

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: The United States in the World Economy

Volume Author/Editor: Martin Feldstein, editor

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-24077-0

Volume URL: <http://www.nber.org/books/feld88-1>

Publication Date: 1988

Chapter Title: The United States and Foreign Competition in Latin America

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Chapter URL: <http://www.nber.org/chapters/c6218>

Chapter pages in book: (p. 9 - 77)

1 The United States and Foreign Competition in Latin America

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1. *Sebastian Edwards*

1.1 Introduction

This paper analyzes the role of the United States in the development of Latin America's international trade relations. In particular the paper investigates the behavior of trade flows between the United States and the Latin American nations in the last fifteen years or so, and analyzes the possible path these trade relations will take in the future. In doing this, I place special emphasis on any possible changes in the directions of trade in Latin America, scrutinizing whether there has been, or will possibly be, a significant increase in south-south trade, and if new trade partners such as Japan and the newly industrialized countries of Southeast Asia have displaced the more traditional Latin American trade partners (i.e., the United States). The paper also deals with issues related to direct investment in Latin America, comparing the importance of the United States and other nations. Finally, I also discuss the role of international trade in the solution to the current Latin American debt crisis and in the resumption of sustained growth in the region. An important, indeed crucial, issue relates to the future evolution of the current protectionist mood in the United States and much of the developed world.

As we enter the final years of the 1980s, policy issues related to the volume and direction of U.S. international trade have become increasingly important. In particular, a number of special interest lobbies have argued with alarming insistence that the "increased competition" by other countries to capture foreign markets and unfair trade practices,

such as dumping and export subsidy schemes not sanctioned by the GATT (General Agreement on Tariffs and Trade), have been responsible for the mounting trade deficits and for the "loss of jobs" in the United States. Several important questions emerge here: First, what is meant exactly by "loss of U.S. international competitiveness"? Second, given an answer to the first question, has the United States indeed lost competitiveness? Third, what are the future prospects for U.S. trade relations? And finally, what and to whom will the United States export in the future, and from which countries will U.S. imports come? The present paper deals with these questions from the perspective of the U.S. trade relations with Latin America.

The evolution of the volume and direction of trade is also of paramount importance for the Latin American countries. In the early 1980s, after two decades of sustained economic growth averaging approximately 6 percent per annum, Latin America entered a period of severe adjustment. The need for this adjustment resulted, to a large extent, from a series of major shocks—both exogenous and policy induced—that greatly disturbed the region's economy. The principal exogenous shocks were the oil price increases of 1973–74 and 1979–80, the drastic deterioration of the terms of trade experienced after 1980, and the steep rise of world interest rates in 1980–82 which provoked a major increase in the debt service burden. At the policy level, the substantial increases in government expenditure and fiscal deficits and the economic liberalization reforms attempted by some of these countries, as well as general and very significant increases in external indebtedness, constituted the most important events. Some countries went from being highly praised "economic miracles" to "international pariahs." Others, which in the mid- to late 1970s were flooded with abundant foreign exchange—obtained mainly through the exportation of petroleum—have experienced severe difficulties servicing their foreign debt. The region is at this moment still struggling to overcome its worst recession since the 1930s. As it slowly emerges from the crisis, it finds a substantial portion of its export earnings mortgaged for the foreseeable future to service the accumulated external debt and a general scarcity of additional external funds.

There is little doubt that a permanent solution to Latin America's current crisis and the resumption of sustained growth will require a major effort to increase exports and to enhance the role of the external sector as a source of foreign exchange earnings. In that regard, it is especially important to determine whether the Latin American countries' efforts to increase their exports will be frustrated by protectionist policies implemented by the industrialized nations. Indeed, the Latin American countries' efforts to adjust and put the crisis behind them would receive a severe blow if the current protectionist lobby scores

victories in the United States and European countries. Increased protectionism could take two forms: the enactment of protective legislation or the stepping up of the already significant nontariff barriers existing in these countries.

Some of the sections of this paper are largely descriptive; this has been deliberate since an important purpose of this study is to scrutinize the data and to document and interpret the recent history of the Latin American trade relations with the United States. In spite of the descriptive tone of some sections, the paper as a whole makes a number of analytical points related to the nature of these external relations. Section 1.2 discusses some of the main current characteristics of the Latin American economies as well as the way in which the region's external sector policies have evolved. Section 1.3 deals with Latin American imports; it investigates the recent behavior of the region's degree of openness, aggregate imports, and origin of imports at the disaggregated level. In this section I show that much of the region's effort to cope with the debt crisis has been translated into a substantial drop in the real value of imports. This section contains massive amounts of data on how much, what, and from whom sixteen Latin American countries import. Emphasis is placed on analyzing the evolution of the U.S. share of the value of Latin America's imports and the changing composition of the region's imports from the United States. I show here that when the constant-market-share criterion is used, there is no support for the contention of a recent loss of aggregate U.S. competitiveness in Latin America. The data, however, do show that there has been a change in the composition of Latin America's imports from the United States. The share of traditional manufacturing has declined, while primary products and technology-intensive manufactures have experienced an increased presence among the region's imports.

Section 1.4 deals with Latin America's exports and investigates their recent behavior and composition. It shows that in spite of a series of corrective measures taken by these countries since the debt crisis, for the region as a whole the recent evolution of the (real) value of exports has been very disappointing. An important issue analyzed in this section is related to the role of protectionism in the industrialized countries on the possible access of Latin American products to those markets. Using recent data on nontariff barriers, I show that the extent of these nontariff impediments to trade is much more generalized than previously thought. I then argue that only to the extent that a drastic change occurs in the protectionist mood in the industrial world will it be possible for Latin America's trade to gain in prominence.

Section 1.5 deals with commercial policy and protectionism in Latin America. Here I show how in the late 1960s and 1970s, after the heyday of the import substitution development strategy, most of the Latin

American countries slowly began to reduce their impediments to trade. This trend, which was particularly marked in the Southern Cone countries in the late 1970s, was reversed in the 1980s when, as a consequence of the debt crisis, most of these countries resorted to the imposition of controls to reduce imports. In this section I also discuss the role of nontariff barriers in Latin America. Section 1.6 deals with exchange rate policies. Here two main issues are addressed. First, I look at the behavior of real exchange rates in these nations and argue that the fairly generalized tendency toward overvaluation in the late 1970s and early 1980s greatly contributed to the poor behavior of the region's external sector. Second, I point out how the existence of multiple nominal exchange rates and of pervasive parallel markets for foreign exchange have played an important protective role in these countries. Section 1.7 deals with direct investment. Here I analyze the historical evidence and argue that in the next few years direct investment will probably be one of the more important sources of external financing that these countries will have. This, of course, will require some creative rethinking of the current regional policy on direct foreign investment and related issues. Finally, section 1.8 deals with the possible future evolution of U.S.–Latin American trade relations and contains the concluding remarks.

1.2 The Latin American Economies: A Brief Overview

Table 1.1 contains data on a number of economic indicators for sixteen Latin American countries.¹ There are very marked differences across the countries of the region in terms of income per capita, recent growth performance, and inflation, which of course makes generalizations difficult. In fact there is no such thing as “the representative” Latin American country. Therefore my analysis generally provides data on only these sixteen countries.

Although today the countries of Latin America are economically diverse and stand at different junctions of their development paths, they share a common evolution of their policies toward the external sector. In the rest of this section, and to put things in perspective, I provide a brief description of the role of the external sector in the development of the Latin American countries.

1.2.1 Latin American Development and External Sector Policies

Until the 1930s the external sector in the great majority of the Latin American countries was highly opened; exchange controls were almost nonexistent, import tariffs were low, and the “rules of the game” were strictly followed. The Great Depression, with its devastating effect on

Table 1.1 Basic Indicators for Selected Latin American Countries

	GNP per Capita 1984 (1984 US\$)	Average Rate Growth GDP (%)		Average Yearly Inflation 1973-84 (%)	1984 Total Long- Term Gross Foreign Debt as % GNP	Manufacturing Production as % GDP 1984
		1965-73	1973-84			
Upper middle income	2,230	4.3	0.4	180.8	46.8	30
Argentina	1,720	9.8	4.4	71.4	44.0	27
Brazil	1,700	3.4	2.7	75.4	100.2	21
Chile	2,040	7.9	5.1	31.5	54.2	24
Mexico	1,980	1.2	2.0	50.0	54.5	n.a.
Uruguay	3,410	5.1	1.9	11.7	52.7	18
Venezuela						
Middle income	1,390	6.4	3.7	23.8	25.7	18
Colombia	1,240	5.1	7.5	12.9	36.2	17
Paraguay	1,190	7.1	2.8	24.1	114.0	n.a.
Costa Rica	1,160	6.0	3.1	9.4	7.0	n.a.
Guatemala	1,150	7.2	4.8	17.8	75.1	19
Ecuador	1,000	3.5	1.5	56.7	162.0	25
Peru						
Lower income	860	3.9	-1.1	13.0	7.0	25
Nicaragua	710	4.4	-0.3	11.3	9.0	16
El Salvador	700	4.5	3.8	8.6	4.0	15
Honduras	540	4.4	0.8	54.5	n.a.	20
Bolivia						

Source: World Bank.

the region's economies, put an end to all of that; it marked the beginning of an epoch of import substitution and protectionism.²

During the 1950s and 1960s, under the intellectual leadership of the United Nations Economic Commission for Latin America (ECLA), and its charismatic secretary general Raul Prebisch, most of the Latin American countries embarked on ambitious industrialization programs based on import substitution. This strategy was based on the idea that high import tariffs and other impediments to international trade would provide temporary protection to the local industries and help them develop. In theory, after some time the domestic firms would have "learned" and protection would no longer be necessary (Prebisch 1984). Things did not work out as predicted by the theory, however, and protection became a permanent feature in the region. As a result, in most of these countries the industrial sector that was developed under the barriers of protection was largely inefficient, using highly capital-intensive techniques (Krueger 1983).

