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Gains to Latin America from Trade Liberalization in Developed and Developing Nations

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TRADE POLICY, EXPORTS, AND DEVELOPMENT

This paper addresses the role of international trade policies of developed and developing nations in promoting or retarding growth and development in Latin America. The analysis focuses on three related issues. First, how important is trade policy as a determinant of economic development prospects for Latin America? Second, what are the consequences for Latin America of recent changes in the world trading environment and proposals now before the international community? Particular emphasis is given to three key developments: implementation of the Generalized System of Preferences, conclusion of the Tokyo Round of Multilateral Trade Negotiations, and emergence of new protectionist pressures in the major industrial nations. Finally, given that trade policies reflect forces that are as much political as economic, what are the potential gains to Latin America from alternative strategies in future negotiations?

Economic Development and Export Growth

Export growth now occupies a central position in the economic development plans of most nations in Latin America. Import-substitution policies have gradually given way to outward-looking development strategies, and expansion of nontraditional exports is seen as a key to industrialization and sustained growth of per capita income.[1] Sharply higher prices for imported fuel have generated additional pressure for export expansion to meet current bills and to service debt. Ironically, this new emphasis on exports comes at a time when prospects for rapid export growth are clouded. The advanced nations, accounting for about two-thirds of export earnings in Latin America, have been growing at rates significantly below those of the 1950s and 1960s. This in turn has contributed to a reversal of the sustained postwar push toward free trade. Selective market closure, implemented by voluntary export restraints, orderly marketing agreements, and other nontariff barriers, affects an increasing proportion of exports to the advanced nations. The new barriers are aimed particularly at labor-intensive standardized manufactures, a major area of comparative advantage for the "newly industrializing" countries (NICS). In Latin America, the nations most affected at present are Brazil, Mexico, and Argentina, but with Colombia, Uruguay, and others close behind them.

The switch from import-substituting industrialization toward more export-oriented growth strategies obviously means an increased dependence upon external conditions for success. The success of import substitution was limited largely by internal factors — small domestic markets and inappropriate incentives. In contrast, a nation's ability to spur development via export promotion depends crucially upon external as well as internal factors. Export-led growth strategies are most likely to succeed in a trading environment characterized by predictable access to expanding markets. For any individual country, and to a major extent even for Latin America as a whole, the world economic environment must be regarded as exogenously determined. Prospects for export-led development depend on the growth of present and potential markets and of the share of Latin America in those markets. The major external factors influencing Latin-America's export prospects can be grouped under three headings: long-term growth rates in present and potential export markets, growth of competing exports from other sources, and trends in market access as determined by trade policy developments.

Although this paper emphasizes the role of trade policy, it should be underscored that trade policy cannot be regarded as an independent influence on the export prospects of Latin America. Low growth rates and poor structural adjustment in the importing countries often provide the rationale for erection of new trade barriers or slower elimination of existing ones. Furthermore, the success of export-oriented development in some nations has two important but opposing consequences for the future export prospects of others. Rapid penetration of particular "sensitive" industries by the Asian NICs (and, earlier, by Japan) has already triggered import-relief action by the United States and the European Community (EC). The ability of nations in Latin America to export textiles, clothing, shoes, and consumer electronics to the US and EC has thus been undermined by the past successes of other NICs; the impact of current Brazilian and Mexican exports may similarly retard future export growth of other nations in Latin America that are less far along in the process of industrialization. On the other hand, rapid income growth in the NICs also means the opening of important new potential export markets. The recent evolution of regional trade patterns provides supporting evidence for both relationships.

While market access is obviously one necessary condition for successful export-led development, it is not the only consideration, nor even the most important. This is evident from the widely differing rates of export and GNP growth experienced by the nations of Latin America in recent decades. Whatever the trading environment, a nation's ability to exploit available opportunities is determined mainly by internal factors. Increased export opportunities cannot substitute for adequate primary and intermediate inputs, human and physical capital, or technological and managerial know-how. And in many less developed countries (LDCs), national economic policies are themselves a major obstacle to efficient utilization of available resources.

For Latin America as a whole, the most important single determinant of year-to-year changes in export earnings is the business cycle of the industrial nations. But, this relationship must be viewed in proper perspective. The industrial nations are unlikely to shape their macroeconomic policies according to potential trade benefits to exporters in Latin America. However, there is no conflict between the goals of policymakers in the advanced industrial nations and those of exporters in Latin America — the rapid and steady growth desired by the industrial nations also benefits exporters serving those markets. Trade policy decisions, in contrast, represent a trade-off between benefits to domestic producing interests on one hand and to domestic consumers and foreign suppliers on the other. Thus, trade policy represents a major area in which advanced nations' policy choices can be of vital interest to Latin America, but also one in which policymakers consciously weigh LDC growth and development prospects against perceived domestic short-run political and economic costs of import penetration.[2]

Even if trade barriers are far down on the list of factors determining the prospects for export-led development, they do have a measurable impact. Evidence from the Kennedy Round suggests that LDC exporters of manufactured goods do respond to marginal profitability changes resulting from most-favored-nation (MFN) tariff reductions, and that their response is in fact as great as that of their counterparts in the industrial world [8]. It is also worth noting that, unlike most recent proposals for restructuring the world economy to promote the interests of the developing nations, reduction of trade barriers provides a possibility of mutual gain, at least in the longer run.[3]

Past and Future Markets for Exports from Latin America

The importance of trade liberalization in facilitating export growth and diversification should be examined in the context of recent export performance in Latin America. Data on the sources, destinations, and commodity composition of exports from Latin America yield useful information of three types. First, current trade linkages indicate the magnitude of potential gains from improved terms on existing trade and also imply the existence of communications, marketing, and transport networks that increase short-run responsiveness of exporters and importers to changing trade incentives. Second, trends in export performance provide evidence concerning the importance of MFN tariff reductions and the GSP relative to other major factors influencing export prospects. Finally, long-term market share trends reflect overall economic and political forces promoting or retarding trade with any given export market.

Sources

Aggregate statements about regional export trends are often statements about the export performance of just a few major nations that dominate the totals. Brazil, the world's fifth largest nation in land area and the seventh largest in population, alone accounts for nearly one-fifth of total exports from Latin America and a still larger share, about one-third, of total manufactured exports.[4] In the export of manufactures, Brazil, Mexico, and Argentina together supply nearly half of the total. For primary commodities, Venezuela is the top exporter in Latin America; its revenues, almost entirely from petroleum exports, generate more than one-fifth the regional total. Venezuela, Brazil, Argentina, and Mexico together account for about half of total primary exports from the region. Each remaining nation accounts for only a small fraction of aggregate regional earnings from primary exports, although some are important sources of individual primary exports, as in the case of Bolivia (tin), Chile (copper), Colombia (coffee), Ecuador (bananas), and Jamaica (bauxite). Thus, aggregate trade data — and inferences from them — must be interpreted with care, taking into account the diversity among nations in terms of size, resource base, and level of development.

