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LATIN AMERICA'S EXPORT GROWTH IMPERATIVE IN THE 1980s:
CAN THE UNITED STATES HELP ACHIEVE IT?

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From a Latin American standpoint, two sets of issues should figure prominently in the agenda for trade negotiations with the United States in the foreseeable future. The first--and currently foremost--stems from the need to reverse the present slump in the region's exports. At current interest-rate levels and the prevailing bearish atmosphere in world financial markets, the large foreign debt accumulated by most Latin American nations in the process of external adjustment to the great international instability of the 1970s is a formidable problem. It can be borne without excessive pressure on domestic economic activity and import levels only if the high export growth rates attained by these countries in the past 15 years are restored and sustained.

This is not to argue that the problems posed by the present world recession are amenable to bilateral United States-Latin American solutions. Nonetheless, Latin America's current external economic problems are not unconnected to the international propagation of United States domestic macroeconomic management and, in fact, is perceived as a direct consequence of the latter by large sectors of Latin American opinion. Moreover, only the United States can play the leading role in any coordinated attempt toward a sustained expansionary policy among developed countries. Latin America's ability to overcome its present external problems without painful welfare losses and political strains ultimately depends on such a policy.

However, when the present recession abates, the structural trade policy issues which have marked United States-Latin American bilateral trade negotiations will again come to the fore. This second set of questions can be broadly divided into two main areas of contention. On the one hand, there are longstanding questions concerning trade in primary goods, especially the United States role in a collective effort to alleviate the painful effects inflicted on most of its southern neighbors by the wide and frequent fluctuations in primary commodity prices. On the other hand, there are also issues related to the effects of United States trade policy on Latin American exports. Of particular relevance in this context is the problem of how to prevent United States trade restrictions from cutting short the region's increasing trade diversification toward manufactured exports. This is a central issue in a longer run view of United States-Latin American trade relations, and much ultimately will depend upon the former's ability to adjust to a changing international division of labor which relocates an increasing--and presently sizeable--share of high-productivity world industrial capacity to former Latin American primary product exporters.

This chapter addresses this second set of issues. The kind of questions discussed here surpass the framework of bilateral negotiations. Indeed, they do not differ from those which already are, and will most certainly continue to be, present on the agenda of global North-South economic diplomacy. However, given the imperative of satisfactory export performance for macroeconomic stability in most Latin American countries for the rest of the decade, the importance of United States trade policies for Latin America cannot be minimized. The United States is still by far the largest single market for Latin American products, accounting for about a third of the region's overall exports and a quarter of its non-oil sales abroad.

This essay is divided into four sections. The first briefly surveys the main postwar economic trends and the present commodity composition and direction of Latin American trade. It is followed by two sections on recent trade policy issues (with special emphasis on trade relations with the United States) and a concluding section. The reader should bear in mind that this paper is no exception to the rule that any work dealing globally with Latin American economic questions is bound to be simplified, due to the large number of countries involved and--especially--because of the enormous differences among them in economic size and output structure. Readers unfamiliar with the region's economic geography may wish to consult the accompanying Statistical Appendix.

Post-World War II Trends and the Present Structure of Latin American Trade

One of the outstanding achievements of postwar global economic development was the reconstruction and accelerated expansion of a multilateral trade network after over a decade of rampant trade restrictions, bilateralism, and war. World trade not only grew very fast by past standards--over 7 percent per year in 1948-1973, compared to .5 percent per year between 1913-1948--but its volume also rose on average by 2 percent per year faster than output.

Until the mid-1960s, however, the growth of world trade was not equally shared between industrial and developing nations. The value of industrial countries' exports increased by 345 percent between 1950 and 1965, but that of developing countries rose by only 198 percent.¹ In the same period, the Latin American share of world exports fell continuously from 11.3 to 6.9 percent as shown in Table 1.

Developing countries' comparatively poor export performance was to a large extent a result of profound transformations in the direction and commodity composition of world trade--away from the traditional prewar division of labor between primary and manufactured good exports--which accompanied the postwar trade boom. Until the mid-1960s, trade among industrialized economies grew at a much faster rate than that among other areas, and trade in primary products decreased steadily as a proportion of global trade as the terms of trade for these goods continuously deteriorated after the Korean War boom.

Table 1

LATIN AMERICA: 1960-1979
SHARE IN WORLD EXPORTS OF SELECTED COMMODITY GROUPS
(in %)

	1960	1965	1970	1975	1979
Total Exports	7.9	6.9	5.7	5.5	5.2
Food	17.4	16.1	15.9	14.6	14.8
Agricultural raw materials	7.0	7.9	5.9	4.7	4.5
Minerals and ores	13.3	13.8	13.6	11.6	11.6
Fuels	25.6	20.5	15.1	10.8	9.2
Manufactured goods	0.5	0.6	1.0	1.3	1.5
Chemicals	1.7	1.6	2.3	2.8	2.3
Iron and steel	0.6	1.1	1.1	0.8	1.9
Mach. and transport equip.	0.1	0.1	0.4	0.7	0.9
Others	0.6	0.9	1.2	1.7	2.1

SOURCES: UNCTAD (1979) and UNCTAD (1981), tables A.1 to A.10.

However, especially in the case of Latin America, this poor export performance in the two decades following World War II also was related to the widespread adoption of industrial and foreign economic policies aimed at rapid import substitution by the economically larger countries of the region. Some Latin American states already had begun to follow this development strategy in the 1930s as a result of external constraints imposed by the depression. After the war, recurrent foreign exchange problems, the grim outlook for trade in primary products and national strategic considerations turned import substitution industrialization into a major policy objective in several countries.

The instruments used to enforce import substitution industrialization (overvalued exchanged rates plus import controls of high levels of protection for competing imports, multiple exchange rates, subsidized credit for and government participation in import substituting projects, among others) varied among different Latin American countries. Nevertheless, the common result was to shift profitability in favor of activities geared to domestic markets. In most countries, with the possible exception of Mexico, these policies not only curbed the growth of traditional primary exports, but they also inhibited the development of manufacturing exports from long-established branches of industry.

From the mid-1960s onward the outlook for Latin America's exports and balance of payments position began to change rapidly. Faster growth rates in OECD countries led to a sizeable increase in world demand for primary products. The value of industrial countries' imports of primary goods, which had risen at an average of 3.3 percent per year between 1955 and 1963, grew by 5.8 percent per year during 1963-1968 and 19.1 percent per

year in 1968-1973.² This substantial improvement in primary commodity trade was accompanied by a sharp increase in international capital flows to the region, both in the form of direct investment and, increasingly, money loans. For example, by the end of the 1960s many Latin American countries were already regular customers in eurocurrency markets.

These changes lifted the traditional foreign exchange constraint on Latin American economies, with two important consequences. First, they arrested and reversed the secular compression of the share of imports in gross domestic product (GDP), which had fallen by a third since the early 1950s. This shift allowed industrial capital formation and activity levels to proceed at faster rates, pushing import substitution into broad areas of intermediate and capital goods in the large countries, as Table 2 shows. Second, these developments encouraged a progressive change in exchange-rate regimes, leading to a more favorable treatment of export activities than previously through measures such as exchange-rate unification and frequent devaluations aimed at offsetting the usually large differentials between domestic and world inflation rates.