During the 1950s and first half of the 1960s it became apparent that the import substitution strategy was losing dynamism. Although the easier and more obvious imports had already been substituted, these countries remained highly "dependent" on imported intermediate inputs and capital goods. At the same time the highly overvalued domestic currencies conspired against the development of a dynamic export sector, with the consequent scarcity of foreign exchange.³

During the late 1960s a reaction against excessive protectionism started to take place, and a number of countries—Colombia being the premier example—moved toward export promotion schemes (Diaz-Alejandro 1976). Also during this period some serious efforts were made to create common markets comprising subgroups of Latin American countries. In that respect the creation of the Andean group and the Central American Common Market were particularly important. Although in some regards these integrationist schemes were successful, they did not turn around the region's economies, and in many cases the external sector—and the excessive protectionism—was still seen as the "weak link" by most analysts (see Blejer 1984).

During the second half of the 1970s a fairly generalized recognition of the benefits of export promotion had developed, and most countries tended to rationalize their external sector. In the countries of the Southern Cone (Argentina, Chile, and Uruguay), massive reforms aimed at opening up these economies were implemented: tariffs were reduced, and exchange controls disappeared. After an initial successful period, these opening reforms faltered, and in the early 1980s these countries entered into a major recession, as did the rest of Latin America.⁴ The 1980 crisis forced the Latin American countries to greatly reduce their imports and to improve their current account balances. As discussed

in section 1.5, most countries resorted to increased import controls in their attempts to improve their foreign accounts.

1.3 The Structure and Evolution of Imports in Latin America

This section analyzes the recent evolution of imports in Latin America, placing special emphasis on the role of the United States as a trade partner. An important question addressed here is whether the available data show any trend in the value of Latin America's imports from the United States. The analysis focuses on three important aspects of this problem. We first look at the historical evaluation of the dollar value of international trade (imports and exports) in Latin America. Second, we analyze the evolution of the degree of openness of the countries in the region, and we also look in detail at the behavior of the trade and current account balances. And third, we analyze the distribution of Latin American imports both across countries and across productive sectors, looking in detail at the United States' and other countries' shares of the value of Latin American imports.

1.3.1 Imports, Exports, and the Degree of Openness

Tables 1.2 and 1.3 contain data on the dollar value of imports and exports for fourteen Latin American countries between 1965 and 1985. In table 1.4 the current account balances for these countries are presented. Table 1.5 presents the evolution of indicators of openness defined as the ratio of total trade—imports *plus* exports—to GDP.

Table 1.2 on imports is extremely revealing, showing that for most countries the (nominal) dollar value of imports peaked between 1980 and 1982, only to experience a dramatic fall in the years following the eruption of the debt crisis. In every single country the (nominal) dollar value of imports in 1985 was well below its 1980 level. For these fourteen countries as a whole the (nominal) dollar value of imports was, in 1985, 36 percent below its 1980 value. Moreover, when expressed in real dollar terms, 1985 total imports are 45 percent below their 1980 value.⁵ Of course, this mainly reflects the reduction in imports required by the adjustment programs implemented by these countries after the 1982 debt crisis.⁶ Table 1.3 on the value of exports also reflects the effects of the adjustment programs. In a number of these countries—Argentina, Brazil, Ecuador, and Mexico—the value of exports was in 1985 significantly above its 1980 value. This was achieved in spite of the fact that for most of the countries in the region the international prices of their exports declined substantially during the period (see section 1.4).

Table 1.2 Evolution of Imports in Selected Latin American Countries, 1965–85 (millions of U.S. dollars)

	1965	1970	1975	1980	1982	1983	1984	1985
Argentina	1,199	1,694	3,946	10,541	5,337	4,504	4,585	3,814
Bolivia	134	159	575	678	578	545	474	582
Brazil	1,096	2,849	13,592	24,961	21,069	16,801	15,210	14,346
Chile	604	941	1,338	5,123	3,528	2,968	3,191	2,742
Columbia	454	843	1,495	4,663	5,478	4,968	4,498	4,141
Costa Rica	178	317	694	1,540	889	988	1,094	1,098
Dominican Republic	97	304	889	1,640	1,444	1,471	1,446	1,487
Ecuador	151	274	987	2,253	1,989	1,465	1,716	1,606
Guatemala	229	284	733	1,598	1,388	1,135	1,277	1,175
Mexico	1,560	2,461	6,571	19,460	15,127	8,023	11,788	13,994
Panama	208	357	892	1,449	1,569	1,412	1,984	1,423
Peru	729	622	2,551	2,500	3,601	2,548	2,212	1,835
Uruguay	151	231	557	1,680	1,110	788	777	788
Venezuela	1,393	1,869	6,004	11,827	12,944	8,709	7,594	8,178

Source: International Monetary Fund.

Table 1.3 Evolution of Exports in Selected Latin American Countries, 1965–85 (millions of U.S. dollars)

	1965	1970	1975	1980	1982	1983	1984	1985
Argentina	1,493	1,773	2,961	8,021	7,624	7,836	8,107	8,396
Bolivia	n.a.	190	444	942	828	755	725	673
Brazil	1,596	2,739	8,670	20,132	20,175	21,899	27,005	25,639
Chile	637	1,248	1,552	4,671	3,710	3,836	3,657	3,797
Colombia	539	736	1,465	3,945	3,095	3,080	3,461	3,551
Costa Rica	112	231	493	1,002	870	882	1,006	962
Dominican Republic	126	249	894	961	767	785	868	735
Ecuador	164	190	974	2,481	2,128	2,224	2,583	2,905
Guatemala	187	298	641	1,557	1,153	1,180	1,127	—
Mexico	1,120	1,403	2,904	15,570	21,214	21,818	24,407	22,108
Panama	79	110	286	361	375	321	276	335
Peru	685	1,034	1,291	3,898	3,293	3,015	3,147	2,966
Uruguay	191	233	384	1,059	1,023	1,045	925	855
Venezuela	2,455	2,627	8,800	19,221	16,499	15,159	13,971	12,272

Source: International Monetary Fund.

Table 1.4 **Current Account Balance in Selected Latin American Countries, 1965–85 (millions of U.S. dollars)**

	1965	1970	1975	1980	1982	1983	1984	1985
Argentina	222	- 163	- 1,287	- 4,774	- 2,353	- 2,436	- 2,495	- 954
Bolivia	- 24	4	- 130	- 118	- 94	- 151	- 179	- 282
Brazil	284	- 837	- 7,008	- 12,806	- 16,312	- 6,837	42	- 273
Chile	- 43	- 91	- 490	- 1,971	- 2,304	- 1,117	- 2,060	- 1,307
Colombia	- 21	- 293	- 172	- 206	- 3,054	- 3,003	- 1,401	- 1,390
Costa Rica	- 68	- 74	- 218	- 664	- 278	- 317	- 253	- 374
Dominican Republic	43	- 102	- 73	- 671	- 443	- 418	- 163	n.a.
Ecuador	- 19	- 113	- 220	- 642	- 1,195	- 104	- 248	- 85
Guatemala	- 35	- 8	- 66	- 163	- 399	- 224	- 377	- 246
Mexico	- 352	- 1,068	- 4,042	- 8,162	- 6,218	5,328	3,966	540
Panama	- 100	- 64	- 169	- 311	- 51	247	- 70	21
Peru	—	- 22	- 1,541	62	- 1,612	- 875	- 223	53
Uruguay	72	- 45	- 190	- 709	- 235	- 60	- 124	- 108.1
Venezuela	35	- 104	2,171	4,728	- 4,246	4,427	5,418	2,923

Source: International Monetary Fund.

Table 1.4 on the current account balances also vividly portrays the impact of the crisis on the region's external sector and the substantial efforts the region has made to adjust to the new post-1982 reality. In eleven of the fourteen countries, the current account balance experienced a substantial improvement between 1980 and 1985. Moreover, five of these countries—Argentina, Brazil, Chile, Mexico, and Uruguay—turned trade deficits into fairly large trade surpluses during this period.

Table 1.5 contains data on an indicator of these economies' degree of openness: the ratio of total trade (imports *plus* exports) to GDP. Although the behavior of this index differs from country to country, it is still possible to draw some general pattern of behavior. According to this index there was a fairly significant increase in the degree of openness in the 1970s. This general move toward greater openness is revealed both when 1975 is compared with 1970 and when 1980 is compared with 1970. For example, between 1970 and 1975 the index of total trade to GDP experienced significant increases in twelve of the thirteen countries that have data. During this period, in nine out of the thirteen countries that have data the ratio of total trade to GDP increased by at least five percentage points, and in two other countries it increased by more than two percentage points. Only in the cases of Bolivia and Costa Rica did this index decline. Moreover, the ratio of

Table 1.5 Openness Index in Selected Latin American Countries, 1965–85

	1965	1970	1975	1980	1985
Argentina	—	—	33.8	12.8	18.4 ^a
Bolivia	40.2	33.6	41.4	30.9	14.6 ^b
Brazil	12.5	13.7	19.3	21.0	20.2 ^b
Chile	18.6	29.2	61.1	35.5	38.0
Colombia	22.0	22.5	23.8	27.2	21.0
Costa Rica	48.9	55.6	60.5	52.6	56.8
Dominican Republic	23.3	37.2	49.5	39.2	47.7
Ecuador	28.6	33.1	45.5	40.3	33.4 ^b
Guatemala	31.3	30.6	37.1	40.0	25.6 ^b
Mexico	13.0	10.9	10.81	18.9	13.3
Panama	43.6	45.7	64.0	50.8	37.4
Peru	33.0	26.6	31.4	41.9	31.6 ^b
Uruguay	34.8	19.3	29.3	29.0	34.8 ^b
Venezuela	45.2	38.3	53.7	52.4	51.6 ^b

Note: This index was constructed as the ratio of total trade (imports plus exports) to GDP.