Composition

Aggregate trade statistics for recent decades reflect the rapid expansion of industrial output in the region and an even more rapid rise in the share of industrial products in total exports. For individual nations, the share of manufactures in total exports now varies from less than 5 percent in Venezuela, Bolivia, and Ecuador, to about 30 percent for Mexico and Uruguay (see Table 1). While Brazil, Mexico, and Argentina have made the most substantial gains in expanding industrial production, countries such as El Salvador, Dominican Republic, Peru, Colombia, Guatemala, and Uruguay all recorded more than 15 percent average annual growth of manufactured exports from 1973 to 1976.[5]

Although growth of nontraditional exports, mainly manufactures, is a goal of every nation in Latin America, primary exports still generate about four-fifths of total foreign exchange earnings for the region. Table 2 indicates major primary exports by country for members of the Latin-American Free Trade Association (LAFTA). Tropical products including coffee, sugar, and cotton

Table 1

COMPOSITION OF LAFTA MERCHANDISE EXPORTS, 1976

Country	Total value (million $US)	Percentage shares of merchandise exports				
		Fuels minerals, and metals	Other primary commodities	Textiles and clothing	Machinery and transport equipment	Other manufacturing
Argentina	3,916	1	74	2	10	13
Bolivia	575	97[a]	0[a]	n.a.	n.a.	n.a.
Brazil	10,128	13	62	4	10	11
Chile	2,226	83	12	0	1	4
Colombia	1,745	4	74	8	2	12
Ecuador	1,127	59	39	2	0	0
Mexico	3,353	26	43	5	7	19
Paraguay	181	0	90[a]	n.a.	n.a.	n.a.
Peru	1,304	58[a]	37[a]	n.a.	n.a.	n.a.
Uruguay	547	0	66	14	2	18
Venezuela	9,299	99[a]	0[a]	n.a.	n.a.	n.a.

Sources: Export values, *UN Monthly Bulletin of Statistics*, July 1979; percentage shares (except where indicated otherwise), *World Development Report, 1979*. Shares labeled[a] estimated using data from *World Development Report, 1978* and *International Financial Statistics*, December 1979.

are each supplied by a number of nations; however, Argentina is the only country in Latin America exporting a broad range of temperate-zone agricultural commodities directly competitive with production in the developed nations.[6]

Markets

In terms of current export levels, three markets dominate the aggregate trade statistics: the US, accounting for nearly one-third of total exports, the EC, more than one-fifth of the total, and intraregional trade, also about one-fifth (see Table 3). The breakdown of aggregate shares by commodity class, shown in Table 4 for LAFTA members, reveals important compositional differences across export markets. Food exports dominate sales to Soviet Bloc nations. In contrast, manufactured goods make up about half of total sales within Latin America and close to half of intra-LAFTA exports. The share of manufactures in exports to the EC, US, and Japanese markets is about one-fifth.

Tables 3 and 5 show trends in export shares by major market for LAFTA and for Latin America as a whole. For total exports (Table 3), the EC and US markets have been declining in relative importance, while intraregional trade has increased substantially. These trends are even more striking when exports are disaggregated. As Table 5 indicates, the decline in the relative importance of the US market for manufactured exports and the concomitant increase in intraregional trade in manufactures have been dramatic. Although the shares of OPEC and the Soviet Bloc are still small, Table 3 indicates rapid

Table 2

LATIN-AMERICAN EXPORTS OF SELECTED PRIMARY COMMODITIES, 1978

Country	Major primary exports	Value (million $US)	% of total exports
Argentina	Meat	781	12
	Corn	587	9
	Wheat	174	3
	Hides and skins	271	4
	Wool	221	3
Bolivia	Tin	374	58
	Crude petroleum	42	7
	Natural gas	78	12
	Zinc	31	5
	Antimony	17	3
	Silver	34	5
	Wolfram	40	6
	Lead	11	2
Brazil	Coffee	1,947	15
	Soybeans and products	1,515	12
	Sugar	229	2
	Iron ore	1,028	8
Chile	Copper	1,202	50
	Iron ore	80	3
Colombia	Coffee	1,994	65
	Cotton	46	2
	Sugar	19	1
	Fuel oil	124	4
Ecuador	Crude petroleum	520	34
	Bananas	194	13
	Coffee	281	18
	Cacao	50	3
Mexico	Petroleum	1,819	31
	Cotton	309	5
	Coffee	386	6
	Shrimp	153	3
Paraguay	Meat	24	9
	Cotton	98	39
	Soybeans	38	15
	Timber	20	8
	Tobacco	9	4
	Vegetable oils	17	7
	Hides	8	3
Peru	Copper	419	21
	Fishmeal	219	11
	Iron ore	69	3
	Cotton	41	2
	Silver	130	6
	Sugar	50	2
	Zinc	110	5
	Lead	128	6
	Coffee	173	9
Uruguay	Wool	132	19
	Meat	96	14
	Hides	30	4
Venezuela	Petroleum	8,740	95
	Iron ore	137	1

Source: International Monetary Fund, *International Financial Statistics*, December 1979.

Table 3

LATIN-AMERICAN EXPORTS TO SELECTED DESTINATIONS, 1963–78
(percent of total exports)

	Year	EC	US	Japan	Latin America Total	Latin America LAFTA	OPEC	Soviet Bloc
Total[a]	1963	29	34	4	15	6	0	4
	1973	22	32	5	17	9	2	5
	1978	20	33	4	19	10	4	8
LAFTA	1963	31	35	4	17	7	0	2
	1973	25	30	6	19	11	2	3
	1978	22	28	5	24	13	4	4

Sources: For 1963, *UN Statistical Yearbook*, 1974; For 1973, *UN Statistical Yearbook*, 1977; For 1978, *UN Monthly Bulletin of Statistics*, June 1979.

[a]"Total" data include the Caribbean.

Table 4

LATIN-AMERICAN EXPORTS BY COMMODITY CLASS AND DESTINATION, 1977[a] (million US $ f.o.b.)

Commodity class	SITC	World	EEC	US	Japan	Latin America Total	Latin America LAFTA	OPEC	Soviet Bloc
Total trade	0–9	40,227	8,799	10,599	1,807	9,718	5,501	1,592	1,701
Food, beverages, tobacco	0–1	14,195	4,454	3,347	660	1,322	1,141	672	1,090
Cereals	041–045	1,807	397	13	196	302	235	126	250
Crude materials except fuels; and oils and fats	2 and 4	5,672	1,922	587	714	625	592	217	394
Textile fibers	26	1,133	526	127	135	103	99	23	96
Metalliferous ores and metal scrap	28	2,093	739	325	536	170	168	11	77
Mineral fuels	3	11,382	446	4,518	39	4,630	1,138	16	19
Primary commodities	0–4	31,249	6,822	8,452	1,413	6,577	2,871	905	1,503
Chemicals	5	887	130	201	21	425	359	60	9
Machinery, transport equipment	7	2,244	224	415	69	1,177	955	293	5
Other manufactured goods	6 and 8	5,701	1,556	1,384	304	1,531	1,310	332	184
Textiles and yarns	65	728	233	161	10	126	105	36	52
Iron and steel	67	449	78	141	16	143	128	35	13
Nonferrous metals	68	2,233	739	503	253	438	422	32	34
Manufactured goods	5–8	8,832	1,910	2,000	394	3,133	2,624	685	198

Source: United Nations, *Monthly Bulletin of Statistics*, May 1979.

[a]Data are for LAFTA members.

Table 5

LATIN-AMERICAN MANUFACTURED EXPORTS BY SELECTED DESTINATION, 1966-77 (percent of total manufactured exports)

	Year	Destination				
					Latin America	
		EC	US	OPEC	Total	LAFTA
Total	1966	24	40	n.a.	20	15
	1973	19	31	3	27	17
	1977	20	25	7	36	24
LAFTA	1966	26	40	n.a.	18	16
	1973	21	33	3	25	22
	1977	22	23	8	35	30

Source: United Nations, *Monthly Bulletin of Statistics*, July 1972 and May 1979.

expansion of exports to these nontraditional markets. In contrast, sales to the Japanese market have shown only modest aggregate growth, despite Japan's high rate of GNP growth over the period.