Table 2
LATIN AMERICA: 1950-1974
MANUFACTURING INDUSTRY OUTPUT STRUCTURE
(in %)

	1950	1960	1974
<u>Industrialized Countries</u> ¹	100.0	100.0	100.0
Nondurable consumer goods	63.8	51.5	36.2
Intermediate products	23.5	28.9	35.2
Durable consumer and capital goods	12.7	19.6	28.6
<u>Medium-size economies</u> ²	100.0	100.0	100.0
Nondurable consumer goods	64.8	54.7	49.5
Intermediate products	28.3	30.2	33.0
Durable consumer and capital goods	6.9	15.1	17.5
<u>Other</u> ³	100.0	100.0	100.0
Nondurable consumer goods	79.3	76.8	68.1
Intermediate products	14.2	16.5	23.8
Durable consumer and capital goods	6.5	6.7	8.1
<u>Latin America</u>	100.0	100.0	100.0
Nondurable consumer goods	65.5	54.1	40.3
Intermediate products	23.3	28.2	34.1
Durable consumer and capital goods	11.2	17.7	25.6

¹ Argentina, Brazil, and Mexico.

² Colombia, Chile, and Peru.

³ Bolivia, Dominican Republic, Ecuador, Panama, Paraguay, and CACM countries.

SOURCE: ECLA/UN (1979), Table 32.)

However, the removal of the antiexport bias implicit in previous economic policies was not restricted to this. Toward the end of the 1960s there was a growing belief in Latin America that as a consequence of recent General Agreement on Tariffs and Trade (GATT) tariff liberalization rounds and, especially, as the outcome of Generalized System of Preferences (GSP) negotiations started in 1964 and high OECD growth, there would be increasing room for the region's manufactured exports. Thus economic policy in the industrializing countries of Latin America also came to incorporate a battery of incentives for manufactured exports such as fiscal subsidies, drawbacks, low interest rate export and pre-export credit lines, and so on.

The effects of these measures at a time of rapid expansion in world trade were impressive. Total Latin American exports rose by 10.8 percent per year, in contrast to the 3.6 percent per year growth of the previous 15 years. Manufacturing exports soared at an astonishing 26.5 percent per year from 1965 to 1973, while world trade in manufactures grew by only 16.4 percent per year during this period. The larger and more industrialized countries--Argentina, Brazil, and Mexico--responded faster to the changing environment of world trade and domestic policies, and were responsible for the largest part of the growth in Latin American manufactured exports, as evident in Table 3.

Table 3

LATIN AMERICA: 1965-1973
MANUFACTURING EXPORTS
(in millions of current dollars and 5%)

	1965	1970	1973
<u>Manufacturing exports</u>			
Argentina	144	420	978
Brazil	237	580	1672
Mexico	183	444	1200
Others*	386	731	1275
Latin America	950	2175	5125
<u>Share of manufacturing exports in total exports of:</u>			
Argentina	5.1	12.3	19.0
Brazil	7.5	9.7	17.9
Mexico	13.0	30.0	40.8

*Includes other ALADI members, CACM and CARIFTA/CARICOM members, Panama and Dominican Republic.

SOURCES: ECLA/UN (1979), p. 60 and Ranis (1982), pp. 223 and 225.

Just as the prospects for the growth and diversification of Latin American exports brightened, the Latin American economies were challenged by the 1973-1974 oil shock and its sequels of recession in the major industrial countries and global economic instability. However, managing the large deficits produced in Latin American non-oil exporters' current accounts by this sudden oil price rise and the slump in world trade that followed in 1974-1975 did not prove as difficult as initially expected. The substantial levels of foreign long-term lending that these countries were able to attract allowed external adjustment to be spread over a longer period, thus preventing the need to reenact trade and foreign exchange restrictions in the fashion of the 1950s.

Increased foreign indebtedness was not unique to Latin America. It was a phenomenon common to almost every non-oil developing nation as a necessary result of the rapid recessive adjustment of developed countries' current account deficits and the resilience of OPEC surpluses. Foreign indebtedness was immensely eased by the accommodating behavior of world financial markets. This, in fact, turned large-scale foreign borrowing into part and parcel of the growth strategy adopted after 1973 in several Latin American countries. Since the long-term feasibility of this strategy depended crucially upon maintaining a good export performance--on the basis of which creditworthiness was ultimately assessed--it reinforced the trend toward export-promoting policies established during the mid-1960s.

However, since 1973 good export performance in the South has not depended on wise domestic policies nearly to the extent it did under the favorable economic conditions prevailing before the 1973-1974 oil shock. Of course, these policies are still a necessary condition. But the much greater instability in world trade caused by uncertainty over the future paths of key exchange rates and, especially, sharp cyclical fluctuations and protectionist measures in industrial countries have played a far more important role in determining the behavior of Latin American exports.

The region's non-oil primary exports, which still accounted for about one-half of total export earnings, felt the impact of this unstable economic environment most severely. As indicated in Table 4, their prices experienced very large fluctuations--both by past standards and in comparison to manufactured goods--as a result of the markedly cyclical demand pattern in the North and the slump in the prices of tropical beverages (which have a large weight in the region's non-oil primary exports bill) in 1978.

In contrast to the unsettled behavior of primary commodities, Latin American manufactured exports followed a much more stable and predictable path after the world trade setback of 1974-1975. Their performance relative to that of other regions varied across different sectors, as even the gross disaggregation presented in Table 5 shows. These differences do not simply reflect productivity differentials, but a host of other factors as well. Among the most important influences were (1) the sectorally uneven distribution of fiscal incentives, (2) the degree of excess capacity created by the deceleration in Latin America's output growth in the second half of the decade, and (3) the presence of multinational corporations, since intra-firm transfers account for about 40 percent of the region's manufacturing trade.³

Table 4

LATIN AMERICA: 1973-1981 INDICATORS OF PRIMARY EXPORTS PERFORMANCE
(rates of change in the year shown)

	1963-72	1973	1974	1975	1976	1977	1978	1979	1980	1981
GDP growth of major trading partners	5.0*	6.2	0.1	-1.2	5.2	4.5	4.0	4.0	3.3	0.8
Unit value of:										
World manufacture exports	3.0	17.7	21.8	12.3	----	9.0	14.7	14.5	11.0	-5.0
Latin America non-oil primary exp.	4.3	47.4	20.9	-12.5	23.0	27.3	-13.6	14.2	14.0	-14.7

*Refer to 1968-72.

SOURCE: IMF (1981), Tables 9, 14, and 76.