Source: Constructed from data from the International Monetary Fund.

^a1983.

^b1984.

imports to GDP tells very much the same story. Only for the cases of Bolivia, Costa Rica, and Ecuador did it decline between 1970 and 1980.⁷ Generally speaking the available evidence strongly indicates that the 1970s was a decade where most of the nations of Latin America became more open to the rest of the world. In fact, as shown in section 1.5, this openness is reflected in the evolution of the level of import tariffs and other impediments to trade during this period.

As table 1.5 clearly shows, during the first half of the 1980s the trend toward greater openness was drastically reversed, with the openness index exhibiting a sharp drop for most countries. This, of course, was partially the consequence of the crisis and adjustment policies that required a significant cut in imports. Table 1.5 shows that in the case of the total trade ratio, in nine of the fourteen countries there was a decline between 1980 and 1985.⁸ The imports ratios also experienced significant declines in twelve of the fourteen countries; in most of these countries the 1985 imports ratios were significantly below their 1970 and 1975 values.

1.3.2 The Composition of Imports

In this section we look at the evolution of different countries' shares of the value of Latin America's imports both at an aggregate and disaggregate level. This analysis is particularly important to assess whether the United States has experienced a loss in its competitive position in the region. In fact, according to the so-called constant-market-share criterion, a country's degree of competitiveness in a particular market will remain constant (decrease) if its share of that region's imports remains constant (decreases).⁹ However, the discussion that follows should be interpreted with some caution, since these are shares of the U.S. dollar value of imports and are thus influenced by changes in the real value of the dollar. In particular, a real appreciation of the dollar will result in an increase in these market shares, even if the *quantities* imported from the United States and other countries remain constant. Naturally, a real depreciation of the dollar will have the opposite effect: it will decrease the market shares even if quantities imported are not affected.¹⁰ In spite of this shortcoming, however, the analysis of the evolution of market shares is revealing. Moreover, these shares are the only indicators on the distribution of Latin American imports that can be constructed with the available data.

Aggregate Trends

Tables 1.6, 1.7, and 1.8 contain data on the percentage distribution of the value of imports for sixteen Latin American countries for 1977–85. These data give us information on what fraction of the U.S. dollar value of each of these countries' imports came from industrialized

Table 1.6 Upper-Income Latin American Countries: Distribution of Total Imports by Origin, 1977-85 (percentage)

	1977	1978	1979	1980	1981	1982	1983	1984	1985
<i>Argentina</i>									
From:									
Industrialized	65.8	67.5	65.0	68.2	69.1	62.8	65.0	58.1	62.7
U.S.	18.8	18.6	21.1	22.6	22.2	35.1	20.2	18.5	17.5
Japan	—	—	—	—	—	12.8	6.7	8.2	6.6
Oil exporting	5.9	2.4	3.0	5.6	4.5	3.3	.7	n.a.	n.a.
Non-oil LDCs	26.5	27.1	30.2	24.6	24.4	32.2	33.2	n.a.	n.a.
<i>Brazil</i>									
From:									
Industrialized	53.4	56.1	48.9	46.6	41.8	38.6	38.5	39.7	46.7
U.S.	19.6	21.1	18.3	18.6	16.3	15.0	15.6	16.6	21.2
Japan	7.1	8.9	6.0	4.8	5.7	4.6	3.7	4.0	4.4
Oil exporting	30.2	29.1	33.1	36.4	41.4	41.9	40.9	n.a.	n.a.
Non-oil LDCs	14.8	13.4	16.9	16.0	15.8	17.2	17.4	n.a.	n.a.
<i>Chile</i>									
From:									
Industrialized	53.4	57.4	54.2	60.1	60.7	57.0	50.1	52.2	52.1
U.S.	20.5	27.0	22.6	28.5	25.6	26.0	25.5	21.5	21.1
Japan	11.0	7.5	7.6	7.2	10.6	6.5	5.9	9.0	6.0
Oil exporting	13.7	10.3	12.7	5.2	7.6	7.7	11.3	n.a.	n.a.
Non-oil LDCs	31.8	28.5	28.9	30.9	26.0	21.8	38.5	n.a.	n.a.
<i>Mexico</i>									
From:									
Industrialized	92.8	93.1	92.0	85.8	87.1	88.2	84.1	84.9	89.9
U.S.	63.7	60.4	62.6	61.6	63.8	59.9	60.3	62.2	68.5
Japan	5.4	8.1	6.5	5.1	5.0	5.7	4.4	4.2	5.6
Oil exporting	0.3	0.4	0.4	0.2	0.2	0.3	0.2	n.a.	n.a.
Non-oil LDCs	6.6	6.2	6.9	5.6	6.6	6.6	15.3	n.a.	n.a.
<i>Uruguay</i>									
From:									
Industrialized	38.5	36.8	34.9	35.9	35.8	34.7	29.8	31.8	36.8
U.S.	9.6	8.7	9.3	9.8	9.7	12.3	8.3	8.5	9.3
Japan	2.4	2.0	2.5	4.1	4.9	2.8	2.4	1.8	2.4
Oil exporting	25.5	26.0	22.0	25.4	21.4	27.8	29.7	n.a.	n.a.
Non-oil LDCs	34.8	31.0	41.5	36.4	41.4	36.5	38.2	n.a.	n.a.
<i>Venezuela</i>									
From:									
Industrialized	85.5	86.2	85.3	86.3	86.1	84.6	85.2	84.7	86.9
U.S.	39.6	41.5	46.1	47.8	48.3	43.5	46.0	50.1	49.5
Japan	11.0	9.6	8.2	8.0	8.0	9.8	5.7	5.2	5.2
Oil exporting	—	0.1	—	0.4	0.1	—	—	n.a.	n.a.
Non-oil LDCs	12.7	12.7	13.7	12.6	13.1	14.2	n.a.	n.a.	n.a.

Source: Constructed from data reported by the International Monetary Fund.

Note: These indexes were constructed as the ratio of the dollar value of each year's imports from a particular country (or group of countries) to total imports.

Table 1.7 Middle-Income Latin American Countries: Distribution of Total Imports by Origin, 1977–85 (percentage)

	1977	1978	1979	1980	1981	1982	1983	1984	1985
<i>Columbia</i>									
From:									
Industrialized	76.2	75.7	75.4	75.3	70.7	70.4	71.4	71.6	78.9
U.S.	35.2	35.2	39.6	39.5	34.4	34.6	34.5	34.2	39.3
Japan	10.4	9.9	9.1	9.3	9.6	11.1	11.3	9.6	11.5
Oil exporting	4.6	3.9	3.3	4.2	7.9	6.5	7.2	n.a.	n.a.
Non-oil LDCs	17.5	19.0	19.5	18.4	19.7	21.7	19.3	n.a.	n.a.
<i>Paraguay</i>									
From:									
Industrialized	44.1	44.9	40.3	36.8	38.9	34.5	34.0	38.8	30.4
U.S.	12.2	11.0	11.5	9.9	9.9	9.0	6.4	8.7	7.9
Japan	9.0	7.9	8.2	8.1	8.3	5.5	4.2	11.9	4.6
Oil exporting	9.3	10.9	12.0	7.4	7.4	13.0	13.7	n.a.	n.a.
Non-oil LDCs	45.4	42.4	46.2	54.3	52.0	51.3	52.1	n.a.	n.a.
<i>Costa Rica</i>									
From:									
Industrialized	65.6	68.0	62.4	63.7	60.9	56.3	58.8	61.7	65.1
U.S.	33.7	34.3	30.4	34.3	33.3	35.6	40.2	36.3	37.2
Japan	13.4	14.4	12.4	11.6	9.8	4.2	5.6	7.5	8.7
Oil exporting	3.5	1.0	3.8	5.8	7.6	12.1	6.8	n.a.	n.a.
Non-oil LDCs	30.2	30.2	32.9	29.4	30.6	30.8	34.2	n.a.	n.a.
<i>Guatemala</i>									
From:									
Industrialized	67.4	63.3	60.3	59.4	60.6	57.6	53.6	52.7	55.4
U.S.	34.5	30.0	32.2	34.5	33.8	31.1	32.9	32.5	35.3
Japan	11.4	10.6	8.2	8.0	7.7	5.2	4.6	5.1	4.5
Oil exporting	8.2	7.4	7.3	9.9	6.8	5.9	7.0	n.a.	n.a.
Non-oil LDCs	22.2	27.9	29.1	29.0	30.4	34.7	37.2	n.a.	n.a.
<i>Ecuador</i>									
From:									
Industrialized	83.1	83.1	79.1	73.8	73.5	78.8	74.3	69.9	76.3
U.S.	37.9	38.3	38.8	35.5	33.7	37.3	39.7	29.9	33.1
Japan	18.4	16.1	11.3	11.8	11.7	12.4	6.9	13.6	11.9
Oil exporting	0.6	0.4	0.6	1.1	1.1	1.0	0.8	n.a.	n.a.
Non-oil LDCs	14.4	13.9	16.6	22.2	22.3	17.2	23.6	n.a.	n.a.
<i>Peru</i>									
From:									
Industrialized	67.0	74.9	63.7	62.0	66.7	67.7	64.8	61.5	57.4
U.S.	28.9	36.3	31.0	29.7	33.1	32.0	34.1	29.5	24.6
Japan	7.4	7.2	6.0	8.0	8.6	8.8	6.9	6.3	7.0
Oil exporting	9.4	3.4	1.4	1.1	1.1	0.9	1.1	n.a.	—
Non-oil LDCs	23.0	14.8	12.5	12.7	15.2	17.2	33.7	n.a.	n.a.