Similar shifts are evident in the LAFTA share in total imports from all LDC sources[7] for major Latin-American export markets (Table 6). LAFTA members have supplied a declining share of total EC and US imports from all LDCs, both for total trade and for manufactures. Likewise, LAFTA products have accounted for a declining fraction of the region's own primary imports, in part reflecting the growing importance of fuel imports in the total. But in the case of manufactures, the percentage of total imports from all LDCs that are supplied by LAFTA members has increased, both for LAFTA and for Latin America as a whole.

These export trends shed some light on the relative importance of recent trade policy developments. The much discussed increase in US and EC protectionism is consistent with the declining importance of these markets for exporters in Latin America. However, the new barriers are aimed especially at the fast growing exports of the Asian NICs. The shrinking share of LAFTA in total manufactured imports from all LDCs indicates that other LDC suppliers are increasing their penetration of the protected markets more rapidly than producers in Latin America have been able to do. Thus, the usual dimensions of export competitiveness, rather than exclusion by nontariff barriers, appears to be the major factor.

Another potential influence on sales of manufactures in the US and EC markets is the Generalized System of Preferences (GSP). Under the GSP, manufactured exports from Latin America and other developing areas are accorded preferential access to the protected markets of the industrial nations.[8] The EC plan went into effect in 1971, while that of the US was not imple-

Table 6

LAFTA SHARES IN SELECTED EXPORT MARKETS (percent of total imports from all LDCs)

	Year	Market			
				Latin America	
		EC	US	Total	LAFTA
Total trade	1969	19	38	68	76
	1973	16	32	51	63
	1977	11	17	41	52
Manufactures	1969	23	22	59	85
	1973	18	24	63	83
	1977	16	13	66	86

Sources: United Nations, *Monthly Bulletin of Statistics*, July 1975 and May 1979.

mented until 1976. This delay may have contributed to a relative expansion of exports to the European Community, at least partly reflecting diversion of some exports from US markets. The EC share in manufactured exports from Latin America increased through 1976, but declined from 1976 to 1977; the US share in manufactured exports showed a declining trend up through 1975, with a reversal that coincides with the implementation of the US GSP scheme. However, a more likely explanation of these movements lies in the timing of the mid-1970s recession in the EC and US. And, as Table 6 indicates, the region's exporters continued to lose ground in both markets to other LDC suppliers after the GSP went into effect.

The rapid growth of LAFTA sales of manufacturers within Latin America may result in part from existing preferential ties. However, if LAFTA preferential access has had an appreciable impact on aggregate trading patterns, it appears to be reflected in the level of the market share, rather than its rate of growth; manufactured exports from LAFTA to the rest of Latin America have been growing even faster than intra-LAFTA trade. Rapid growth of the region, rather than LAFTA trade policies, has probably been the major factor accounting for the increasing importance of intraregional trade in manufactures.

In contrast to a modest increase in the relative importance of the EC market for the region's manufactures, primary exports to the EC dropped sharply from more than one-third of the LAFTA total in 1973 to less than one-fifth in 1974, with the share remaining close to one-fifth since then.[9] One major reason for the sharp drop is that the EC accounts for only a small fraction of petroleum exports from Latin America. When the price of petroleum exports soared in 1974 and thereafter, the EC share in the *value* of total primary export earnings automatically declined. However, exports to the EC in other categories also fell in relative, and sometimes absolute, terms.

A factor potentially influencing nonfuel primary exports to the EC is the preferential treatment accorded by the EC to more than 50 African, Caribbean, and Pacific (ACP) developing nations. Under the Lomé Convention, signed in 1975 and renewed in 1978, the ACP countries receive free access to the EC market for most exports.[10] Although the ACP nations are among the world's poorest and least-developed, they compete with Latin America in the markets for a number of agricultural primary commodities, especially tropical products such as coffee, cocoa, bananas, and cotton. However, the EC share in total LAFTA primary exports has tended to *rise* since 1975, so that the immediate impact of Lomé-induced trade diversion appears to be slight. For example, in SITC 0-1, which includes all tropical food products, the share of the EC in total exports fell from 1973 to 1975, but has been rising subsequently. The LAFTA share in total EC imports of SITC 0–1 products from all LDC sources follows a similar time pattern. This suggests that factors such as the business cycle in the EC and price movements for individual exports are more important than Lomé preferences as determinants of the share trends.

Export markets may be considered important on the basis of current size or potential for growth. About two-thirds of the region's export earnings still come from trade with the industrial nations, their traditional partners. In terms of growth potential, however, other markets show greater promise. Extrapolation of recent trends suggests two generalizations concerning future export growth. First, the most promising market for the region's manufactured exports appears to be Latin America itself. Already approaching the importance of the US and EC market combined, the Latin market is growing much more rapidly and is far less likely to be affected in the near future by proliferation of new trade barriers. Second, the most promising markets for the region's primary exports are the nations of the Soviet Bloc and OPEC. Although current sales to these markets are still small, rapid growth of demand is likely, particularly for food imports, as supply diversification becomes an increasing concern. This does not mean that the US and EC markets for manufactures or primary commodities will necessarily decline in absolute size. Rather, it is likely that if rapid export growth is achieved, it will be in these newer, nontraditional directions.

Efforts by Latin America to improve export prospects have been directed at least as much toward the markets of the past as those of the future. Because trade with traditional partners still generates most export earnings, even modest terms of trade improvements can yield sizable aggregate benefits. With respect to intra-Latin trade, Latin America has been in the forefront of LDC efforts to achieve benefits through economic integration, but evidence from the statistics suggests that these efforts have had no important aggregate impact so far.[11] And while food sales to the Soviet Bloc and OPEC may constitute an increasingly important source of export earnings for a few nations, the major determinants of such trade are more political than economic, and thus involve decisions lying outside the usual sphere of international trade policy options.

PREFERENTIAL AND MFN LIBERALIZATION: CONSEQUENCES FOR LATIN AMERICA

Individually, as a regional bloc, and within the "Group of 77," the nations of Latin America have been at the forefront of efforts to improve LDC market access, particularly through liberalization of existing tariff and nontariff barriers of the advanced nations. The most important single trade liberalization issue for Latin America has been establishment of the GSP, the top item on the agenda of the United Nations Conference on Trade and Development (UNCTAD) for more than a decade. The GSP had significance not only for whatever direct benefits it might provide, but also as the first major step in establishing the broader principle of systematic preferential treatment of LDCs within the international economy. Acceptance of the GSP by the advanced industrial nations signaled their willingness to move away from one central tenet of the General Agreement on Tariffs and Trade (GATT), MFN treatment, that is, nondiscriminatory trade, among GATT members.[12]

The Tokyo Round negotiators took a further step in this direction by institutionalizing the preferential treatment of developing nations within the GATT. However, along with official GATT acceptance of the principle of discrimination favoring LDCs came the explicit proviso that, for any given nation, preferential status is inherently temporary and conditional in nature. Specifically, each LDC will be expected gradually to relinquish its preferred status and to assume more of the full responsibilities under the GATT rules as that nation's development objectives are met. Conditionality of preferred treatment, now referred to as the "graduation" issue, is of particular importance for Latin America, because major nations in the region are among the most advanced LDCs in terms of industrial development or per capita income.