Table 5

LATIN AMERICA AND THE WORLD: 1975-1979
YEARLY RATES OF EXPORT GROWTH OF SELECTED GROUPS
OF MANUFACTURED PRODUCTS (in %)

	Latin America	World
Chemicals	14.0	19.7
Iron and Steel	38.3	11.5
Machinery and Transport Equipment	23.5	15.9
Textiles	16.3	17.4
Others	26.0	19.7
Total Manufacturing	23.2	17.1

SOURCE: UNCTAD (1981), A6, A7, A9, A10, and A11. Textiles are defined as including SITC classes 26, 65, and 84.

Nevertheless, the aggregate performance of manufactured exports was good. Although expansion was slower than in the booming early 1970s, their total value rose rapidly after 1975--at 23.2 percent per year, compared to 17.1 percent per year for world trade in manufactures (see Table 5). This reestablished the trend toward an increasing share of manufactures in total exports, as shown in Table 6.

The combined effects of rapid import-substitution industrialization, the growth of manufactured exports, and the oil crisis were not limited to changes in the commodity composition of exports and imports. There were also important alterations in the direction of Latin American exports, as Tables 7 and 8 show. In this respect, one striking development was the steady and large fall in the proportion of Latin American non-oil exports absorbed by developed countries, while the share going to other areas--particularly intra-Latin American trade--increased substantially (see Table 9).

This shift was partially the result of higher rates of growth in developing countries after 1973. To a greater extent, however, it was a reflection of the general trend toward increased manufactured exports, as can be seen by the high shares of trade in manufactures with these countries shown in Table 10.

Table 6

LATIN AMERICA: 1960-1979
COMMODITY COMPOSITION OF TRADE (in %)

EXPORTS						
	1960	1965	1970	1973	1975	1979
Food	42.6	42.8	41.3	40.0	35.1	33.5
Agricultural raw materials	9.5	9.1	6.0	5.5	3.3	3.6
Ores and metals	12.5	13.9	17.5	1.2	9.6	9.5
Fuels	31.8	28.4	24.4	26.3	38.2	35.7
Manufactured goods	3.6	5.8	10.4	14.5	13.2	17.2

IMPORTS						
	1960	1965	1970	1973	1975	1979
Food	12.6	13.6	11.0	12.5	10.0	10.2
Agricultural raw materials	3.7	3.8	3.0	2.7	1.8	2.1
Ores and metals	2.0	3.0	3.0	2.7	2.3	2.7
Fuels	14.3	12.9	11.7	15.7	23.0	21.1
Manufactured goods	67.4	66.7	69.1	64.3	60.6	59.4

Note: Commodity groups defined as follows: Food (SITC 0+1+22+4), Agricultural raw materials (SITC 2-22-27-28), Ores and metals (SITC 27+28+68), Fuels (SITC 3), and Manufactured goods (SITC 5 to 8 less 68). Totals do not add up to one hundred because of rounding.

SOURCES: UNCTAD (1979), Tables A.1 to A.5 and A.8, and UNCTAD (1981), Tables 3.2A, 3.2B, and A.7.

Table 7

LATIN AMERICA: 1960-1979
 EXPORTS BY AREA OF DESTINATION
 (in millions of dollars FOB and % of total)

	1960	1970	1979
<u>World</u>	10.170(100.0)	17.707(100.0)	85.378(100.0)
<u>Developed Market Economies</u>	8.004(78.7)	13.221(74.7)	56.027(65.6)
USA	4.020(39.5)	5.818(32.9)	29.405(34.4)
EEC	N.A.	4.554(25.7)	15.94(18.7)
Japan	265(2.6)	974(5.5)	3.295(3.9)
Others	3.719(36.6)	1.875(10.6)	7.386(8.7)
<u>Developing Countries</u>	1.860(18.3)	3.366(19.0)	22.963(26.9)
Latin America	1.680(16.5)	3.035(17.1)	18.733(21.9)
Africa	105(1.0)	119(0.7)	1.642(1.9)
West Asia	28(0.3)	37(0.2)	1.290(1.5)
Others	47(0.5)	175(1.0)	1.298(1.5)
<u>Socialist Countries</u>	306(3.0)	1.120(6.3)	6.388(7.5)

SOURCE: UNCTAD (1979), Table A.1 and UNCTAD (1981), Table A.1.

Table 8

LATIN AMERICA: 1960-1979
IMPORTS BY REGION OF ORIGIN
(in million of dollars FOB and % of total)

	1960	1970	1979
<u>World</u>	10.040(100.0)	18.623(100.0)	98.215(100.0)
<u>Developed Market Economies</u>	7.843(18.1)	13.909(74.7)	59.292(60.4)
USA	3.870(38.5)	6.477(34.8)	27.728(28.2)
EEC	N.A.	4.477(23.8)	17.257(17.6)
Japan	315(3.2)	1.112(6.0)	6.320(6.4)
Others	3.665(36.5)	1.895(10.2)	7.988(8.2)
<u>Developed Countries</u>	1.950(19.4)	3.684(19.8)	34.036(34.7)
Latin America	1.680(16.7)	3.035(16.3)	18.733(19.0)
Africa	44(0.4)	237(1.3)	2.872(2.9)
West Asia	61(0.6)	234(1.2)	10.013(10.2)
Others	165(1.6)	178(0.9)	2.418(2.5)
<u>Socialist Countries</u>	247(2.5)	1.030(5.5)	4.887(5.0)

SOURCE: UNCTAD (1979), Table A.1 and UNCTAD (1981), Table A.1.

Table 9

LATIN AMERICA: 1960-1979
 NON-FUEL EXPORTS BY AREA OF DESTINATION
 (in millions of dollars FOB and % of total)

	1960	1970	1979
<u>World</u>	6.930(100.0)	13.384(100.0)	54.872(100.0)
<u>Developed Market Economies</u>	5.999(86.6)	10.364(77.4)	34.532(62.3)
USA	2.840(41.0)	3.981(29.7)	12.713(23.2)
EEC	N.A.	4.179(31.2)	13.937(25.4)
Japan	259(3.7)	938(7.0)	3.219(5.9)
Others	2.900(42.0)*	1.266(9.4)	4.663(8.5)
<u>Developing Countries</u>	625(9.0)	1.900(14.2)	13.968(25.5)
Latin America	530(7.6)	1.642(12.3)	10.660(19.4)
Africa	37(0.5)	90(0.7)	1.058(1.9)
West Asia	24(0.3)	37(0.3)	973(1.8)
Others	34(0.5)	131(1.0)	1.277(2.3)
<u>Socialist Countries</u>	306(4.4)	1.120(8.4)	6.372(11.6)

*Includes the EEC.

SOURCE: UNCTAD (1979), Tables A.1 to A.10 and UNCTAD (1981), Tables A.1 to A.10.