Source: See table 1.6.

Table 1.8 Lower-Income Latin American Countries: Distribution of Total Imports by Origin, 1977-85 (percentage)

	1977	1978	1979	1980	1981	1982	1983	1984	1985
<i>Nicaragua</i>									
From:									
Industrialized	58.9	56.4	43.7	42.0	40.2	39.9	37.0	44.4	42.3
U.S.	28.8	31.4	25.3	27.4	25.2	18.9	20.8	17.1	7.3
Japan	10.1	6.9	3.8	3.2	1.6	1.4	1.4	2.0	4.1
Oil exporting	11.4	11.6	18.5	16.7	11.4	11.3	10.0	n.a.	n.a.
Non-oil LDCs	29.3	31.3	37.5	40.7	47.7	47.7	49.5	n.a.	n.a.
<i>El Salvador</i>									
From:									
Industrialized	60.2	60.6	54.9	35.9	46.9	49.3	50.8	50.0	59.0
U.S.	29.3	30.8	28.4	19.9	25.5	33.6	38.5	36.0	42.8
Japan	11.0	11.8	7.9	3.9	3.4	2.8	3.3	4.3	4.2
Oil exporting	9.3	7.6	11.1	25.2	4.1	3.6	3.0	n.a.	n.a.
Non-oil LDCs	29.6	31.2	32.9	37.8	40.4	35.4	46.1	n.a.	n.a.
<i>Honduras</i>									
From:									
Industrialized	67.7	66.5	66.0	67.0	64.8	60.2	69.3	65.0	68.3
U.S.	42.9	41.9	43.3	42.4	41.5	39.5	47.5	40.6	43.3
Japan	11.0	8.8	7.7	9.9	6.7	6.5	6.2	4.6	6.6
Oil exporting	5.4	6.2	8.4	10.4	4.4	1.9	1.8	n.a.	n.a.
Non-oil LDCs	25.6	25.8	24.3	21.3	29.7	36.7	28.8	n.a.	n.a.
<i>Bolivia</i>									
From:									
Industrialized	58.7	66.2	61.0	61.1	57.9	59.8	55.7	38.2	47.5
U.S.	23.0	27.2	28.4	28.5	22.9	28.9	26.4	16.9	22.0
Japan	13.4	13.3	9.7	9.7	11.9	11.0	3.6	3.4	8.7
Oil exporting	0.1	0.1	0.1	0.1	0.1	—	—	—	—
Non-oil LDCs	35.9	28.9	33.2	32.6	38.6	36.1	44.2	n.a.	n.a.

Source: See table 1.6.

countries, what share came from oil-exporting LDCs (less developed countries) and what share from non-oil-exporting LDCs. For the case of industrialized countries an additional refinement has been made by explicitly identifying the U.S. and the Japanese shares. Since a few minor trade partners—mainly from the Soviet bloc—have been excluded, the sum of these shares does not necessarily add up to one hundred. Figures 1.1, 1.2, and 1.3 depict the U.S. share of these countries' imports for the same period.

Several facts emerge from these tables and figures. First, the distribution of imports varies significantly across countries. For example, while in some of them the U.S. share in total imports is in the 20 percent to 25 percent range (i.e., Argentina, Chile, Bolivia), in others it is approximately 40 percent to 50 percent (or more), while in still

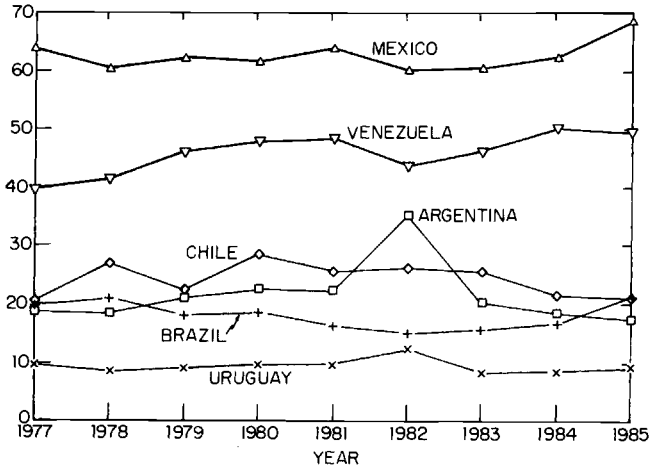


Fig. 1.1 U.S. share of Latin American imports, upper-income countries.

others it is below 10 percent (i.e., Uruguay). Second, and more important, these tables—and in particular these figures—show clearly that for the great majority of the Latin American countries there have been no perceptible changes in the proportion of imports coming from the United States.¹¹ Third, even a very detailed analysis at the country level reveals that there is no clear common pattern in the shares behavior during the years immediately following the debt crisis. However, in 1982 or 1983 in some of the large- and medium-size countries there

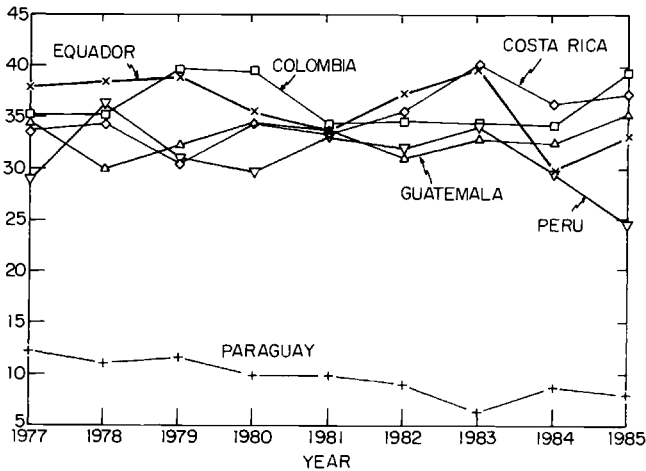


Fig. 1.2 U.S. share of Latin American imports, middle-income countries.

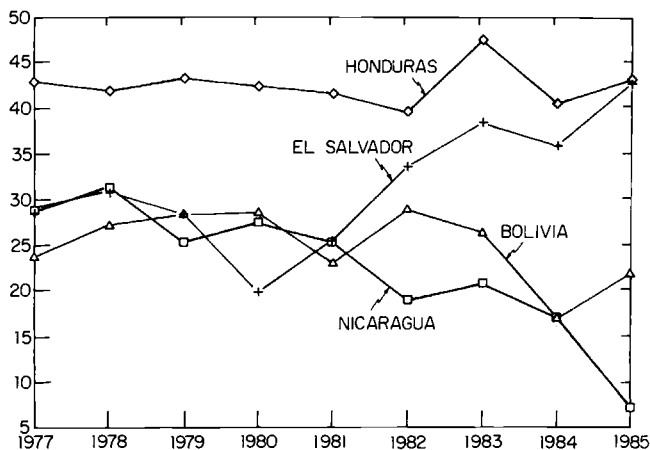


Fig. 1.3 U.S. share of Latin American imports, lower-income countries.

is a slight drop in the share of imports coming from the industrialized countries (Argentina, 1982; Brazil, 1982; Chile, 1982 and 1983; Mexico, 1983). In Argentina, Mexico, and Venezuela there is also a decline in the U.S. share in either 1982 and 1983. Finally, eleven of these countries experienced a slight increase in the industrialized countries' market share in 1985 (Argentina, Brazil, Mexico, Uruguay, Venezuela, Colombia, Costa Rica, Ecuador, El Salvador, Honduras, and Bolivia). Moreover, in the cases of Brazil, Mexico, Colombia, Ecuador, El Salvador, Honduras, and Bolivia, the U.S. share of imports experienced some increase between 1984 and 1985.

An important question is whether this lack of trend in the U.S. share of the Latin American imports market is only a recent phenomenon (i.e., post-1977) or if it reflects a longer-run phenomenon. To investigate this issue, trend regressions for 1970–83 were estimated both for the region as a whole and for each of the fourteen countries in table 1.1. The results obtained were definitive, showing that for the region as a whole there has been no statistically significant change in the U.S. market share of aggregate Latin American imports. At the individual country level there were no changes in nine cases, while in two countries (Mexico and Peru) there has been an increase in the U.S. share; five countries show a decline (Brazil, Colombia, Paraguay, Honduras, and Nicaragua). Naturally, the Nicaraguan trend responded mainly to political reasons.¹² Surprisingly perhaps, according to this statistical analysis the U.S. market share of these sixteen Latin American countries was not sensitive to contemporaneous or lagged fluctuations in the real value of the dollar. In the appendix we present the detailed results from this regression analysis.

This aggregate market share analysis, then, suggests categorically that for the vast majority of these countries the popular contention that the United States has experienced a major loss of its degree of competitiveness in the region is not supported by the data. What has happened is something very different: the value—both nominal and real—of U.S. exports to Latin America has declined severely since 1980. This, however, has little to do with loss of aggregate competitiveness; it is simply the result of the debt crisis and the accompanying monumental fall in Latin America's *total* imports during the period. The region still gets (approximately) the same proportion of its much reduced imports from the United States.

What Does Latin America Import from the United States?

In the preceding subsection we looked at aggregate import shares and found that in most cases the share of the dollar value of imports coming from the United States has not exhibited a trend. In this subsection we ask What do these countries import from the United States? Tables 1.9–1.14 show, for six of the larger Latin American countries, how their imports from the United States were distributed across ten “categories,” or sections numbered from 0 to 9, for the years 1970–83.¹³ Each cell in each of these tables indicates what proportion of that particular country's *imports from the United States* corresponds to that specific “category.” Consequently, except for rounding errors, these percentages add up to 100 across each category for each year.