The trade prospects of nations in Latin America have been altered by recent broad changes in market access, on a preferential basis through implementation of the GSP, and on a nondiscriminatory basis through completion of the Tokyo Round. The consequences for Latin America of these major developments are interdependent. In the near future, MFN tariff reductions negotiated in the Tokyo Round will, as they are phased in, reduce the margin of preference currently enjoyed by eligible nations under the GSP. In the longer run, some countries are likely to be among the first LDCs faced with graduation from preferred status, including eligibility for the GSP. This will mean not only competition on equal[13] rather than preferential terms with other, mainly developed, exporters to the protected markets of the advanced nations, but also competition on unequal, that is, nonpreferential, terms with exporters in LDCs not yet far enough along in development to be graduated.

Latin-American Benefits Under the GSP

While the GSP is likely to increase LDC earnings from existing exports,[14] its major rationale lies in an infant-industry argument applied to LDC manufacturing as a whole. By providing export subsidies on a wide range of LDC manufactures, the GSP should set in motion "dynamic" forces that will propel emerging producers into eventual international competitiveness. Whatever the theoretical merits, actual export-stimulating benefits to Latin America from the various GSP schemes now in effect have been modest. The GSP plan most important to Latin America is that of the US, with estimated gross trade creation of about $175 million in 1978. Trade benefits to Latin America from the other major GSP arrangements, those of the EC and Japan, are estimated to be of the order of magnitude of $32 million and $48 million, respectively, for 1976 [17].

These trade creation figures indicate only how successful the GSP has been in its primary objective of stimulating industrial exports; dynamic benefits resulting from such factors as increased competition, scale economies, learning-by-doing, and more efficient investment patterns are presumably proportional to the induced increase in trade. However, the GSP may also yield static benefits. To calculate static benefits, earnings from export expansion should be reduced by the alternative social cost of resources required to generate the additional exports. On the other hand, static benefits also include any increase in prices received for exports that would have occurred even in the absence of preferential market access. Where MFN tariff rates are high and exporters can capture most of the difference between domestic and world prices, static benefits may be substantial. This depends crucially upon the devices used to limit LDC preferential access to particular markets. The structure of some plans, particularly that of the EC, tends to reduce the bargaining power of LDC suppliers on GSP exports and thus to reduce this potential source of benefits.

GSP has had a relatively minor impact on industrial exports from Latin America. In part, this is because the major plans are far from "generalized" in the preferential access accorded. Restrictions on eligibility of countries and of commodities greatly reduce the potential gains. In the case of the United States, three aspects of the GSP rules have limited benefits to Latin America: "competitive need" exclusions, exclusions of import-sensitive manufactures, and exclusion of all OPEC members.

Competitive need exclusions severely limit imports from major LDC suppliers of particular commodities, regardless of overall development status. If a country supplies more than 50 percent of total US imports of an eligible item or a quantity per year valued in excess of an annually adjusted dollar limit, the country becomes ineligible for preferential access for that item. This provision is intended in part to reserve preferential treatment for exports in which beneficiary nations have not already established significant productive capacity. In absolute terms, the competitive need restrictions affect primarily the most developed of the LDCs — the same countries also derive the largest absolute benefits from the program. However, when the impact of competitive need exclusions is expressed as a proportion of otherwise eligible exports, even the poorest Latin-American nations show substantial reduction of total GSP benefits. In fact, the proportions tend to be larger for the less industrialized among the group, because their manufacturing sectors have not yet become diversified. For Latin America as a whole, GSP products exported to the US in 1978 were valued at about $3.5 billion. However, only about $1.5 billion of that trade was actually eligible for duty-free treatment [17].

The US preference scheme also excludes from eligibility all import-sensitive items subject to relief actions. These include textiles and apparel, shoes, watches, bicycles, tires, and some iron and steel products. In effect, precisely those labor-intensive manufactures in which the LDCs as a group have already achieved considerable market penetration even without the aid of preferential access, that is, those in which they have the greatest demonstrated comparative advantage,[15] are explicitly denied preferential treatment. The most important instance is textiles, where US tariff and nontariff protection remains much greater than for any other manufacturing industry. The effect of such exclusions is to encourage production only of goods in which developing nations have not demonstrated an advantage over industrial country producers. Thus, one longer-run effect of the GSP could be to promote a relatively inefficient international division of labor.[16]

In Latin America, Brazil and Mexico are most affected currently by the exclusion of import-sensitive manufactures. However, over the life of the US plan (until 1986, unless renewed), the exclusion of the very items that have in the past been the major stepping stones in the route to industrialization also makes the program far less valuable to those countries just beginning to establish manufacturing capacity. In effect, the tried-and-true routes for LDC industrial export diversification are now doubly blocked, by increasing protectionism in the importing countries and by the established and maintained market shares of the NICs.

Under the Trade Act of 1974, OPEC members (along with most Communist-bloc countries) were excluded from US preferences. In Latin America, the countries thus eliminated were Venezuela and Ecuador. Although the potential benefits from GSP were minor for these nations, their exclusion had considerable symbolic and political significance, particularly in light of Latin-American sensitivity on issues of national sovereignty in dealings with the US. The 1979 Trade Agreements Act paved the way for inclusion of these nations by leaving determination to the US President; both have now been added to the list of GSP beneficiaries.

Results of the Tokyo Round

The Tokyo Round of multilateral trade negotiations reached a formal conclusion in 1979. Despite (or possibly because of) the ominous world economic conditions, negotiators achieved major agreements in three areas: MFN tariff reductions, "codes of conduct" governing nontariff barriers to trade, and changes in the structure of the GATT itself. Each set of outcomes has important implications for the trade prospects of Latin America. However, recalling that the Tokyo Round commenced with an explicit promise of special and more favorable treatment of the developing nations, potential gains to Latin America may seem modest indeed.

MFN Tariff Reductions

Previous rounds of negotiations had already achieved major reductions of MFN tariff rates, so that further across-the-board tariff cuts assumed a low priority. Under pressure from the EC, negotiated cuts were somewhat larger for above-average duties, to bring these into line with overall levels of tariff protection — a "harmonization" approach. For industrial products, the average reduction was about 13 percent for the US, 27 percent for the EC, 28 percent for Japan, and 34 percent for Canada (*Wall Street Journal*, 22 June 1979). However, because most tariff rates were already quite low, these percentage cuts represent only minor changes in the degree of protection afforded domestic suppliers. Even so, LDC representatives expressed fears that trade benefits gained under the GSP would be seriously eroded.

MFN tariff reductions have two effects on the value of LDC exports. As stressed by the LDCs, MFN tariff reductions shrink the margin of preference for goods eligible for GSP treatment.[17] However, these goods account for a small fraction of total LDC exports even for the product categories included in GSP plans. In the case of exports from Latin America to the US, only 22 percent fall into product classifications covered by the GSP [17]. Of that fraction, less than half is actually accorded duty-free treatment under the GSP, with most of the rest eliminated by the competitive need provisions of the US plan. In contrast, any MFN tariff reduction would apply to all imports within a given product classification. Thus, MFN tariff cuts might on net encourage exports from Latin America to the US even for those products falling under the GSP. Also, the GSP is aimed at manufactured goods. MFN tariff reductions on primary commodities would yield unambiguous trade benefits to Latin America; in fact, tariff reductions for tropical products constituted one area of major concern for the negotiators.