Table 10

LATIN AMERICA; 1979
 COMMODITY COMPOSITION OF EXPORTS BY AREA OF DESTINATION
 (in % of total in each commodity group shown)

	U.S.	Other Industrial Countries	Latin America	Other Developing Countries	Socialist Countries	Total Value (US\$ millions)
Food	23.8	41.9	10.8	5.3	18.1	28,604
Agricultural raw materials	10.9	48.4	18.3	9.1	12.8	3,038
Ores and minerals	20.7	55.4	15.3	2.6	7.8	8,104
Fuels	54.7	15.1	24.5	3.0	---	30,506
Manufactured goods	25.6	26.0	38.8	7.0	2.4	14,668
Chemicals	23.6	31.5	37.7	5.7	2.2	2,910
Iron and steel	21.0	32.5	31.9	7.2	6.3	4,131
Machinery and transp equip.	23.4	19.0	45.5	11.8	0.2	4,131
Textiles	15.7	42.5	23.8	6.7	11.1	3,600
Other	29.0	26.6	36.5	4.4	3.0	6,286

SOURCE: UNCTAD (1981), Tables A.1 to A.10.

Table 11

LATIN AMERICA: 1979
SELECTED COUNTRY SHARES IN TOTAL MANUFACTURING AND SELECTED MANUFACTURED EXPORTS (in %)

	Total Manu- facturing	Chemicals	Textiles	Clothing	Footwear	Iron and Steel	Transport Equipment	Electrical Machinery	Non- Electrical Machinery	Other
Larger industrialized countries	62.8	36.5	66.2	48.7	81.5	73.0	90.1	81.1	93.1	54.5
Argentina	15.2	10.2	6.1	19.0	8.4	13.9	26.6	9.1	21.0	17.7
Brazil	34.3	10.6	46.1	22.8	67.4	45.1	55.5	58.5	61.3	21.0
Mexico	13.3	15.7	14.0	6.9	5.7	14.0	8.0	13.5	10.8	15.0
Medium-size economies	10.7	8.2	14.2	11.3	---	3.7	5.4	2.7	3.7	19.1
Chile	4.1	4.4	---	---	---	3.7	1.2	1.0	1.1	8.9
Colombia	5.2	3.0	10.1	11.3	---	---	1.9	1.7	2.6	8.3
Peru	1.4	0.8	4.1	---	---	---	3.3	---	---	1.9
Oil-exporting countries	3.1	12.6	1.8	1.5	---	2.3	0.6	0.7	0.9	3.8
Others	22.4	42.7	18.8	38.5	18.5	21.	3.9	15.5	2.3	22.6
Latin America	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: UN (1980), *passim*.

Table 10 also demonstrates that Latin American manufactured exports to developed countries are not simply composed of technologically simple goods produced with cheap labor. This is due largely to the massive presence of multinational corporations in the larger Latin American countries' leading high-technology export sectors, which can be noted by comparing the composition of selected manufactured exports shown in Table 11 with data referring only to intra-firm trade in selected manufacturing groupings presented in Table 12. Table 11 also calls attention to the very high country concentration of Latin American manufactured exports, especially in the modern capital goods industries in Argentina, Brazil, and Mexico.

Table 12

U.S.-RELATED PARTY IMPORTS OF SELECTED MANUFACTURED GOODS
BY COUNTRY OF ORIGIN: 1979
(as % of total U.S. imports of each manufactured good
for country shown)

	Textiles	Clothing	Footwear	Non- Electrical Machinery	Electrical Machinery
Argentina	0.5	2.9	0.8	39.1	76.1
Brazil	9.2	18.0	0.5	59.9	95.3
Mexico	9.6	68.0	60.9	87.7	95.6

SOURCE: Helleiner and Lavergne (1979), p. 307.

Trade in Manufactures and the New Protectionism

The structural changes in Latin American trade since the mid-1960s outlined above began and were consolidated in times of unprecedented global trade expansion and growing trade liberalism among industrial countries. The so-called Dillon (1960-61) and Kennedy (1963-67) tariff reduction GATT negotiations gave new impetus to trade liberalization: for a group of eight OECD countries,⁴ the average tariff level (which was still over 25 percent by the end of the 1950s, after having fallen from above 50 percent in 1950) was reduced to 18 percent after 1961 and to about 9 percent after 1967. Tariffs for light manufactures of special interest to industrializing countries (such as textiles and clothing) were not significantly affected by these measures. However, following UNCTAD's 1964 meeting, developing country pressures for preferential access for their manufactured and semi-processed products to industrial country markets began to have some effect. After long negotiations they were successful, and GSP schemes were implemented by the European Economic Community and

Japan in 1971. Although the actual benefits conceded by these schemes will be critically analyzed below, the fact that they were implemented in contravention of GATT principles of nondiscrimination and generalized most favored nation treatment is illustrative of the general trend toward freer trade in developed countries at the time.

However, this mood had already begun to change toward the end of the pre-oil crisis trade boom. As the result far-reaching postwar changes in the economic output structure of the periphery (examined with regard to Latin America in the preceding section); penetration of developing country manufactures in industrial country markets rose quickly. By 1973 the share of these goods in developed countries' total manufactured imports reached 20 percent, compared to only 11 percent a decade earlier.⁵ The sharp decline in developed countries' demand and the rise in their unit labor costs after the 1973-74 oil shock led to renewed efforts by industrializing countries to stimulate their manufactured exports, which reinforced anti-liberal feelings and triggered defensive protectionist reactions in industrialized countries.

Although bound by GATT rules not to resort to "old," tariff protectionism, industrial countries developed a series of very effective nontariff barriers aimed at selective market closure--permitted by the GATT articles for abnormal situations--to stop the tide of developing countries' manufactured export competition. Some of these barriers are unilateral and formal, such as quantitative restrictions or countervailing duties charged specifically to compensate for subsidies granted to exports in the country of origin. Other barriers result from bilateral negotiation--the so-called "orderly marketing agreements"--which enforce quotas and permissible rates of growth for particular imports from individual countries under the threat of formal action. These are usually informal, "voluntary" agreements, but they are equally effective safeguards against rapid import penetration.

The United States was no exception to the trend toward protectionism in industrial countries. The Trade Act of 1974, which empowered the United States executive to monitor trade and enforce nontariff barriers in case "grave injury" was done to a domestic industry by high import growth, led to a large increase in the application of those measures. During the life of the Trade Act, which extended from January 1975 to December 1979, at least 111 subsidy and 119 antidumping countervailing duty cases were filed.⁶ According to an Organization of American States Secretariat document, effective application of these measures by the United States government rose from 16 in 1971-74 to 62 between 1975 and September 1978.⁷

The increase in new United States protectionism is also detectable in the United States Generalized System of Preferences scheme which began operation in January 1976. On the one hand, the system introduced "competitive need" criteria according to which GSP duty-free tariff treatment is phased out if exports of a particular product from a beneficiary country become larger than 50 percent of total American imports of that product, or larger than a dollar limit (fixed initially at \$25 million annually) that varies according to growth in gross domestic product. For countries with a limited degree of export diversification or large exports of semiprocessed primary goods, as is the case with several Latin American countries, this can mean exclusion from the benefits of GSP for their chief

export products. In fact, of the \$3.5 billion of total Latin American exports to the United States eligible in principle for duty-free treatment under GSP in 1978, only \$1.5 billion actually received this benefit.⁸

On the other hand, about 700 tariff items corresponding to "import sensitive" manufactures--that is, those competing with low productivity, noncompetitive branches of American industry benefitting from government relief schemes--were not included in the GSP. This was tantamount to excluding from preferential treatment items such as textiles, clothing, footwear, and iron and steel--all products of special interest to several Latin American countries (see Table 13) which in general already enjoyed high rates of tariff protection.

