restrictions, high debt-service payments, and the slow recovery of developed economies will prompt Latin America to adopt stronger policies of import substitution and regional integration. Reinforcing this tendency are the military and psychological consequences which flow from episodes such as the Malvinas War.

Nevertheless, apart from the autonomous trends of the economy, the possibility exists that the United States, for strategic reasons, could resolve to embark on a policy aimed at preventing this progressive delinking and preserving a "special relationship" with the region. In the context of growing international competition and increased attention to geopolitical considerations within the United States, it is improbable but not farfetched to conceive of a situation in which the United States would attempt to maintain the region in relative "captivity" in exchange for awarding it some economic advantages. This option may become more likely under conditions of increasing protectionism. It may also lead to the configuration of vertical economic blocs (United States-Latin America, Western Europe-Africa, Japan-Southeast Asia), marked by a higher degree of self-sufficiency within each bloc.

It is too soon to evaluate the consequences for Latin America of the dominant international economic policies at the beginning of the present decade and, in particular, of those outlined by the Reagan administration. In any event, the exaggerated emphasis on transnational corporations, on private capital, and on the automatic adjustment mechanisms of a free market and free trade will probably step up the trends of greater Latin American autonomy.[30] De-linkage, diversification, and the relative strengthening of Latin America in relation to the United States could only be contained by a U.S. bilateral policy intended to bring about economic accords on investment, trade, and finance with most of the countries in the region.[31]

At the beginning of the present decade, the margin of maneuverability available to Latin America to modify its ties with the United States is greater than in the past. The relative strengthening of the region creates additional freedom of action for Latin America.

Should the region use its improved position to negotiate the reestablishment of a closer economic tie with the United States that would take better advantage of the U.S. market, technology, and financial resources? Or, to the contrary, should Latin America accelerate its foreign economic diversification, as it increases intra-Latin American economic relationships? This is a fundamental question.

Sharp political differences among countries in the region conspire against effective formulation of a Latin American negotiating position, as does the variance in the political and economic relationship each country holds with the United States. Nevertheless, the possibility of reducing, if only partially, the gap between weak negotiating capacity and greater relative economic strength is a basis on which to promote joint action.

The capacity of Latin America to assume a prominent role in the Third World, as well as a more active position in the North-South conflict, also confers greater negotiating power. The ability to globalize its economic relations will reinforce Latin America's position. However, this should not imply the abandonment of a review of relations with the United States, or that the United States be given less attention and submerged in the overall North-South conflict. On the contrary, that capability should serve as the basis for taking direct and organized action with an aim to negotiate greater advantages in dealings with the United States, and at the same time serve to strengthen the positions of the South in North-South negotiations.

This path means going beyond the idea of "hemispheric cooperation" and embarking on a course of "global negotiation." Hemispheric cooperation has rested on the premise of merging interests and has left the United States free to take the initiative in the area of concrete proposals, while the region has been confined to general statements. Negotiation supposes recognition of the existence of conflicting interests, it demands better knowledge of specific concerns, it necessitates improving the region's ability to agree upon and fix joint proposals, and it also requires the adoption of an operative and pragmatic focus. Negotiation is based on the conscious accumulation of one's forces. The economic dynamic of the region, despite its deficiency, affords propitious conditions for increasing relative autonomy and decreasing external vulnerability.

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[1]CECLA (Special Commission for Latin American Coordination) was a governmental economic coordinating body. It was replaced by LAES (Latin American Economic System) in 1975. The next and more recent common posture vis-a-vis the United States was formulated by LAES in Panama in December 1981.

[2]A review of these trends is contained in J. Knakal, "Nexos Estratégicos entre América Latina y Estados Unidos. Las relaciones económicas en los años 1960," A. Pinto and J. Knakal, América Latina y el Cambio en la Economia Mundial (Lima: Instituto de Estudios Peruanos, 1973), and also in A. Pinto, "Las Relaciones Económicas entre América Latina y Estados Unidos: Algunas Implicaciones y Perspectivas Políticas" en C. Diaz Alejandro, Política Económica en Centro y Periferia (Mexico: F.C.E., 1976).

[3]Calculations based on the U.S. Department of Commerce, Highlights of U.S. Export and Import Trade, in G. Martner and U. Vega, Productos Básicos (Caracas: SELA (LAES) mimeograph, July 1981).

[4]See Table 9.

[5]U.S. DFI in relation to the DFI of the developed countries (OECD) in Latin America represented 66.4 percent in 1971, 59.2 percent in 1975, and 64.4 percent in 1978. Data for OECD from Cooperation pour le developpement, Examens de 1968-80, and for the United States from U.S. Department of Commerce, Survey of Current Business (August 1980), cit. in C. Marinho and E. Lahera, Las relaciones de America Latina con Los Estados Unidos: Empresas Transnacionales (Caracas: SELA mimeograph, August 1981).

[6]For 1981 it has been estimated that 38 percent of the private banks' claims on Latin America was held by private North American banks. Calculations based on Morgan Guaranty Trust Co., World Financial Markets (New York, October 1982), Table 2.

[7]In 1978, the EEC absorbed 23 percent of U.S. exports, Canada 18 percent, and developing America 16 percent. UNCTAD Handbook of International Trade and Development Statistics, Supplement 1980 (New York, 1980), Table A-1, pp. 446-447.

[8]UNCTAD, 1979 Handbook of International Trade and Development Statistics (New York, 1979).

[9]See Martner, op. cit., pp. 13-17.