Empirical estimates prepared by the Organization of American States (OAS) Secretariat suggest that new trade created by MFN tariff reductions could substantially outweigh trade loss resulting from GSP erosion.[18] However, the aggregate estimates mask important distributional consequences within Latin America. The OAS prediction of a net increase in the value of total regional exports to the US (1978 US dollars) of about $20 million is the net of a substantial gain for Mexico (more than $30 million), smaller dollar gains for a number of nations mainly in the Caribbean and Central America, and losses of various proportions for most LAFTA countries. The largest dollar loss is predicted for Brazil, an export reduction of about $8 million, and only a slightly smaller loss for Argentina.[19] The MFN tariff reductions thus do appear to hurt export prospects for some nations of Latin America.[20] While this does not constitute an argument against MFN tariff reductions, the Tokyo Round commitment to special and more favorable treatment for developing nations suggests that offsetting action, such as expanded GSP coverage or further MFN tariff cuts might be appropriate. However, the US has argued that the GSP and the MTN should be two entirely separate matters.

Codes of Conduct

Potentially the most far-reaching outcome of the Tokyo Round was the formulation of codes governing nontariff barriers to trade. While hailed by some as a major step toward freer trade, the codes gained strong support from US industries concerned with the elimination of abuses (real or imagined) perpetrated by their foreign competitors [2]. It is significant that the price paid by the Carter Administration for congressional approval of the Tokyo Round pact included a major reorganization of the administrative apparatus for implementing US trade policy in areas covered by the codes. In particular, authority to administer countervailing duties was shifted from the relatively free-trade-oriented Treasury Department to the Commerce Department.

Codes have been successfully concluded for five major categories of nontariff trade distortions: customs valuation, government procurement, import licensing, subsidies and countervailing duties, and standards and technical regulation. The codes explicitly recognize that government actions taken in pursuit of legitimate domestic objectives may have important effects on trade and that policies adopted for primarily domestic reasons may be administered in a manner discriminatory to foreign suppliers. All the codes provide for special and more favorable treatment of developing nations.

Of the five codes concluded, most important to Latin America and other developing regions is that regulating the use of subsidies and countervailing duties. Developed countries signing the code agree to refrain from most types of export subsidies as well as domestic subsidies having a substantial impact on trade. LDCs, however, are permitted to use direct export subsidies as part of their overall development programs, with the provision that such subsidies should be phased out as international competitiveness is achieved. These rules essentially describe the status quo. With regard to countervailing duties applied by importing nations, rules are more lenient for subsidized LDC exports. Most important, a formal test of injury to the importer is required before a subsidy can be countervailed.

For nations in Latin America that use export subsidies to promote industrial growth, this preferential treatment may be a significant benefit. Under the 1979 Trade Agreements Act, the US can afford more lenient countervailing-duty treatment (that is, conditional upon a test of material injury to the import-competing industry) only to LDCs that have signed the code. However, by signing, more advanced LDCs become obligated to an eventual phaseout of subsidies. As of January 1980, only Brazil, Chile, and Uruguay[21] had signed the subsidies code, although others were expected to do so.

Negotiators have not successfully concluded a code of conduct for the class of nontariff barriers of greatest concern to LDC exporters — safeguards against disruptive imports. Formulation of such a code would be of great potential significance to all areas experiencing rapid industrial development. The very high growth rates of some categories of LDC exports have frequently triggered "temporary" protective action by affecting importing industries. This pattern is likely to become even more pronounced as LDCs in Latin America and elsewhere continue to increase the share of manufactures in their exports.

LDCs complain that the industrialized nations use safeguard measures to afford essentially perpetual protection to domestic industries that have lost their international competitiveness. The safeguards code would have ensured the temporary character of safeguard protection. In addition, the code would have required special consideration for LDC exporters potentially affected, as well as compensation for resulting losses. LDCs also sought, unsuccessfully, a commitment on the part of industrialized nations to shift resources out of industries in which LDCs have achieved a clear comparative advantage. In light of the political sensitivity of the issues involved, it is hardly surprising that no agreement was reached by the negotiators, and it seems unlikely that a broad code of safegnards can be concluded in the near future [12].

The Enabling Clause

In addition to a provision for special and differential treatment of developing countries in each of the codes, a major action taken in the Tokyo Round was to alter formally the structure of the GATT to incorporate a permanent exemption to the most-favored-nation principle by explicitly permitting preferential treatment of LDCs in a number of broad respects. In 1968, a waiver of the GATT rules was required to permit introduction of the Generalized System of Preferences, and, similarly, trade preferences granted by LDCs to one another have been treated as specific and limited exceptions to the principle of nondiscrimination. Under the "enabling clause," GATT members may provide special and more favorable treatment of developing countries in such areas as tariffs, nontariff barriers, regional or global arrangements among developing countries, and special treatment for least developed countries. However, the United States successfully pressed for a link between special treatment of LDCs and provisions for the phasing out of such treatment for more advanced LDCs according to their progress in development. The "graduation" of developing nations to fuller GATT responsibilities is thus expected as their development and trade situation permit.

POTENTIAL GAINS TO LATIN AMERICA FROM FUTURE LIBERALIZATION

Now that the advanced nations have explicitly provided for special and more favorable treatment of LDCs within the GATT framework, what are the logical "next steps" in trade liberalization efforts? By institutionalizing preferential treatment of developing areas, the members of the GATT may appear to have abandoned the goal of most-favored-nation treatment, permitting and even encouraging the evolution of a permanent two-tier trading system. However, explicit inclusion of the graduation principle, conveying the temporary and conditional nature of favorable treatment afforded LDCs, indicates that GATT members were concerned to avoid this outcome. Furthermore, preferential treatment of developing nations in world trade is not the same thing as (and indeed does not require, even temporarily) a two-tier system of discriminatory access.

An alternative approach to implementation of preferential treatment is *targeted* MFN trade reform, that is, elimination on a nondiscriminatory basis of existing barriers particularly detrimental to the growth of present and potential LDC exports. In practice, targeted MFN liberalization would mean reductions of barriers mainly in areas that already pose major problems of industrial adjustment in the advanced nations. It is therefore unlikely that this approach will be adopted unilaterally. However, nations in Latin America can crucially affect prospects for targeted liberalization through their own future trade policy choices.

Preferential Treatment Within MFN Liberalization

Targeted elimination of barriers on an MFN basis has several important advantages over a system of two-tier market access. First, it is consistent with the fundamental economic rationale underlying the multilateral trade negotiations. In contrast to preferential trading, there is no efficiency loss from trade diversion.[22] Also, because improved market access is on an MFN basis, the targeting approach does not have the disadvantage of creating a pressure group of beneficiary nations opposed to future MFN liberalization. Finally, and of particular significance for Latin America, targeted liberalization does not penalize successful development with the prospect of eventual exclusion.

In making their plea for preferential access, LDC exporters argue that, in light of their less-developed status, they should not be expected to compete on equal terms with their counterparts in the industrial nations. However, there are obviously quite a few industries in which LDC comparative advantage is well established, and a growing number of developing countries able to compete over a broad range of industrial activities. In any case, the new subsidy and countervailing duty code agreed upon by the Tokyo Round participants explicitly allows individual developing countries considerable leeway to use export subsidies, which have the same potential effect on competitive margins as tariff preferences. But reliance on export subsidies would leave up to the individual exporting nations, rather than to potential importers, the designation of those sectors for which a valid infant-industry case can be made, as well as the implementation of temporary assistance in appropriate form and amount.[23] Because subsidies have a direct impact on the finances of the exporting countries, there is also a strong incentive to identify with some precision the time when a former infant industry has become a sturdy adolescent.[24] The threat of countervailing duties levied by importers provides an additional external constraint on the longevity of export subsidies.

Textiles

The most important industrial way-station on the route to economic development, textile production has figured prominently in almost every success story of export-led LDC growth. In most cases, classical comparative advantage resting upon ample supplies of cheap labor has been amplified by government assistance. As a reflection of the many success stories, the textile industry has become a depressed sector and a political problem in almost every OECD nation. Even Japan, itself quite recently the primary source of disruptive textile exports to the US and EC, has now lost its comparative advantage to newer producers.