Table 1.9 Argentina: Imports from the United States as a Fraction of Total U.S. Imports

Year	Total \$ World	Total \$ U.S.	Category									
			0	1	2	3	4	5	6	7	8	9
1970	1,688.8	420.4	.006	.001	.041	.045	0	.173	.262	.408	.062	0
1971	1,844.7	416.2	.008	.001	.057	.069	.008	.207	.13	.462	.059	0
1972	1,903.6	388.2	.007	0	.075	.037	.001	.23	.12	.489	.042	0
1973	2,234.7	479.9	.19	0	.078	.058	0	.206	.14	.284	.043	0
1974	3,634.3	616.6	.008	0	.108	.065	0	.331	.148	.293	.046	0
1975	3,942.3	643.8	.012	0	.159	.111	0	.294	.107	.274	.042	0
1976	3,027.6	544.1	.003	.001	.083	.09	0	.315	.109	.365	.034	0
1978	3,831.7	712.2	.009	.002	.036	.058	0	.246	.077	.503	.067	0
1979	6,691.7	1,413.7	.01	.001	.042	.074	0	.208	.079	.52	.065	0
1980	10,535.2	2,378.1	.016	.003	.031	.034	0	.179	.106	.521	.11	0
1981	9,426.0	2,092.4	.014	.004	.028	.04	0	.188	.112	.498	.114	0
1982	5,335.2	1,176.3	.008	.003	.037	.07	.001	.269	.089	.456	.068	0
1983	4,503.0	986.2	.005	.001	.046	.038	.001	.328	.101	.413	.068	0

Source: CEPAL.

Note: Data for 1977 not available.

Table 1.10 Brazil: Imports from the United States as a Fraction of Total U.S. Imports

Year	Total \$ World	Total \$ U.S.	Category									
			0	1	2	3	4	5	6	7	8	9
1970	2,829.5	915.9	.075	0	.036	.08	.003	.196	.129	.43	.05	0
1971	3,657.7	1,040.6	.093	0	.044	.064	.007	.2	.106	.435	.05	0
1972	4,715.1	1,320.4	.049	0	.044	.0457	.003	.223	.095	.463	.063	.002
1973	6,917.4	1,982.4	.137	.001	.038	.039	.004	.191	.128	.408	.053	.001
1974	14,061.5	3,401.6	.081	.001	.047	.038	.011	.237	.179	.364	.042	0
1975	13,575.8	3,379.1	.093	0	.039	.056	.004	.234	.108	.42	.045	0
1976	13,748.2	3,102.7	.088	0	.039	.057	.002	.266	.081	.42	.047	0
1977	13,567.3	2,758.5	.041	0	.042	.067	.001	.286	.09	.422	.051	0
1978	15,630.9	3,423.5	.161	0	.037	.043	0	.262	.079	.369	.048	0
1979	20,568.0	3,994.3	.123	0	.044	.062	.007	.279	.084	.35	.05	0
1980	25,601.2	4,922.9	.141	0	.034	.06	.006	.294	.084	.334	.047	0
1981	24,768.5	4,362.9	.215	0	.033	.056	0	.195	.079	.386	.045	0
1982	21,958.5	3,719.7	.149	0	.038	.088	.001	.188	.084	.398	.052	0
1983	17,293.1	2,834.9	.179	0	.032	.099	0	.192	.068	.371	.058	0

Source: CEPAL.

Table 1.11 Chile: Imports from the United States as a Fraction of Total U.S. Imports

Year	Total \$ World	Total \$ U.S.	Category									
			0	1	2	3	4	5	6	7	8	9
1970	930.5	344.4	.051	.01	.019	.034	.018	.117	.163	.547	.041	.001
1971	979.4	267.2	.029	.014	.03	.04	.021	.136	.135	.537	.058	0
1972	944.8	165.3	.069	.007	.103	.04	.006	.189	.118	.421	.048	0
1973	1,102.0	183.8	.13	.003	.056	.068	.004	.209	.102	.388	.039	.0
1974	1,910.0	415.6	.307	.005	.056	.065	.052	.163	.067	.255	.03	0
1975	1,533.2	446.7	.265	.001	.032	.022	.006	.155	.084	.406	.031	0
1976	1,642.6	522.7	.316	.003	.038	.036	.005	.091	.095	.376	.041	0
1977	2,034.1	468.3	.14	.013	.045	.051	.022	.145	.1	.407	.075	0
1978	2,594.9	698.1	.28	.012	.026	.031	.024	.121	.098	.342	.064	0
1979	4,229.1	955.4	.236	.014	.026	.012	.025	.152	.114	.355	.067	0
1980	5,122.7	1,302.0	.227	.016	.023	.041	.006	.15	.118	.354	.066	0
1981	6,276.7	1,530.3	.222	.012	.027	.017	.011	.148	.123	.358	.082	0
1982	3,526.5	898.7	.273	.028	.024	.033	.005	.138	.105	.308	.086	0
1983	2,694.6	689.1	.269	.003	.032	.03	.01	.206	.096	.266	.068	0

Source: CEPAL.

Table 1.12 Mexico: Imports from the United States as a Fraction of Total U.S. Imports

Year	Total \$ World	Total \$ U.S.	Category									
			0	1	2	3	4	5	6	7	8	9
1970	2,461.2	1,567.8	.053	.001	.1	.04	.005	.117	.115	.494	.075	0
1971	2,406.1	1,479.0	.045	0	.09	.048	.003	.133	.103	.495	.083	0
1972	2,934.0	1,774.3	.084	.002	.07	.045	.001	.127	.107	.477	.088	0
1973	4,144.5	2,609.2	.098	.001	.087	.045	.013	.114	.117	.453	.072	0
1974	6,051.8	3,778.6	.154	.001	.109	.042	.023	.143	.130	.357	.041	0
1975	6,571.8	4,131.9	.116	.001	.081	.051	.007	.125	.119	.46	.041	0
1976	5,885.3	3,686.4	.043	.001	.09	.042	.005	.139	.132	.5	.048	0
1977	5,525.2	3,505.3	.111	.001	.107	.035	.009	.153	.118	.421	.044	0
1978	8,048.2	4,864.3	.092	.001	.111	.034	.013	.143	.125	.437	.044	0
1979	12,196.4	7,681.9	.086	.002	.097	.025	.006	.126	.144	.464	.051	0
1980	17,788.7	12,004.6	.144	.001	.074	.027	.008	.115	.158	.420	.044	0
1981	23,743.5	15,668.3	.133	.001	.067	.034	.003	.102	.165	.454	.05	0
1982	14,420.2	9,312.1	.089	.003	.078	.043	.012	.123	.134	.468	.05	0
1983	10,651.4	7,808.0	.2	.002	.103	.026	.011	.133	.107	.368	.05	0

Source: CEPAL.

Table 1.13 Colombia: Imports from the United States as a Fraction of Total U.S. Imports

Year	Total \$ World	Total \$ U.S.	Category									
			0	1	2	3	4	5	6	7	8	9
1970	836.4	397.3	.042	.023	.05	.013	.01	.182	.12	.515	.042	.002
1971	917.0	390.2	.092	.009	.054	.01	.02	.167	.093	.51	.038	.006
1972	853.1	333.9	.09	.002	.058	.005	.019	.19	.09	.504	.04	.002
1973	1,059.4	430.4	.156	.005	.077	.004	.021	.223	.084	.376	.052	.002
1974	1,593.8	640.4	.141	.004	.064	.003	.028	.266	.11	.334	.048	.002
1975	1,494.5	644.8	.114	.003	.05	.007	.022	.225	.106	.431	.04	.002
1976	1,707.7	725.1	.117	.002	.046	.006	.049	.168	.119	.451	.041	.002
1977	2,028.0	753.1	.107	.009	.041	.006	.058	.22	.085	.428	.043	.003
1978	2,836.0	999.3	.149	.011	.033	.01	.048	.207	.09	.41	.04	.003
1979	3,232.9	1,278.7	.103	.012	.039	.093	.065	.174	.081	.386	.043	.003
1980	4,662.3	1,839.8	.133	.014	.036	.081	.046	.186	.085	.374	.04	.004
1981	5,198.8	1,787.4	.087	.013	.028	.051	.054	.193	.109	.399	.052	.014
1982	5,477.3	1,884.9	.112	.012	.039	.033	.041	.181	.103	.424	.047	.008
1983	4,950.6	1,761.8	.131	.011	.046	.018	.04	.182	.099	.413	.051	.009

Source: CEPAL.

Table 1.14 Venezuela: Imports from the United States as a Fraction of Total U.S. Imports

Year	Total \$	Total \$	Category									
	World	U.S.	0	1	2	3	4	5	6	7	8	9
1970	1,902.6	924.8	.1	0	.058	.021	.009	.12	.119	.509	.063	.001
1971	2,124.9	945.3	.104	0	.053	.011	.016	.119	.115	.52	.059	.003
1972	2,485.4	1,107.6	.112	0	.047	.005	.011	.109	.119	.534	.062	.001
1973	2,844.2	1,194.1	.123	0	.041	.004	.017	.106	.132	.516	.06	.001
1974	4,307.6	2,448.2	.11	0	.073	.003	.016	.128	.156	.464	.049	.001
1975	5,806.7	2,821.8	.097	0	.043	.004	.021	.093	.146	.542	.053	.001
1976	6,905.2	3,098.9	.086	.001	.036	.004	.009	.099	.118	.595	.051	.001
1977	11,200.0	4,340.5	.091	0	.032	.009	.012	.101	.135	.572	.048	0
1978	11,667.9	4,829.4	.077	.001	.037	.007	.017	.094	.125	.581	.061	0
1979	11,037.0	5,085.7	.094	0	.044	.009	.02	.108	.131	.53	.062	.001
1980	12,257.7	5,898.3	.125	.001	.047	.014	.023	.122	.13	.474	.036	0
1981	13,555.9	6,555.0	.142	.001	.033	.012	.028	.104	.123	.494	.063	0
1982	13,389.8	6,128.8	.106	.001	.038	.009	.017	.108	.131	.515	.076	0
1983	6,146.5	2,849.6	.202	.001	.048	.012	.037	.157	.104	.385	.054	0

Source: CEPAL.