[10]Banco Interamericano de Desarrollo, Progreso Económico y Social de América Latina, Informe 1982, Washington, Tables 8 and 9, pp. 32, 33.

[11]See Table 9.

[12]See Marinho and Lahera, op cit., Tables 4 and 5, pp. 14-15.

[13]CEPAL (ECLA), Las Relaciones Económicas Externas de América Latina en los Años Ochenta, L/CEPAL/G.60 (March 1980), p. 35, and Marinho and Lahera op. cit., p. 20, Table 10. It should be noted that the spectacular increase in this sector is in part due to some of the Caribbean islands (Bahamas, Virgin Islands) that operate as financial centers.

[14]Based on U.S. Department of Commerce, Survey of Current Business (September 1980), several issues, and CEPAL (ECLA), Las Relaciones Económicas Externas de América Latina en los años 80, E/CEPAL/G 1160 (March 1981), p. 108, Table 30.

[15]See E. Bacha and C. Diaz Alejandro, "Financial Markets: A View from the Semi-Periphery," Center Discussion Paper No. 367 (New Haven: Yale University Economic Growth Center, January 1981).

[16]In 1976 and 1979 the surplus in the commercial balance of Latin America with the United States was $1,640 and $2,078 million respectively. UNCTAD, op. cit., Annex A.

[17]In 1928 the service sector accounted for 46 percent of U.S. GNP, while in 1980 this sector accounted for 66 percent. This had led the U.S. economy to become classified as a service economy. See Economic Report of the President (Washington, D.C., January 1980), p. 325.

[18]Service exports represented 17 percent of total U.S. exports in 1979 and 70 percent of the U.S. non-agricultural labor was employed in this sector. "Service trade is one of the most dynamic components of our economy. Our income from the exports of services in 1979 totalled US $76 billion. This represents almost four times more than in 1971, $19.1 billion." M. Rashish, Undersecretary of State for Economic Affairs, Current Policy No. 194 (Washington, D.C., June 1981).

[19]See W. Cline, "Reciprocity: A New Approach to World Trade?" Policy Analysis No. 2 (Washington, D.C.: Institute for International Economics, September 1982).

[20]CEPAL (ECLA), op. cit., p. 39.

[21]Ibid., p. 39.

[22]Marinho and Lahera, op. cit., Table 35.

[23]Inter-American Development Bank, La Deuda Externa de los Paises Latinoamericanos. Tendencias y Perspectivas (Washington, D.C., October 1981), p. 32, Table 8.

[24]The IDB estimated Latin America's foreign debt at $200 billion in 1979. IDB, Necesidades de Financiamiento Externo de América Latina en los Años Ochenta (Washington, D.C., May 1981), p. 30. With respect to the 35 percent, it is estimated for 1978 that Latin America's private debt to the United States reached 33 percent of the private total. Because

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the public debt to the United States represents a higher proportion than the private debt, we estimated the U.S. proportion of the total debt to be about 35 percent. See Gonzalez de Valle, "Relaciones Económicas de América Latina con Estados Unidos: Financiamiento para el Desarrollo," (Caracas: SELA, mimeograph, 1981).

[25] See IDB, op. cit., Statistical Appendix, Table 4.

[26] World Bank, World Economic Report 1981, Tables 2.1 and 2.6, and CEPAL (ECLA), América Latina: La Política Industrial en el Marco de la Nueva Estrategia Internacional para el Desarrollo (February 1981).

[27] About the external economic strategy of Latin America, see CEPAL, El Desarrollo de América Latina en los Años Ochenta, E/CEPAL/G (February 1980), pp. 76-77.

[28] It is very necessary to explore in detail the economic competition between Europe and Japan and the United States in the 1980s and its consequences for Latin America. On this matter, Grabendorff maintains that such competition will step up in the next few years, and that the United States cannot be regarded as the only or principal economic link with Latin America. See W. Grabendorff, "The United States and Western Europe: Competition or Cooperation in Latin America?" (Washington, D.C.: The Johns Hopkins University, School of Advanced International Studies, mimeograph, June 1981).

[29] See O. Havnylyshyn and M. Wolf, "Trade Among Developing Countries," World Bank Staff Working Paper No. 79 (August 1981), p. 86.

[30] On the definition of U.S. international economic policy, see: A. Haig, "Security and Development Assistance," Washington , D.C., Testimony before the Committee on Foreign Affairs, U.S. House of Representatives, March 1981; R. Hormats, "International Economic Policy Priorities," U.S. Department of State, Current Policy No. 278, Washington, D.C., May 1981; W. Brock, "Opening Statement before a Joint Oversight Hearing of the Senate Committee on Finance," Washington, D.C., July 1981; P. McPherson, "Development Assistance for the Third World," Statements before the House Committee on Foreign Affairs, March 1981; "U.S. Bilateral Investment Treaty Program," Office of the U.S. Trade Representative, Washington, D.C.

[31] The renewed emphasis on bilateralism cannot be ignored. This is a political line that is being reenforced by the Reagan administration for it coincides with their predominately security-oriented vision. Furthermore, this administration has made manifest its willingness to reduce the importance of multilateral public aid with an aim to free resources for bilateral operations. This policy could modify the trend in relations with some of the Latin American countries and it could also weaken the possibility for Latin American countries to hold a common position. On bilateralist policy, see J. Bushnell, "Bilateral Assistance," Current Policy No. 269, U.S. Department of State, Washington, D.C., March 1981.