The restrictions placed on access to the United States preference scheme greatly diminished its advantages to Latin America. On the basis of 1971 trade data, the trade diversion and trade creation benefits derived by Latin American countries from its application were estimated at \$74.6 million--that is, just 1.2 percent of the region's total exports to the United States in that year.⁹

However, despite the reduced significance of the United States GSP, there was much concern at UNCTAD--where Latin American countries traditionally have a strong voice--when the "donor" countries initiated meetings in Tokyo in 1973 for a new round of GATT most favored nation (MFN) tariff reductions.¹⁰ The worries of the "beneficiary" countries stemmed from their fears of the effects of further developed country tariff reductions on the preferential margins enjoyed by them under the GSPs.

These concerns appear unjustified, at least as far as the GSP--erosion effects of the Tokyo round (concluded in 1979 and to be enforced from 1980 to 1985) on Latin American trade with the United States are concerned. Table 14, based on pre-Tokyo tariff rates and 1974 trade data, shows that the weighted average United States MFN tariff rate on Latin American manufactures is below 10 percent, even if only the non-oil exporting countries are taken into account. Although these averages may give a distorted view of the rates actually paid by some manufactures (as suggested by Table 15), they are quite low. If one considers that between 1974 and 1980 the average real exchange rate of Latin American currencies appreciated by over 20 percent against the dollar due to management problems caused by very high inflation rates and large capital inflows, the GSP-erosion effects of the Tokyo round do not appear menacing.¹¹ In fact, the impact of the five-year phased tariff reductions contemplated in the Tokyo agreements can be easily countervailed by not too large real exchange rate devaluations.

The Tokyo-round negotiations concerning codes of conduct regulating the application of nontariff barriers were of much greater relevance to United States-Latin American trade relations.¹² The outcome of these talks effectively hurt Latin American Trade for at least two reasons.

First, preferential treatment for developing countries in those clauses regulating the use of export subsidies and the application of countervailing duties--such as longer periods over which to spread the abolition of subsidies, and lighter countervailing duties--was granted in exchange for the concept of "graduation" or the "enabling clause"

Table 13
 LATIN AMERICA: 1977
 COMMODITY COMPOSITION OF MANUFACTURING EXPORTS
 (in % of total manufacturing exports of each of the countries shown)

	Chemicals	Textiles	Clothing	Footwear	Iron and Steel	Transport Equipment	Electrical Machinery	Non- Electrical Machinery	Others
Large exporters of manufactures	11.3	9.9	3.9	3.8	7.6	13.0	7.6	17.4	26.0
Argentina	23.0	3.7	6.2	1.6	6.0	15.0	3.5	16.1	34.9
Brazil	6.0	12.5	3.3	5.7	8.6	14.6	9.9	21.0	18.4
Mexico	23.1	9.8	2.5	1.2	6.9	5.4	5.9	9.6	35.6
Medium-size economies	15.3	12.5	5.3	---	2.3	5.5	1.5	4.1	53.5
Colombia	11.3	18.2	10.8	---	---	3.4	1.9	5.9	48.3
Chile	21.3	---	---	---	5.9	2.7	1.4	3.3	65.4
Peru	11.8	27.9	---	---	---	21.8	---	---	78.5
Oil-exporting countries	60.1	2.0	1.9	---	3.7	1.4	1.0	2.9	27.0
Others	36.9	10.9	8.5	2.4	6.1	1.1	4.0	1.1	30.5
Latin America	19.5	10.1	5.0	2.9	6.6	9.0	5.9	11.7	30.0

SOURCE: UN (1980), *passim*.

Table 14

INDICATORS OF UNITED STATES TRADE BARRIERS AGAINST LATIN AMERICA¹

	Value of Total Imports (\$ million)	Imports Subject to FMN		Imports Under GSP		Value of Imports Subject to NTBs (\$ million)	
		Value (\$ million)	Weighted Average tariff rate	Value (\$ million)	Weighted Average tariff rate	Export restraints	Licensing plus quotas
<u>All Goods</u>							
Latin America ²	17,999	15,853	2.2	1,767	0.0	382	7,922
Non-oil Countries ³	10,465	6,558	4.1	1,731	0.0	377	1,497
Major Exportures of Manufactures ⁴	5,402	4,080	5.2	1,322	0.0	255	765
<u>Primary Products</u>							
Latin America	14,592	13,611	1.4	978	0.0	20	7,922
Non-Oil Countries	5,388	4,327	2.7	958	0.0	19	1,497
Major Exportures of Manufactures	2,882	2,269	3.7	613	0.0	16	765
<u>Manufactures</u>							
Latin America	3,407	2,242	7.4	789	0.0	362	0
Non-Oil Countries	3,281	1,773	9.3	774	0.0	359	0
Major Exportures of Manufactures	2,521	1,811	7.1	709	0.0	239	0

¹Compiled using 1974 trade data and 1977 regime.

²Includes Argentina, Bahamas, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Netherlands Antilles, Peru, Trinidad and Tobago, and Venezuela.

³Latin America excluding Venezuela, Trinidad and Tobago, Bahamas, and Netherlands Antilles.

⁴Brazil, Argentina, and Mexico.

SOURCE: Computed from Yeats (1979), pp. 216-220.

Table 15

U.S. MFN TARIFF INCIDENCE ON LATIN AMERICAN EXPORTS
(in % of total exports of each of the country groups shown)

	Free	Low	Medium	High
Major Exporters of Manufactures	40.9	28.5	21.8	8.1
Oil-Exporting Countries	7.7	92.2	---	---
Non-Oil Exporting Countries	50.0	40.9	4.3	4.5
Total	22.7	68.3	6.2	2.8

Note: Country classification as in Table 12.

SOURCE: UNCTAD (1979), Table 7.3.

among GATT rules. This clause prescribes that preferential treatment conceded to any country is temporary and conditioned on the members' judgment regarding its stage of development. The introduction of this clause in the agreement was due to pressure by United States negotiators at Tokyo and was the price paid by developing countries for the formal acceptance by the GATT of discriminatory treatment in their favor. Needless to say, the logic and fairness of this two-tier classification in a world in which only five nations are responsible for over 50 percent of world non-oil exports has been strongly criticized in Latin America, especially in the larger countries.¹³

Second, as the price paid by the Carter Administration to have the Tokyo agreements approved by the United States Congress, authority to implement United States trade policy was "shifted from the relatively free-trade oriented Treasury Department to the Commerce Department."¹⁴ This change may be of significance because the Tokyo negotiations left considerable room for discretionary nontariff barriers to be erected against developing country exports to the United States, after failing to reach an agreement on a code of conduct concerning the sensitive issue of safeguards against disruptive imports. Thus, Latin American exporters are still liable to arbitrary exclusion from United States markets in products which, as indicated above, are of particular interest to their future trade growth.