These tables, constructed from data provided by the U.N.'s Economic Commission for Latin America (ECLA), also contain the dollar value of total yearly imports for each country (column 1) as well as total yearly imports from the United States (column 2).¹⁴ Categories 0 through 9 correspond to the SITC one-digit classification and are defined in the following way:

- Category 0: Food stuffs and live animals
- Category 1: Beverages and tobacco
- Category 2: Raw nonfood materials, except fuel
- Category 3: Fuel and related products
- Category 4: Oil, greases, and waxes of vegetable and animal origins
- Category 5: Chemical products
- Category 6: Manufactured products
- Category 7: Machinery and transport equipment
- Category 8: Other manufactured goods
- Category 9: Other commodities

Two important patterns emerge from these tables. First, with almost no exceptions, the bulk of these countries' imports from the United States have been concentrated throughout the period on the manufacturing sector (categories 5–8), with capital goods (category 7) the most important single item in almost every country.

Second, in spite of the dominating role of manufacturing, there is a clear decline through time in the relative importance of category 7 in almost every country. At the same time, categories 0 (foodstuffs and live animals) and 5 (chemical) have increased their relative shares. This change in the composition of Latin American imports from the United States, away from traditional labor-intensive manufacturing industries and into natural resources and capital-intensive (including human capital) products (including food, farm products, and chemicals), reflects a change in the U.S. pattern of comparative advantage, which has been observed for some years now. In fact, Leamer (1984) has recently shown that, according to the predictions of the Heckscher-Ohlin theory of international trade, the U.S. exports have shifted from being concentrated on relatively more labor-abundant commodities to more capital- and resources-abundant products.¹⁵

U.S. and Foreign Competition: Disaggregated Trends

This section tackles the important question of how the Latin American import shares of different categories of imports are distributed among the United States and other countries. Tables 1.15–1.18 provide disaggregated information on the distribution of imports for the twelve upper-middle-income and middle-income Latin American countries for which these data are available. The disaggregation used here distinguishes between primary products and manufactured goods. These tables contain data for the years 1970, 1975, 1980, and 1983 on the shares of each of these categories that have been imported from (a) the rest of Latin America and the Caribbean; (b) the United States; (c) Japan; (d) the rest (i.e., other than the United States or Japan) of the OECD; (e) the Soviet bloc (CAME); and (f) the rest of the world. To know whether a given share represents a low or high dollar value, on each of these tables data on the dollar value of imports of each category is also included (first column). These tables contain the most recent data available and have been constructed from raw information obtained from the U.N.'s Economic Commission for Latin America (ECLA) (see CEPAL 1986d).

The two commodities categories in these tables are defined in the following way:¹⁶ (1) primary products—foodstuffs; live animals; beverages; tobacco; raw nonfood materials except fuel; oil, greases, and waxes of vegetable and animal origins (that is, categories 0, 1, 2, and 4 as defined above); and (2) manufactured goods—categories 5, 6, 7, and 8.

From these tables we detect some common patterns across countries. First, perhaps with the exception of intra-Latin American imports of manufactured goods, there are no drastic changes in the distribution of imports between 1970 and 1983. A second interesting pattern is that

Table 1.15 Upper-Middle-Income Countries: Imports of Primary Products, Selected Years, 1970-83

	Total \$	L.A. and Caribbean	U.S.	Japan	Rest of OECD	CAME	Rest of World
Argentina							
1970	287.4	0.693	0.071	0.002	0.166	0.001	0.067
1975	600.1	0.616	0.185	0.004	0.14	0.004	0.051
1980	499.0	0.181	0.319	0.011	0.462	0.015	0.012
1983	530.5	0.646	0.113	0.007	0.133	0.001	0.1
Brazil							
1970	391.8	0.38	0.267	0.009	0.302	0.006	0.036
1975	1,209.3	0.243	0.381	0.019	0.267	0.008	0.082
1980	3,141.3	0.333	0.283	0.003	0.317	0.003	0.061
1983	1,857.7	0.252	0.323	0.004	0.33	0.031	0.06
Chile							
1970	188.3	0.628	0.178	0.002	0.169	0.011	0.012
1975	353.8	0.418	0.383	0.005	0.158	0.023	0.013
1980	1,080	0.412	0.327	0.011	0.212	0	0.038
1983	611.6	0.451	0.377	0.002	0.129	0.002	0.039
Mexico							
1970	374.7	0.082	0.661	0.002	0.222	0	0.033
1975	1,286.1	0.191	0.657	0.001	0.098	0.002	0.051
1980	3,528	0.041	0.775	0.001	0.112	0.036	0.035
1983	2,816.7	0.029	0.876	0.001	0.06	0.009	0.025
Uruguay							
1970	51.5	0.671	0.071	0.005	0.164	0.003	0.086
1975	90.7	0.463	0.181	0.006	0.207	0.001	0.142
1980	208.9	0.642	0.097	0.009	0.159	0.002	0.091
1983	99.4	0.655	0.087	0.002	0.197	0.002	0.057
Venezuela							
1970	281.3	0.079	0.549	0.014	0.294	0.011	0.053
1975	879.6	0.098	0.515	0.012	0.282	0.005	0.088
1980	2,182.3	0.089	0.529	0.006	0.246	0.006	0.124
1983	1,514.1	0.21	0.542	0.001	0.191	0.005	0.051

Source: CEPAL.

in Argentina, Chile, and Uruguay a majority of imports of primary products came, for all these years, from other Latin American countries. Third, the increased importance of imports of primary products from the United States has been such that in Brazil, Mexico, Colombia, Peru, Nicaragua, El Salvador, and Honduras the United States has displaced other Latin American and Caribbean countries as the main providers of this type of good. Moreover, by 1983 most of these countries imported almost half of their primary products from the United States.

The distribution of the imports of fuels has not been shown in these tables, but behaves as expected: the majority of the region's non-oil-

Table 1.16 Middle-Income Countries: Imports of Primary Products Selected Years, 1970-83

	Total \$	L.A. and Caribbean	U.S.	Japan	Rest of OECD	CAME	Rest of World
Colombia							
1970	105	0.321	0.472	0.006	0.167	0.001	0.033
1975	224.9	0.241	0.539	0.041	0.13	0.002	0.047
1980	733.3	0.218	0.578	0.009	0.151	0.003	0.041
1983	705.5	0.218	0.568	0.008	0.17	0.001	0.035
Paraguay							
1970	17.1	0.313	0.426	0.004	0.246	0	0.011
1975	32.2	0.237	0.198	0.004	0.552	0	0.009
1980	75.7	0.333	0.216	0.004	0.436	0	0.011
1983	55.1	0.635	0.084	0.004	0.27	0.003	0.004
Costa Rica							
1970	40.2	0.546	0.331	0.003	0.093	0	0.027
1975	80.9	0.437	0.394	0.015	0.122	0.001	0.031
1980	172.4	0.313	0.457	0.003	0.142	0	0.085
1983	123.5	0.262	0.553	0	0.093	0	0.092
Guatemala							
1970	37.1	0.341	0.463	0.026	0.142	0	0.028
1975	80.1	0.262	0.555	0.028	0.137	0	0.018
1980	160.7	0.219	0.556	0.035	0.16	0.001	0.029
1983	129.9	0.299	0.545	0.008	0.122	0	0.026
Ecuador							
1970	29.5	0.113	0.565	0.124	0.166	0.002	0.03
1975	102.1	0.059	0.688	0.041	0.182	0.001	0.029
1980	227.5	0.1	0.631	0.008	0.208	0.008	0.045
1983	204.9	0.221	0.555	0.012	0.184	0.001	0.027
Peru							
1970	151.2	0.496	0.183	0.013	0.271	0.012	0.025
1975	452.7	0.101	0.479	0.01	0.313	0.003	0.094
1980	670.3	0.217	0.52	0.015	0.162	0.001	0.085
1983	613	0.246	0.527	0.002	0.174	0.016	0.035

Source: CEPAL.

producing countries import most of the fuel from oil producer Latin American countries, with the rest of the world (mainly OPEC countries in this instance) also being important.