Unwilling to cope with the domestic consequences of rapidly shifting international competitiveness, the industrial nations have protected their own markets with high tariffs and international agreements to restrict exports. Although Asian suppliers have been the major factor behind the advanced nations' seemingly insoluble adjustment problem, all major LDC exporters, including a number in Latin America, have been faced with pressure to limit exports; most are now covered by agreements with the importing nations.

The importance of textiles to LDC trade prospects is difficult to exaggerate. LDC benefits from trade liberalization on textiles alone would be almost as large as those from comparable liberalization of all other trade combined.[25] On the other hand, the exclusion of textiles from recent across-the-board MFN tariff reductions and the proliferation of nontariff protection indicate the very minimal likelihood of liberalization targeted to this sector unless importers experience unexpected and dramatic progress in coping with internal structural adjustment.

Because of the perceived importance of textile production in the development process, a proposal has been made to improve market access for the poorest and least developed nations within the structure of the Multi-Fibre

Agreement — in effect creating a three-tier trading system. In this way, proponents say, an important path of development, that is, production of labor-intensive manufacturers for export, would be reopened to "countries that need it most" (*World Development Report*, 1979). While the condition of the least developed nations deserves special concern, this proposal would extend to the internal trading system the middle-income squeeze that has become a familiar feature of social welfare systems in many of the advanced nations; the so-called "middle-income" LCDs, with per capita incomes still far below those of the advanced nations, would pay much of the price of continued high levels of protection for producers in the advanced nations. The remainder of the cost, of course, is borne by consumers "protected" from low-cost textile products.

Still, the adjustment problem in textiles is a particularly difficult one, both politically and in terms of equity. In sharp contrast to the cases of steel and autos, textile workers in the industrial nations are near the bottom of the income scale even when employed. Furthermore, because these tend to be older workers, unskilled, and disproportionately female or minority group members, the prospects for adjustment (apart from early retirement) are poor. The case of textiles thus indicates both the large potential gains from future liberalization targeted to the export interests of Latin America or of LDCs as a group and the potential obstacles. The present trade predicament in textiles may soon be reproduced for other labor-intensive manufactures.

Processing of Primary Commodities

Expansion of raw-material processing in producing nations remains a high priority issue for UNCTAD and is included among the objectives of the "Integrated Program for Commodities."[26] In the issue of processing, the producing nations' desire for higher foreign-exchange earnings from primary exports is reinforced by the potential role processing activities can play in achieving longer-run objectives of industrialization and export diversification.

Tariff escalation in the industrialized importing countries produces high effective protection rates for processing activities and, therefore, strong incentives for location of processing in the consuming nations, a point long stressed by developing nations that export raw primary commodities. However, comparative advantage depends upon such diverse factors as costs of capital, labor, and power, as well as technology, scale economies, and relative transport costs for raw and processed forms. For many commodities, tariff escalation may simply shift processing activities from one industrialized country to another. Also, even where effective protection does inhibit the location of processing in developing countries, this is largely offset by the producing countries' own policies to encourage exports of processed rather than raw primary exports.[27]

Trade policies of both industrial and developing countries together imply at most a minor bias toward location of processing in consuming countries. The major impact is to increase the final price to developed-country consumers of processed goods and thus reduce total demand. Simultaneous removal of both exporting and importing country distortions would have its primary effect on the extent of LDC processing through expansion of total demand, with only minor induced relocation of processing activities from industrial to developing countries. The estimated impact on LDC export revenues is, nevertheless, appreciable. According to one study, export revenues from agricultural primary commodities would rise by about 11 percent — an amount comparable with the trade effects of the GSP [13].

Offshore Assembly

In contrast with tariff escalation, the offshore assembly provisions (OAP) of the US tariff code *encourage* location of certain assembly activities in countries with low labor costs. Items 806.30 and 807.00 of the US tariff code provide special treatment for goods assembled abroad using US-produced components. Imports of the assembled products into the US are assessed the applicable tariff rate, but only on the value added in the foreign operation. The OAP thus reduce the protection afforded domestic assembly activities, while at the same time improving the competitive position of US producers of relevant components.

The effect of the OAP on LDC exports to the US is substantial. For Latin America, the resulting increase in the value of exports to the US exceeds that for the US GSP. Also, because the terms of access are less circumscribed, the potential for future growth may be greater, especially for the more successful exporters [9]. On the other hand, benefits are even more concentrated than under the GSP. Mexico alone accounts for more than half of total trade benefits worldwide — about $200 million in 1976 — reflecting the extensive development of "border" industry. Brazil accounted for another $13 million of expanded exports, Caribbean nations together about $24 million, with a total of about $60 million for all Latin America except Mexico [5].

Interestingly, offshore assembly provisions are rarely mentioned in discussions of LDC export prospects, despite the rather large size of total trade benefits relative to other actual or proposed measures to encourage LDC export expansion.

Agricultural Products

Although expansion of manufactured exports remains the paramont trade policy goal in most of Latin America on account of its presumed dynamic benefits in terms of industrial development, considerable *static* benefits could be derived from liberalization of remaining barriers to trade in agricultural primary commodities. A recent estimate of potential LDC benefits from liberalization of agricultural trade suggests that Latin America would capture more than half of the resulting worldwide increase in export revenues [19]. For a hypothetical 50 percent across-the-board reduction of tariff and quantifiable nontariff barriers on most OECD agricultural imports from a sample of 57 developing countries (in Latin America including Brazil, Chile, Colombia, Guatemala, Mexico, and Peru), regional export earnings would rise by nearly $1.7 *billion*, about 5 percent of total export earnings and almost 7 percent with petroleum exports excluded from the total.

Aggregate gains from an across-the-board reduction would be largest for Argentina and Brazil. However, because protection of domestic agriculture remains a high priority in the advanced nations, the prospects of major liberalization on an across-the-board basis are slender. Competing imports such as wheat, meat, sugar, and wine would almost certainly be excluded from any foreseeable liberalization scheme. Thus, the size and distribution of actual benefits to Latin America would depend upon the size of the actual cuts. Table 2 indicates the importance of various agricultural primary commodities in total exports of individual LAFTA nations.[28]

Nonfactor Services

In recent years, negotiations to liberalize trade have begun to include services along with physical goods. Trade in "invisible" nonfactor services such as shipping, travel, insurance, brokerage, and communications now constitutes a large, rapidly growing, and highly protected area of international exchange. For Latin America, total export earnings generated by nonfactor services is about one-fifth that from physical exports; total value of nonfactor services imported is about one-quarter that of physical imports. The comparable figures for the OECD countries are about one-quarter for both exports and imports, but with considerable variation around that average. The United States is an important net exporter of nonfactor services [18].

Although trade in nonfactor services is to some extent impeded by straightforward taxes, nontariff barriers — in many cases, outright prohibition of market access to foreign suppliers — are a much more important feature of overall protection than is the case of goods. While UNCTAD has called upon the developed countries to eliminate their policies restricting trade in services, the nations of Latin America themselves impose significant barriers in virtually every area of trade in services. Because developing nations are likely to have a comparative advantage in those services utilizing relatively unskilled labor — for example, transport — while the US and other advanced nations have a clear comparative advantage in those services utilizing highly skilled labor — for example, financial services — there is potential for reciprocal elimination of some barriers. Of course, the infant industry argument within Latin America and the political problem of sensitive sectors in the industrial nations does, just as in the case of trade in physical goods, circumscribe the mutual gains easily achieved in this area.