On occasion, some country or product may receive special treatment for international or domestic political reasons.¹⁵ However, the bargaining power of the adversely affected country in orderly marketing agreements with the United States government is usually quite low. Moreover, as late-comers, the large Latin American exporters usually face markets already regulated by safeguards erected against the Asian newly industrializing countries.

Longstanding Issues Relating to Trade
in Primary Products

New United States protectionist measures are of interest to Latin America mainly for their effect on exports of manufactured products. However, in spite of the progressive export diversification experienced by Latin American countries in the recent past, conditions affecting trade in primary products are still of even greater concern to them. This is so not just because of the greater size of these countries' trade in commodities, but also because of the continuing importance of a few products for their export bills (see Table 16).

Setting aside the controversial issues related to long-term trends in commodity terms of trade which occupied a substantial part of postwar economic literature, two factors have traditionally been pointed out by Latin Americans as adversely affecting the performance of the region's primary exports. The first is the level and structure of the tariffs applied by industrial countries to crude and semiprocessed food and raw materials. The second--not related to trade policy in a classical sense but, nevertheless, of utmost importance to Latin America--is the great instability of foreign exchange earnings which primary producers are frequently subject to as a consequence of fluctuations in commodity prices.

Developed country tariffs on primary products have been mainly criticized for their progressive escalation against items with higher degrees of processing. This characteristic of the tariff structure of industrial countries can be detrimental to primary exporters for both static and dynamic reasons. On the one hand, this system may affect the distribution of value added in the chain of food and raw materials processing between trade partners, as well as developing countries' potential foreign exchange earnings. The latter can be substantial: according to a United Nations Conference on Trade and Development (UNCTAD) study, adding one stage of processing to a group of ten basic raw products before export would have brought an additional \$27 billion in gross export earnings to developing countries in 1975--about 25 percent of total exports of non-OPEC developing countries in that year.¹⁶ On the other hand, more extensive elaboration of primary products could give a sizable push toward industrialization in more backward areas without provoking the allocative distortions which presumably have occurred in more closed and inward-looking postwar industrialization experiments.

In assessing the effects of tariff escalation on primary exports, both nominal and effective rates of protection should be considered. The latter take into account the fact that nominal tariff rates are poor indicators of the impact of protection in industries relying heavily on dutiable imported inputs, and they measure the effect of protection on value added per unit of output in the importing country's affected industry. Effective protection is thus a better indicator of how the tariff structure of industrial countries affects resource allocation in the processing of crude materials on a world scale.

Table 16

EXPORT DIVERSIFICATION INDICATORS FOR SELECTED LATIN AMERICAN AND INDUSTRIAL COUNTRIES

	Diversification Index*				Number of Commodities Exported**		Product Concentration: 1977***	
	1962	1968	1972	1976	1978	1968	1978	
USA	0.349	0.335	0.335	0.394	0.359	179	179	---
Germany	0.439	0.355	0.315	0.376	0.324	177	179	---
Japan	0.548	0.453	0.423	0.502	0.464	165	165	---
LATIN AMERICA								
Brazil	0.806	0.758	0.682	0.667	0.586	123	154	39.2
Argentina	0.805	0.766	0.762	0.686	0.669	129	355	26.6
Mexico	0.690	0.663	0.537	0.542	0.549	136	146	40.3
Colombia	0.831	0.767	0.715	0.742	0.758	90	110	70.7
Chile	0.868	0.863	0.864	0.861	0.812	61	113	59.4
Uruguay	n.a.	0.915	n.a.	0.795	0.778	25	94	48.0
Peru	0.831	0.867	0.933	0.892	0.825	53	96	45.1
Ecuador	0.913	0.915	0.951	0.783	0.771	26	53	78.4
Guatemala	0.893	0.734	0.723	0.760	0.769	91	99	64.7
Nicaragua	0.879	0.795	0.745	0.774	0.776	71	90	61.9
Costa Rica	0.931	0.750	0.769	0.763	0.756	78	95	64.1
Paraguay	0.903	0.882	0.885	0.902	0.919	26	33	60.8
Panama	0.915	0.886	0.882	0.856	0.832	26	50	66.7
Trinidad-Tobago	0.853	0.820	0.811	0.759	0.775	74	82	93.2
Dominican Republic	0.912	0.882	0.910	0.900	0.900	36	63	70.5
El Salvador	0.866	0.728	0.738	0.778	0.753	86	91	74.3
Honduras	0.873	0.793	0.846	0.848	0.855	60	60	68.3
Bolivia	0.926	0.893	0.923	0.764	0.824	20	37	69.0
Venezuela	n.a.	0.882	n.a.	0.790	0.807	61	82	94.9

*Absolute deviation of country commodity shares from world trade structure as follows:

$$s_j = \frac{\sum_i |h_{ij} - h_i|}{2}, \text{ where } h_{ij} \text{ is the share of commodity } i \text{ in total exports of country } j$$

h_i is the share of commodity i in total world exports

The index ranges from 0 to 1, with the latter representing maximum commodity concentration. For some countries, the fourth year reported is 1975.

** Number of products exported at the SITC three-digit level (182 products). This figure includes only those products which accounted for more than 0.3 percent of the country's total exports or which exceeded US\$ 50,000 in 1968 and US\$ in 1979.

***Share of three leading products at the SITC 3-digit level in total exports, in percent.

SOURCE: For 1962 and 1972 data, Yeats, A. J. (1979), pp. 43-44. For the rest, UNCTAD (1981), Table 4.5 and UNCTAD (1980), Table 4.30.

Table 17 provides some indication of the effects of the post-Kennedy round United States tariff structure on primary products at different stages along the processing chain, for a sample of 21 major non-oil commodities.¹⁷ It shows that although nominal United States rates are not high--indeed, except for stage 1 goods, they are lower than those charged on average by the EEC and Japan--they do escalate against more elaborated products, and that effective rates of protection at the more advanced stages of processing can be twice or almost three times higher than nominal rates due to higher value-added coefficients at those stages. If one considers that by the mid-1970s 73.5 percent of Latin American non-oil exports to the OECD countries were composed of stage 1 commodities,¹⁸ the effect of the United States tariff structure on Latin American trade may be perverse, since the United States absorbs almost 40 percent of the region's food and raw materials exports to Organization of Economic Cooperation and Development (OECD) countries.

Table 17

POST-KENNEDY ROUND U.S. PROTECTION AGAINST
CRUDE AND PROCESSED RAW MATERIALS

Degree of processing	Nominal rate	Effective rate
Stage 1	3.9	3.9
Stage 2	7.3	14.7
Stage 3	7.6	20.6

Note: Degree of processing rises from Stages 1 to 3. Of the 21 products included in the sample, only 7 had less than 3 identifiable stages.

SOURCE: Yeats (1979), pp. 83 and 89.