The data on manufacturing imports are particularly revealing. They show that in the majority of cases the OECD as a whole (United States, Japan, and the rest of OECD) lost ground to competitors from the south, and in particular to other Latin American suppliers.¹⁷ As can be seen from tables 1.17 and 1.18, imports from other Latin American and Caribbean countries have increased significantly. Although Japan has in many cases made some progress, its presence in the region is far from overwhelming. Moreover, in many countries the share of Japanese manufactured imports in 1983 was substantially lower than its

Table 1.17 Upper-Middle-Income Countries: Imports of Manufactured Goods, Selected Years, 1970-83

	Total \$	L.A. and Caribbean	U.S.	Japan	Rest of OECD	CAME	Rest of World
Argentina							
1970	1,320.7	0.108	0.288	0.064	0.499	0.011	0.03
1975	2,822.9	0.12	0.164	0.170	0.517	0.029	0.00
1980	8,311.4	0.132	0.262	0.117	0.424	0.011	0.054
1983	3,509	0.2	0.249	0.097	0.41	0.018	0.026
Brazil							
1970	2,058.5	0.047	0.358	0.084	0.463	0.027	0.021
1975	8,812.4	0.042	0.31	0.14	0.472	0.016	0.02
1980	11,659.7	0.093	0.32	0.099	0.421	0.018	0.049
1983	6,020.3	0.083	0.325	0.109	0.426	0.036	0.021
Chile							
1970	682.8	0.069	0.438	0.04	0.441	0.003	0.009
1975	875.8	0.16	0.344	0.085	0.396	0.005	0.01
1980	3,097.6	0.156	0.289	0.124	0.311	0.002	0.118
1983	1,503.5	0.155	0.291	0.103	0.368	0.002	0.081
Mexico							
1970	2,007.1	0.017	0.626	0.042	0.301	0.003	0.011
1975	4,923.4	0.026	0.625	0.062	0.274	0.012	0.001
1980	13,898.3	0.042	0.644	0.064	0.229	0.004	0.017
1983	7,585.9	0.013	0.677	0.052	0.21	0.002	0.046
Uruguay							
1970	147.2	0.254	0.168	0.022	0.471	0.055	0.03
1975	264.6	0.298	0.136	0.044	0.481	0.018	0.023
1980	932.8	0.362	0.14	0.066	0.349	0.031	0.052
1983	323.9	0.361	0.134	0.046	0.368	0.044	0.047
Venezuela							
1970	1,597.5	0.034	0.47	0.092	0.378	0.011	0.015
1975	4,871.4	0.052	0.483	0.09	0.35	0.003	0.022
1980	9,871.7	0.071	0.472	0.097	0.313	0.002	0.045
1983	4,454.5	0.085	0.448	0.077	0.35	0	0.04

Source: CEPAL.

1980 or even 1975 share (i.e., Argentina, Chile, Mexico, Uruguay, Venezuela, Paraguay, Guatemala, Ecuador, Nicaragua, El Salvador, Honduras, and Bolivia). With regard to the United States, in many of the countries there is a decline in the share of manufactured imports, with Mexico being the major exception.

1.4 Latin American Exports and Protectionism in the Industrialized Countries

In this section we deal with the behavior of exports in Latin America during the last fifteen years or so. As already noted, after the 1982 debt crisis most Latin American countries implemented major adjustment

Table 1.18 Middle-Income Countries: Imports of Manufactured Goods, Selected Years, 1970-83

	Total \$	L.A. and Caribbean	U.S.	Japan	Rest of OECD	CAME	Rest of World
Columbia							
1970	720.8	0.063	0.474	0.072	0.355	0.023	0.013
1975	1,249	0.084	0.414	0.096	0.375	0.012	0.019
1980	3,338.1	0.107	0.378	0.128	0.329	0.024	0.034
1983	3,562.9	0.111	0.299	0.153	0.368	0.034	0.035
Paraguay							
1970	47.2	0.226	0.195	0.106	0.439	0.006	0.028
1975	134.8	0.494	0.133	0.082	0.268	0.005	0.018
1980	367.9	0.472	0.113	0.15	0.215	0.008	0.042
1983	341.4	0.486	0.315	0.077	0.091	0.003	0.028
Costa Rica							
1970	263.8	0.218	0.36	0.108	0.292	0.004	0.018
1975	534.9	0.223	0.376	0.112	0.246	0.01	0.033
1980	1,094.2	0.227	0.369	0.153	0.21	0.007	0.034
1983	670.3	0.228	0.211	0.078	0.425	0.003	0.055
Guatemala							
1970	240.5	0.265	0.332	0.117	0.277	0.002	0.007
1975	553.9	0.223	0.372	0.115	0.277	0.003	0.01
1980	1,020.5	0.188	0.416	0.121	0.238	0.004	0.033
1983	828.7	0.305	0.21	0.071	0.38	0.005	0.029
Ecuador							
1970	224.1	0.079	0.444	0.097	0.348	0.021	0.011
1975	859.1	0.122	0.363	0.167	0.316	0.009	0.023
1980	1,790.3	0.119	0.362	0.147	0.295	0.024	0.053
1983	1,267.7	0.172	0.314	0.108	0.336	0.017	0.053
Peru							
1970	456.4	0.06	0.369	0.102	0.448	0.004	0.017
1975	1,638.6	0.103	0.314	0.109	0.444	0.018	0.012
1980	1,948.6	0.122	0.339	0.125	0.362	0.021	0.031
1983	1,545.4	0.14	0.375	0.133	0.316	0.003	0.033

Source: CEPAL.

programs aimed at reducing the magnitude of their balance of payments problems. In the majority of cases these adjustment efforts have been largely successful; in fact, as documented in section 1.3, in most countries both the current account and trade balances have experienced drastic improvements between 1980 and 1985. However, a fact many times overlooked is that for the region as a whole more than 100 percent of the improved external situation has been the consequence of the decline in imports; in many cases exports have even declined in real terms between 1980 and 1985. For example, for the fourteen countries in table 1.2, *real* value of imports declined 45 percent between 1980 and 1985 when the U.S. WPI is used as the relevant price index. On the other hand, for the thirteen countries for which there are data, the

total real value of exports *declined* by almost 10 percent during the same period.¹⁸ Of course, in those countries where the real value of exports dropped, this was mainly the result of the fall in price of many of their countries' principle exports. The extent of this decline in relative export prices is captured in table 1.19 on the evolution of the terms of trade.

There is little doubt that a definitive solution to Latin America's pressing economic problems and the resumption of growth in the region will require a significant increase in exports.¹⁹ Moreover, only to the extent that exports exhibit significant growth in the next few years will the region be able to increase its imports.²⁰ A crucial question, then, is what and to whom will Latin America export in the next decade or so. The analysis that follows helps answer this important question.

1.4.1 The Destination of Latin American Exports

Table 1.20 contains data on the regional distribution of aggregate exports for our sixteen countries for 1970 through 1983. Tables 1.21 and 1.22, on the other hand, contain more disaggregated data on the sectoral distribution of exports destination for the sixteen countries. Finally, tables 1.23 and 1.24 provide information for the upper-middle-income countries on the distribution of exports destination of primary products and manufactured goods.²¹

A number of interesting facts emerge from these tables. First, at the aggregate level for the region as a whole (i.e., the sixteen countries) there is a decline in the proportion of exports going to the OECD. Exports to the United States, however, have not exhibited much of a trend. It is also clear from these tables that intra-Latin American ex-

Table 1.19 Terms of Trade Index: Selected Latin American Countries (1970 = 100)

	1975	1980	1982	1984
Argentina	100.7	94.2	82.0	86.4
Bolivia	111.0	143.6	132.1	138.1
Brazil	85.4	67.4	54.2	59.5
Chile	53.2	49.0	35.4	34.5
Colombia	81.5	126.3	109.9	115.4
Costa Rica	85.5	97.3	90.0	84.7
Ecuador	159.0	237.6	196.9	177.7
Guatemala	70.8	94.2	72.1	70.1
Mexico	105.7	164.3	134.7	127.7
Peru	104.0	131.1	93.8	93.0
Uruguay	75.4	81.4	71.6	74.7
Venezuela	335.3	509.9	492.1	500.5

Source: CEPAL 1986a.

Table 1.20 Destination of Exports: Sixteen Latin American Countries, 1970–83 (percentage)

	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983
Latin American and Carribean	13.4	16.5	15.8	16.1	15.6	16.4	16.2	15.9	14.3	10.5
ALADI	9.3	12.5	12.1	12.7	12.1	13.4	13.2	12.8	11.8	8.2
OECD	75.0	63.6	66.1	66.4	67.5	66.2	63.6	58.4	62.8	69.0
U.S.	30.4	28.5	28.9	29.8	32.3	31.1	29.4	26.8	29.5	37.1
Japan	5.8	4.8	4.8	4.5	4.4	4.5	4.9	4.6	6.0	5.5
CAME	2.5	5.2	4.9	4.6	3.9	3.3	4.6	6.1	4.3	4.5
Rest of Asia	1.1	2.9	2.1	3.4	3.6	3.8	3.7	3.1	4.8	7.1
Rest of World	8.0	11.8	11.1	9.5	9.4	10.3	11.9	16.5	12.0	8.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: United Nations Economic Commission for Latin America.

Note: The countries included here are Argentina, Bolivia, Brazil, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay, and Venezuela.

ports declined substantially in 1982 and 1983. Finally, another interesting trend captured in table 1.20 is the steady increase in Latin American exports going to the rest (i.e., non-Japan) of Asia and the Soviet bloc countries.

The data in table 1.21 describe the evolution of the composition of regional exports. Several facts emerge from this table. First, exports of foodstuffs and agricultural products (category 0) have declined steadily throughout the period. Second, exports of fuel increased in importance as a result of both the increases in the price of oil and the increased gas and oil production in the region. Third, manufactured exports corresponding to categories 5 (chemicals), 8 (various manufactured products), and 7 (machinery and transportation equipment) experienced an important increase. This trend is captured in an even cleaner way in table 1.22, which excludes full fuel: whereas in 1970 categories 5, 7, and 8 represented no more than 8 percent of nonfuel exports, in 1983 they accounted for 23 percent. Fourth, these data also show that category 6 (manufactures) has approximately retained its relative importance, accounting for around 19 percent of nonfuel exports. The disaggregated information on the destination of exports in tables 1.23 and 1.24 shows that in the majority of the cases, exports of primary products go to the OECD.

Table 1.24 shows that the proportion of the larger countries' exports of manufactured goods that go to the United States has increased through time. In most cases this higher share of exports to the United States has come out of declining shares of exports to the rest of Latin America.