Policy Choices for Latin America

The foregoing discussion has stressed potential gains to Latin America from MFN trade liberalization targeted to regional export interests. However, the idea of giving priority in international negotiations to MFN reduction of trade barriers especially affecting LDC exporters is hardly a new one. A major reason for the present emphasis by developing nations on preferential access is that the various rounds of trade negotiations have made little headway in cutting MFN tariffs on goods of greatest interest to LDC exporters, and major markets are now increasingly protected by nontariff as well as tariff barriers.[29] Although the new codes agreed upon in the Tokyo Round may help to moderate this trend, a dramatic reduction in the use of nontariff protection by the industrial nations seems unlikely for the near future.[30]

While the implications for LDC export prospects of increased protectionism in the industrial nations have been widely discussed, much less has been said about the developing countries' options with regard to influencing future trade policy developments. Even if most LDC markets are still too small to permit effective bargaining on an individual basis, Latin America as a whole represents an important and rapidly growing market for the exports of the industrial nations, one hard to ignore in the bargaining process. From a somewhat different perspective, future trade policy choices in Latin America could either promote adjustment in the US and other industrial nations by encouraging growth of their exports to Latin America along lines of present comparative advantage, or could aggravate current adjustment problems by closing off export opportunities.

Reciprocity

Neither preferential access under the GSP nor targeted elimination of barriers on an MFN basis has been a major factor determining the growth and direction of exports from Latin America. In part, this is because trade policy is rather far down on the list of the determinants of export growth. However, there are certainly some trade barriers that *do* significantly limit current and potential export growth. Of these, the pervasive restraints on trade in textiles are the most egregious example.

The failure of Latin America to achieve desired improvements in market access is explained in part by the largely passive role LDCs have chosen to play in past trade negotiations. In the GATT, LDCs have been allowed to benefit from negotiated tariff reductions without making their own reciprocal concessions. As a result, there has been little attempt to exercise the substantive collective bargaining power of the developing nations as present and potential importers. The active negotiators — the industrial nations — have quite naturally concentrated their efforts on the barriers of greatest importance to themselves.

Under the GATT rules, developed contracting parties do not expect reciprocity for commitments made by them with regard to reducing barriers to imports from developing countries. The original rationale for this exemption was that high tariffs were required to protect infant industries and that, therefore, the LDCs had nothing to offer in return for concessions of the industrial nations [7]. Now that import-substitution no longer dominates the industrialization strategies of the developing nations, this justification has become obsolete.[31]

Another reason developing nations have remained on the sidelines of past negotiations is that they do not fit well into the reciprocal bargaining process which has evolved within the GATT. Importers offering tariff concessions typically negotiate with the principal supplier of the relevant product, rarely a developing country. However, mutually profitable agreements could surely be reached along different lines. The nations of Latin America have a long tradition of combining forces to achieve desired economic ends, and the collective importance of these nations as suppliers and as importers is considerable — sufficient in any case to justify their active participation in the bargaining process.[32]

One further objection raised with respect to including LDCs in the reciprocal bargaining process is that these nations are plagued with persistent balance of payments problems, especially since 1973 for oil-importing nations. Import restrictions are therefore required, it is argued, for balance of payments purposes. Benefits to developed exporters from LDC reciprocal tariff reductions would be mainly illusory, offset by other forms of open or disguised import restriction such as exchange controls [5]. This argument would have more force if nations in Latin America dealt with their balance of payments problems through a uniform tariff on imports. Of course this is not the case. A number of industries are highly protected even relative to the usually high average.

With their own producers eager to retain or increase protection from imports, the industrial nations have been understandably slow to offer unilateral targeted tariff cuts, and rapid shifts in international comparative advantage in recent years continue to strengthen protectionist pressures. A quid pro quo in the form of enhanced export possibilities for the industrial nations could go far toward shifting the internal political balance on trade policy issues of interest to Latin America. And, given the region's rapid growth rates, potentially important reciprocal concessions could in many cases be accommodated without displacing domestic producers.

Intra-Latin Trade

In light of current protectionist trends in the industrial nations, increasing attention is now focused upon the prospects for increasing Latin-American exports to other markets. As already noted, exports to two nontraditional markets — OPEC and the Soviet Bloc — have grown rapidly in recent years. While trade policy may have some role to play in determining the future growth of Latin-American sales in these markets, the critical factor is likely to be the importers' perceptions of exporters' political independence from the US. By far the most important alternative market, in terms both of current export levels and of future growth potential, is Latin America itself. Latin America has become its own best customer for the manufactured exports essential to export-led industrial development and, since high tariff and nontariff barriers still protect most Latin-American markets for manufactured goods, there is considerable scope for enhancing this trend.

Growth of intra-Latin trade could be encouraged either through discriminatory reduction of trade barriers (most likely on a regional basis, where there is ample precedent of intent, if not achievement) or through MFN reductions. To the extent that these are viewed as alternative policies to foster export expansion, an important question is whether export growth resulting from preferential trading arrangements would yield the same dynamic benefits as trade increased under MFN access. If dynamic benefits mainly reflect such considerations as scale economies, learning by doing, and increased competition, expanded trade on a preferential basis within Latin America would have developmental consequences comparable with those of increased MFN exports. But to the extent that gains from expanded trade and associated efficiency of new investments depend upon the neoclassical determinants of comparative advantage — differences in factor abundance across trading countries — expansion of trade on a preferential basis would yield smaller benefits than the same growth in MFN trade [14].

The two options should also be assessed in terms of the domestic and international politics of trade liberalization. The nations of Latin America are likely to accept deeper cuts in protection within a regional preference scheme than would be economically or politically acceptable on an MFN basis. Large MFN cuts would mean direct competition with industrial exports of the advanced nations. If these suppliers captured major shares of newly liberalized markets, the positions of domestic infant industries could be imperiled. But similar considerations also limit the scope of preferential trade agreements among developing countries that differ significantly in stage of industrial development. The formation of the Andean Group within LAFTA reflected this concern.

Potential trade benefits to Latin America from preferential agreements include substantial diversion of trade from excluded suppliers, especially those in the industrial nations. A further movement toward preferential trade within Latin America would thus be costly to export interests elsewhere, particularly to the US, and could exacerbate the protectionist pressures there. In contrast, a commitment to broad MFN liberalization by nations in Latin America would be an important lever in future trade negotiations and could be used to obtain reciprocal concessions from these potential importers.

While these arguments suggest that MFN liberalization is preferable to further regional integration efforts, the two avenues for market expansion may be viewed as complements rather than as alternatives. Liberalization on a regional basis might yield sufficient dynamic gains to support eventual reductions of many MFN barriers. At the same time, an economically integrated Latin America would also facilitate effective bargaining in future bilateral and multilateral trade negotiations with the advanced nations.[33]

NOTES

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1. Evidence on export-led growth has been evaluated succinctly by Anne O. Krueger [14]. For a guide to recent literature on trade policy and development, see [4].
2. John S. Odell [16] has emphasized the political *cost* to the US of closing domestic markets to exports from Latin America. In some cases, the Department of State has allied itself with exporting nations opposing such measures as countervailing duties.
3. William R. Cline [6] has summarized the costs and benefits of proposals made in recent years. While trade liberalization should improve worldwide economic efficiency, there is the possibility of adverse terms-of-trade movements and the certainty of short-run sectoral adjustment problems for the liberalizing countries.
4. Fractions are of total Latin-American trade, including Caribbean nations, unless otherwise indicated. For data sources, see notes to tables.
5. Growth rates computed from nominal export values in *World Development Report, 1979*, Table 12
6. On the relative importance of Latin-American nations in the world markets for individual agricultural exports, see [19].
7. The use of export market shares eliminates most of the effect of business cycles in the importing countries. Total LDC imports, rather than total imports, is used to reduce the effect of compositional shifts.
8. The effects of the GSP on exports from Latin America are discussed in the second section of this paper. The various schemes are described briefly in *IMF Survey*, 4 July 1977. On the background of the GSP issue, see [15].
9. The LAFTA total is used here because Caribbean exporters may have benefited from special ties to the EC, as described later.
10. On the Lome Agreement and other EC preferential arrangements potentially disadvantageous to competing Latin-American exporters, see *IMF Survey*, 4 July 1977. Somewhat more restricted preferences were available to a smaller group of nations under earlier bilateral agreements and the Yaounde Conventions of 1963 and 1969.
11. Over the longer run, regional integration may influence the location of new investment within the group of member nations, thus spurring growth by increasing the social return to investment. In the case of LAFTA, there is little evidence that this has occurred.