For more elaborated products, the problem of tariff escalation is closely tied to the more sensitive issues related to nontariff barriers discussed above. In this sense Latin American trade in primary products could considerably gain from a general liberalization of trade. Estimates of the effects of a 50 percent across-the-board cut in tariffs and quantifiable nontariff barriers on OECD agricultural imports alone, from a sample of 57 developing countries, indicate that it would cause a 5 percent increase in total exports for the six Latin American countries included in the sample, and that these countries would reap over half of the resulting increase in world agricultural exports.¹⁹

Frequent and violent commodity price fluctuations are, as mentioned above, another factor hampering Latin America's export performance and the benefits the region derives from trade in primary goods. The usual policies designed to minimize their short- and medium-term effects are either direct buffer stock stabilization schemes or the operation of special

funds to compensate for their effect on export earnings. Large-scale commodity stabilization programs date back to the Brazilian coffee valorization scheme of 1907. Since then, they have been applied with varying degrees of success to certain primary products by individual producing countries or, more commonly since World War II, through international commodity agreements involving both producers and consumers. At least a formal international consensus on the far-reaching consequences of the problem of commodity price instability was achieved when this concern was explicitly included among the leading issues in the report approved at the first UNCTAD session in 1964, which called for a world trade system more responsive to developing country needs.

Although the accelerated recovery of primary product prices which followed UNCTAD's 1964 conference eroded somewhat developing countries' enthusiasm for ad hoc international action toward stabilization, tremendous post-1974 commodity price instability revived the issue at the 1976 UNCTAD meeting in Nairobi, when a resolution was passed creating the Integrated Program for Commodities (IPC). The main objective of the Program was to stabilize the prices of 18 primary products (with special attention to 10 "core" commodities) through buffer stock management and other auxiliary devices. Its basic difference with respect to existing international commodity agreements was its broader product coverage and the overall reduction of financial needs and risks, obtained from diversification.

Negotiations concerning the operational details of the common fund to finance stockpiling and, especially, the political issues related to the amounts, country distribution of contributions to the fund, and voting rights in the management of the Program, dragged on after the first working committee met in March 1977. Agreement was eventually reached at the end of 1979 on the size of the fund, but at levels clearly insufficient to be effective.

There is still some academic debate concerning the magnitude of finance needed to achieve effective primary product price stability and the benefits to be derived from it--especially whether there is a trade-off between an increase in producers' revenues and price stability. However, there is some evidence that an effectively implemented Program could be of great significance to Latin America, which between 1975 and 1979 was responsible for 26.3 percent of world exports of the ten core commodities it covers.²⁰ In fact, recent simulations of an UNCTAD-type integrated scheme for six commodities of particular interest to Latin America over a 13-year period show that, provided there are adequate financial resources and buffer stocks to keep fluctuations within a 15 percent band around 1950-75 price trends, the discounted value of export revenue gains for Latin American producers would be about \$4.5 billion--some 16 percent of yearly average exports between 1970 and 1975.

Although potential gains to Latin American primary exporters are not negligible, the major benefit of commodity price stabilization to both exporters and importers would come from stability itself. As far as exporters are concerned, the main benefit would result from the possibility of dampening balance of payments fluctuations and their negative effect on macroeconomic stability. In the case of Latin America, where minerals

and tree crops--products with longer investment leads and larger proportions of fixed costs to total costs--account for a large share of total commodity exports, one could argue on a priori grounds that such a change would be particularly beneficial. In fact, this may explain why commodity price stabilization has traditionally ranked high among regional priorities, as well as the leading role Latin Americans have usually played in the organization of international commodity agreements.

It might be argued that these benefits could be achieved directly by export earnings stabilization funds. Indeed, industrial countries seem to favor this approach; witness the drawings allowed by the International Monetary Fund under the Compensatory Financing Facility of the EEC STABEX fund open to less developed ex-European territories. However, access to these funds usually occurs post factum and does not prevent, of course, price fluctuations from occurring. In contrast, successful commodity price stabilization prevents violent price explosions and can have important additional benefits in terms of global macroeconomic stability. The international experience of the past 10 years showed that the cost-induced impact of sudden upsurges in primary product prices on industrial countries' price levels²¹ triggered nonaccommodating adjustment policies which, through their depressive impact on aggregate demand for commodities, caused the spectacular price collapses of 1974-75 and 1981-82, with grave consequences for world economic stability.²²

Medium-term Policy Choices and Urgent Needs

The two preceding sections showed that two broad trends influence the context of contemporary United States-Latin American trade relations. The first is the irreversible tendency toward greater diversification and increasing participation of manufactured and semi-manufactured goods in Latin American exports, resulting from the postwar structural changes undergone by several national economies and spurred by these economies' growing internationalization since the mid-1960s. The second trend, which ultimately results from the decreased complementarity between the United States and Latin American economies which accompanied the above-mentioned processes, is the clear shift in United States trade policy toward greater protectionism in recent years.

It is unlikely, however, that the conflicts which inevitably arise from these trends can be resolved within the framework of bilateral negotiations. These conflicts are not a special feature of Latin America's economic relations with the United States, but one aspect of a much broader problem involving all the world's major trading areas. Moreover, the continuous decline in United States world economic hegemony since World War II has eroded its political power to enforce a genuinely liberal world trading system, as well as its will to move alone in this direction.

Therefore, from a Latin American point of view, a realistic dialogue with the United States on trade issues should begin by defining how American action in international organizations could be conducive to better prospects for Latin American trade. With regard to the need to remove the barriers now encumbering the growth of the region's manufactured and

semi-manufactured exports, the United States position at GATT can be of decisive influence to the future of Latin American trade, especially in the negotiations concerning the elaboration of a special code against disruptive imports. This is the area in which conflict is most certain to arise because, in the end, these issues involve a painful and lengthy adjustment in the productive structures of mature industrial economies. However, because in the future the United States is bound to continue to face competition from ever more complex manufactured products--as forcefully argued in the Watkins and Karlik study for the United States Congress Joint Economic Committee²³--and because the present United States trade barriers overtly penalize the most successful exporters, the unfairness and inefficiency of these barriers must be faced squarely.

The most promising negotiated approach toward freer trade in "sensitive" products seems to be long-term arrangements providing for progressive trade liberalization in areas in which existing barriers prove to be most detrimental to the growth of Latin American exports. The gains from negotiated long-term arrangements are many, including longer periods over in which to spread adjustment in the United States and a correct signalling of export opportunities to Latin American countries. Moreover, this targeted liberalization could be negotiated collectively or by individual countries, in contrast to the phasing out of present preferential treatment conceded under the GSP or in GATT's countervailing duties code.²⁴ If this negotiating strategy is followed, however, the choice of products and the speed with which subsidies are to be withdrawn would be of importance to Latin America because of the danger of trade diversion to other competitors, especially in some light manufactures such as textiles and clothing.

The other area in which a more sympathetic United States approach to Latin American trade problems could bring lasting benefits is in negotiations concerning the implementation of UNCTAD's commodity price stabilization program. The United States has up to now been at the forefront of opposition to the effective implementation of the scheme, even though the benefits both to Latin America and the world economy which would accrue from the operation of the IPC appear to be substantial.

It should be noted that better market access for Latin American manufactures and the expected benefits from commodity price stabilization--although undeniably important from a long-run perspective--are not nearly as important at present for Latin American trade prospects as is the urgent need to reverse the recession in world trade visible since 1981, as well as the more recent contraction in the flow of long-term capital to the region. During 1982 the collapse of Latin American terms of trade caused by sharply deflationary pressures in industrial countries, as well as by the heavy burden of interest payments on foreign debt, triggered recessive adjustment policies in most countries in the region. Despite a 10 percent fall in the value of aggregate regional exports, these policies abruptly turned the United States \$0.6 billion trade deficit of 1981 into a United States \$8.8 billion trade surplus in 1982 as a result of the drastic cut in imports. Nevertheless, Latin America's current account deficit reached United States \$33.0 billion in 1982 while net capital inflows fell from United States \$42.1 billion in 1981 to United States \$19.2 billion in 1982

as a consequence of the severe crisis in confidence in world financial centers in the second half of the year.

The recessive balance of payments adjustment policies thus failed to restore external equilibrium. However, their domestic macroeconomic effects were truly alarming. Preliminary data show that in 1982 Latin America's gross domestic product fell--for the first time in 43 years--by over 1 percent, while output per capita fell by over 3 percent. The collapse in the terms of trade made the fall in incomes even more pronounced.

In conclusion, it should be stressed that restoring growth in world trade and averting trade conflicts are not unrelated issues. The adjustment needed in industrial countries so as to minimize present conflicts with developing country exporters, as well as the reforms needed to impart greater stability to commodity markets would be substantially eased in an environment of sustained global trade growth. However, the restoration of Latin American trade growth to a large extent now also presupposes solving the financial difficulties faced by several countries of the region, especially the larger ones. The severe adjustment problems created by the recent drying up of international long-term bank loans, superimposed on a world trade recession, led to the generalized adoption of extremely severe deflationary adjustment policies which are bound to affect substantially the growth of intra-regional trade.

The reversal of present trends in world trade and financial markets is thus an urgent necessity for Latin America. Achieving this result is a direct challenge both to the United States and to the set of principles and institutions governing global economic cooperation which the United States decisively helped to shape in the postwar period. The ability of Latin American nations to preserve their present policies toward greater integration in the world economy, and the benefits which this may produce for world prosperity and peace, ultimately depend on the successful reversal of these trends.

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¹International Monetary Fund, Direction of Trade Yearbook, Washington, D.C., 1980, pp. 62-63.

²GATT, Networks of World Trade by Areas and Commodity Classes: 1955-1976, GATT Studies in International Trade No. 6, Geneva, 1978, Table A.6.

³Inter-American Development Bank, Economic and Social Progress in Latin America: The External Sector, Washington, D.C., 1982, p. 134.

⁴These include the United States, the United Kingdom, West Germany, Japan, France, the Netherlands, Belgium, and Sweden; see United Nations Economic Commission for Latin America, America Latina en el umbral de los años 80, Doc. E/CEPAL/G. 1106, Santiago, 1979, p. 121.

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¹¹The data on Latin American exchange rates are from Inter-American Development Bank, Economic and Social Progress in Latin America: The External Sector, Washington, D.C., 1982, p. 44.

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¹²Up to 1979, for instance, the United States government was not bound to prove that grave injury was being inflicted on a domestic industry before taking retaliatory action under the 1974 Trade Act.

¹³See, for instance, R. Abdenur and R. Sardenberg, "Notas sobre las relaciones Norte-Sur y el Informe Brandt," in Estudios Internacionales, Vol. XIV, 1981.

¹⁴Rachel McCulloch, "Gains to Latin America from Trade Liberalization in Developed and Developing Nations," in Baer and Gillis, op. cit., p. 245.

¹⁵A good example of this special treatment is the restriction applied by the United States in 1977 to imports of footwear from South Korea and Taiwan. In 1981, with expiration due, the International Trade Commission recommended extension of these quotas for only two years and for Taiwan alone. Despite pressure for harsher limits by Congressional representatives from affected districts, the Reagan Administration has gone further and allowed the quotas to lapse...South Korea and Taiwan figure importantly in the national security strategy of the Administration, the more so because of continuing ties to China. The New England region most affected by shoe imports is also heavily Democrat, unlike the textile South. Albert Fishlow, J. Carriere, and S. Sekiguchi, Trade in Manufactured Products with Developing Countries: Reinforcing the North-South Partnership, Report of the Trilateral Task Force on North-South Trade to the Trilateral Commission, The Triangle Papers No. 21, New York, 1981, p. 54.

¹⁶United Nations Conference on Trade and Development, The Processing Before Export of Primary Commodities: Areas for Further International Cooperation, Geneva, 1978. The products included in the list are cotton, coffee, cocoa, natural rubber, jute, tropical woods, leather, copper, bauxite, and phosphates.

¹⁷The Tokyo negotiation, of course, slightly affected these values. For an estimate of overall OECD, see Albert Fishlow, J. Carriere, and S. Sekiguchi, Trade in Manufactured Products with Developing Countries: Reinforcing the North-South Partnership, Report of the Trilateral Task Force on North-South Trade to the Trilateral Commission, the Triangle Papers No. 21, New York, 1981, p. 61.

¹⁸United Nations Economic Commission for Latin America, America Latina en el umbral de los años 80, Doc. E/CEPAL/G. 1106, Santiago, 1979, p. 37. This figure is based on a sample of the 17 chief primary exports of Argentina, Barbados, Brazil, Colombia, Costa Rica, Guatemala, Guyana, Honduras, Mexico, Trinidad-Tobago, and Venezuela.

¹⁹Valdes (1979), quoted in McCulloch, op. cit.

²⁰United Nations Conference on Trade and Development, Handbook of International Trade and Development Statistics-Supplement, United Nations, New York, 1981, p. 220.

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²¹The effects of commodity price instability on industrial country price levels are not negligible. According to one estimate, 45 percent of the 1973 rise in the United States consumer price index occurred as a result of large non-oil commodity price increases above trend values. In addition, because of the downward inflexibility of industrial prices, these inflationary upsurges--induced directly or indirectly by food and raw material price explosions--can have a significant permanent "ratchet" effect. On this point, see J. Popkin, Commodity Prices and the U.S. Price Level, Brookings Paper on Economic Activity 1, Brookings Institution, Washington, D.C., 1974, and Jack Behrman, International Commodity Agreements: An Evaluation of the UNCTAD Integrated Commodity Programme, Overseas Development Council, Washington, D.C., 1977.

²²For a fuller discussion of the propagation mechanisms implicit in the preceding argument, see N. Kaldor, "Inflation and Recession in the World Economy," in The Economic Journal, Vol. 86, 1976, and L. Taylor, "Back to Basics: Theory for the Rethoric in the North-South Round," World Development, Vol. 10, 1981.

²³S. B. Watkins and J. R. Karlik, Anticipating Disruptive Imports, U.S.G.P.O., Washington, D.C., 1978, passim.

²⁴In more general terms, this proposal has been presented in McCulloch, op. cit.