12. It should be recognized, however, that the MFN principle was already subject to many major exceptions. See [7].

13. Of course, as long as any protection remains, competition is on unequal terms with domestic producers in the importing nations.

14. The degree to which this happens depends upon the details of implementation as well as the competitiveness of the markets in which goods are traded. See [15] on the EC scheme.

15. In reality, comparative advantage is often supplemented by government export incentives.

16. Japan and the EC also restrict, through somewhat different means, preferential access for the group of "troublesome" LDC exports that are already internationally competitive.

17. In fact, potential opposition to future MFN tariff reductions on the part of LDCs had been used by some critics of the GSP principle as an argument against its acceptance by members of the GATT. On the other hand, there is no evidence that actual Tokyo Round offers of the major nations were in any way influenced by the possible erosion of GSP benefits.

18. [17]. The OAS estimates are based on a methodology developed by Robert E. Baldwin and Tracy Murray [3]. Peter J. Ginman, Thomas A. Pugel, and Ingo Walter [11] assert that this approach leads to systematic understatement of GSP erosion. Their own estimates indicate a drop in total exports to be the likely outcome.

19. As noted previously with respect to the GSP, so-called trade benefits of MFN tariff reductions refer to the induced change in total exports to the US market, a definition that differs from the one usually used in empirical estimates of static gains from trade liberalization. The Baldwin-Murray approach does not allow for terms-of-trade gains to exporters.

20. Very rough order-of-magnitude calculations of the net effects of MFN tariff reductions by the EC and Japan on exports from Latin America were prepared by the OAS from UNCTAD data for all LDCs as a group. These indicate resulting net increases in the value of exports to the EC and to Japan of about one-half and one-third, respectively, the gain in exports to the US. The UNCTAD data do not provide a country-by-country breakdown of benefits, but it is reasonable to assume substantial variation across countries, as in the US case.

21. Brazil and Uruguay have been parties to a number of trade disputes with the US on subsidies to industrial exports [16]. The other countries represented in a number of disputes — and on that account likely to sign — were Argentina and Mexico.

22. In principle, there could be a conflict between harmonization and the targeting approach. In the case of advanced nation protection against LDC imports, however, both point in the same direction.

25. Under the GSP, the margin of preference and, hence, the incentive for export expansion, will be the same for every country for any given item. However, there is no reason to believe that the best sectors to lead an export push will be the same in every country.

24. However, for an import-competing infant industry, fiscal incentives favor perpetuation.

25. [6]. Asian LDCs account for the largest portion of the aggregate potential gains, although the benefits to Latin America would also be substantial.

26. The major, and most highly publicized, aspect of this program is the proposed creation of buffer stocks financed by a "common fund." The implications are discussed in the paper by J. R. Behrman, F. G. Adams, and M. Lasaga for this conference.

27. One example in Latin America is Brazil's use of an export tax on coffee beans but not on (processed) soluble coffee.

28. Reduction of barriers to agricultural trade would tend to reduce prices to consumers and producers in the liberalizing countries and raise them in all other markets. Thus, major OECD liberalization would have important redistributive effects both internationally, between exporters and importers, and within nations. For Latin America, aggregate agricultural imports are small relative to exports, so that terms of trade gains would be experienced for the region. However, prices to consumers of food and other agricultural commodities would typically be higher, causing regressive internal redistribution unless offset through other policies.

29. However, Bela Balassa [1] has presented evidence suggesting that this trend may have been arrested or even reversed since early 1978.

30. In the case of safeguards, no code has been concluded.

31. In fact, some developing nations have found import liberalization a necessary step in achieving the productive efficiency required to make export industries internationally competitive. Stronger external pressure to liberalize existing barriers on a reciprocal basis could thus actually promote development goals by defusing domestic opposition to necessary trade reforms. This effect appears to have been significant in the industrial nations.

32. Thomas B. Birnberg [5] calculated that only two nations in Latin America, Mexico and Brazil, would receive sufficiently large trade benefits from US tariff liberalization to justify a US request for reciprocal liberalization. Nations in Latin America that actually made tariff concessions in the Toyko Round included Argentina, Jamaica, Brazil, Chile, the Dominican Republic, Haiti, Peru, and Uruguay (*IMF Survey*, 10 December 1979). This suggests that the benefits of reciprocal bargaining have already begun to be perceived.

33. The history of the European Community provides some support for this optimistic assessment.

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Comment on "Gains to Latin America from Trade Liberalization in Developed and Developing Nations"

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From a timeless perspective, it is hard to disagree with the general conclusion of the paper that Latin America would be better off pressing for MFN trade concessions than for preferential trading arrangements.

However, the choice is not with Latin America. Current emphasis on export growth in the region is not geared at accumulating foreign reserves, but rather at generating foreign exchange to pay for additional imports. Latin-American trade reciprocity is already implicit in current export drive efforts. Trade liberalization should advance in Latin America as exports prospects brighten and the balance of payments improves.

The choice of preferential trading under these conditions will be imposed on Latin America from the outside. If there is a recession in the industrial world and/or "new protectionism" goes unabated, Latin-American countries like European nations in the 1950s will have no alternative but that of trading among themselves. History teaches that Latin American countries may have on occasion overreacted to external shocks, but seldom attempted on their own to isolate themselves from the rest of the world.

McCulloch criticizes past Latin-American attempts to achieve market access to industrial countries (which are found to be "the markets of the past"), while neglecting the Soviet Union, OPEC countries, and Latin America itself (which are identified as "the markets of the future"). But then she goes on to criticize Latin-American integration efforts and other preferential trading arrangements. Her proposals for the future are mostly directed towards "the markets of the past." Her alternatives for new trade-creating arrangements among Latin-American countries and with the Soviet Union and OPEC countries are left undefined.

In this context, her proposals sound like a nostalgic return to the GATT of the 1960s, as Ray Vernon has pointed out. The clock will not turn back, but history has some lessons to teach. Maybe the time has come to put GATT and UNCTAD under the same roof, in an updated version of the International Trade Organization, the constitution of which was aborted by the US Congress in the late 1940s. Freer trade between Latin America and the industrial world might be less of a dream in an institutional context where other themes of interest are negotiated, such as stabilization of commodities markets, codes of technology transfer, codes of conduct for TNCs, and financing procedures for import dislocation costs.

Last but not least, it is surprising and disappointing to notice that in this paper one cannot find one single reference to the most discriminatory US trade policy measure faced by a Latin-American country, namely, the long-standing American trade embargo against Cuba. Memory falters when the legitimacy of the powerful is at stake.