Table 1.25 contains data at an even more disaggregated level on the percentage distribution of the sixteen countries' exports to the United States. For each year this table gives information on how Latin American exports to the United States are distributed across the ten one-digit sections of the SITC (see section 1.3 for a detailed definition of these categories). By and large, this table confirms the patterns observed for total disaggregated exports reported in table 1.22. First, the relative importance of food product exports (category 0) has declined steadily during the period. This, of course, is but another reflection of the changing pattern of comparative advantages discussed above. As the production of food has become more capital intensive, the industrial countries, and in particular the United States, have tended to produce and export more and more food, while the poorer countries have exported less and less of it (Leamer 1984).²²

1.4.2 Protectionism in the Industrial Nations and the Future Evolution of Latin American Exports

While most Latin American nations have been going through serious efforts aimed at improving their external balance, the industrial coun-

Table 1.21 **Sectoral Composition of Exports for Sixteen Latin American Countries, 1970–83 (percentage)**

Category	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983
0	38.9	30.9	34.0	38.0	35.4	30.2	26.0	23.4	22.3	25.6
1	0.6	0.9	0.9	0.9	1.0	0.9	0.7	0.8	1.0	0.9
2	15.1	14.0	13.3	11.8	11.9	11.4	10.6	10.1	9.1	8.5
3	22.5	31.6	28.4	25.5	24.7	30.2	37.9	42.6	45.0	40.3
4	1.7	1.3	1.6	2.0	2.0	1.9	1.5	1.5	1.3	1.4
5	2.2	2.8	2.6	2.5	2.8	2.8	2.9	3.0	3.1	3.4
6	15.2	10.5	11.8	11.3	12.1	13.8	11.4	9.7	9.8	11.5
7	2.4	5.3	4.7	5.2	6.8	6.0	6.2	6.5	6.1	7.8
8	1.4	2.6	2.6	2.9	3.4	3.0	2.7	2.5	2.4	2.8
9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total ^a	13,648	32,124	37,398	44,732	48,744	65,454	83,096	89,718	81,893	85,828

Source: CEPAL.

^aMillions of U.S. dollars.

Table 1.22 Sectoral Composition of Nonfuel Exports of Sixteen Latin American Countries, 1970-83 (percentage)

Category	1970	1975	1980	1983
0	50.1	45.2	41.9	39.6
1	0.7	1.4	1.1	1.5
2	19.5	20.1	17.4	14.2
4	2.2	2.0	2.5	2.3
5	2.8	4.0	4.7	5.7
6	19.7	15.4	18.4	19.3
7	3.1	7.7	10.0	13.0
8	1.8	3.8	4.3	4.4
9	0.0	0.0	0.0	0.0

Source: CEPAL.

Note: Due to rounding, the sum across sections may not add up to 100.

Table 1.23 Upper-Middle-Income Countries: Exports of Primary Products, Selected Years, 1970-83

	Total \$	L.A. and Caribbean	U.S.	Japan	Rest of OECD	CAME	Rest of World
Argentina							
1970	1,517.2	0.16	0.07	0.07	0.61	0.044	0.045
1975	2,223	0.17	0.06	0.05	0.43	0.15	0.14
1980	5,737	0.176	0.074	0.02	0.34	0.3	0.09
1983	6,136.1	0.094	0.05	0.054	0.257	0.292	0.253
Brazil							
1970	2,329	0.062	0.261	0.055	0.507	0.054	0.061
1975	6,068	0.051	0.137	0.096	0.448	0.119	0.149
1980	11,906	0.047	0.174	0.079	0.45	0.098	0.152
1983	11,465.3	0.042	0.15	0.079	0.477	0.113	0.139
Chile							
1970	214.7	0.196	0.133	0.306	0.33	0.014	0.018
1975	454	0.305	0.133	0.202	0.255	0.008	0.097
1980	1,713	0.237	0.057	0.226	0.302	0.014	0.164
1983	1,548.8	0.119	0.159	0.182	0.336	0.024	0.18
Mexico							
1970	682	0.021	0.77	0.085	0.1	0.003	0.021
1975	1,337	0.025	0.72	0.078	0.118	0.008	0.051
1980	2,688	0.022	0.667	0.064	0.176	0.02	0.051
1983	2,579.2	0.02	0.744	0.052	0.122	0.022	0.04
Uruguay							
1970	192	0.098	0.057	0.001	0.583	0.145	0.116
1975	265	0.228	0.012	0.021	0.509	0.088	0.142
1980	657	0.317	0.043	0.014	0.328	0.11	0.188
1983	253	0.058	0.032	0.031	0.334	0.198	0.347
Venezuela							
1970	231.4	0.006	0.588	0.021	0.337	0.007	0.041
1975	378.4	0.016	0.621	0.004	0.286	0.03	0.043
1980	423.8	0.034	0.413	0.009	0.459	0.019	0.066
1983	97.5	0.026	0.189	0.047	0.219	0.064	0.455

Source: CEPAL.

Table 1.24 Upper-Middle-Income Countries: Exports of Manufactured Goods, Selected Years, 1970-83

	Total \$	L.A. and Caribbean	U.S.	Japan	Rest of OECD	CAME	Rest of World
Argentina							
1970	248	0.499	0.205	0.003	0.231	0.031	0.031
1975	722.3	0.546	0.084	0.022	0.157	0.185	0.006
1980	1,995.3	0.415	0.155	0.042	0.248	0.058	0.082
1983	1,363.8	0.281	0.276	0.024	0.204	0.049	0.166
Brazil							
1970	368.5	0.403	0.169	0.04	0.279	0.014	0.095
1975	2,209.9	0.369	0.201	0.036	0.263	0.019	0.112
1980	7,546.7	0.377	0.182	0.038	0.227	0.019	0.157
1983	8,987.3	0.173	0.222	0.059	0.258	0.016	0.272
Chile							
1970	1,104.1	0.143	0.137	0.074	0.622	0	0.024
1975	1,180.4	0.204	0.069	0.081	0.601	0.004	0.041
1980	2,807	0.244	0.129	0.041	0.527	0	0.059
1983	2,010.1	0.132	0.343	0.021	0.457	0.012	0.035
Mexico							
1970	454.1	0.213	0.596	0.022	0.126	0.005	0.038
1975	1,062.2	0.297	0.416	0.01	0.2	0.027	0.05
1980	2,156.9	0.231	0.541	0.026	0.153	0.007	0.042
1983	6,194.9	0.067	0.782	0.022	0.086	0.006	0.037
Uruguay							
1970	41	0.259	0.22	0	0.466	0.014	0.041
1975	114.2	0.424	0.198	0.001	0.292	0.05	0.035
1980	401.8	0.463	0.135	0.001	0.34	0.02	0.041
1983	313.3	0.319	0.236	0.006	0.279	0.069	0.091
Venezuela							
1970	39	0.623	0.126	0.001	0.09	0	0.16
1975	103.4	0.428	0.32	0	0.118	0	0.134
1980	692.8	0.213	0.124	0.375	0.177	0.003	0.108
1983	564.5	0.128	0.244	0.371	0.18	0.004	0.073

Source: CEPAL.

tries have been invaded with protectionist sentiments. In fact, already in the past few years the industrial countries have used a series of nontariff mechanisms to impede a freer flow of Latin American goods. According to the GATT (1984), industrial countries currently use more than forty nontariff measures to impede international flows of commodities.

A few authors have dealt with the issue of nontariff barriers, analyzing the extent of these practices, their coverage across countries and products, and their evolution through time.²³ For example, in a comprehensive recent study, Nogues, Olechowski, and Winters (1986b)

Table 1.25 Sectoral Distribution of Sixteen Latin American Exports to the United States, 1970–83 (percentage)

Category	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983
0	44.3	30.1	36.4	36.5	35.7	30.8	26.2	22.1	19.7	17.3
1	0.4	1.0	0.9	0.9	0.9	0.9	0.8	1.1	1.4	0.6
2	10.9	9.5	8.0	5.4	5.9	5.2	4.7	5.4	4.0	4.0
3	25.6	44.3	37.6	39.4	36.0	44.6	52.0	51.5	55.0	48.5
4	0.6	0.4	0.4	0.5	0.3	0.2	0.2	0.2	0.1	0.1
5	1.6	1.8	1.8	1.8	1.7	1.8	2.1	3.3	2.4	2.4
6	12.5	6.6	8.6	8.9	10.2	9.0	6.9	16.2	8.5	11.5
7	2.8	2.7	2.9	3.1	5.0	4.4	4.3	2.5	5.4	11.4
8	1.4	3.4	3.4	3.5	4.3	3.2	2.8	0.2	3.3	4.4
9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: United Nations Economic Commission for Latin America.

analyzed the use of nontariff barriers in sixteen industrialized countries.²⁴ For the purpose of their analysis they defined the following practices as nontariff barriers: prohibitions, quotas, discretionary import authorizations, conditional import authorizations, “voluntary” export restraints, variable levies, minimum price systems, “voluntary” price restraints, tariff quotas, seasonal tariffs, price and volume investigations, and antidumping and countervailing duties. Table 1.26 contains data on an index of the coverage of these nontariff barriers, defined as the proportion of these countries’ imports of a particular product that are subject to the NTBs (nontrade barriers).²⁵ As can be

Table 1.26 Coverage of Nontariff Barriers in Sixteen Developed Countries, 1983 (percentage)

	Coverage %
All Products	27.1
Fuel	43.0
Agriculture	36.1
Manufactures	16.1
Textiles	44.8
Footwear	12.6
Iron and steel	35.4
Electrical machinery	10.0
Vehicles	30.4
Other manufactures	8.8

Source: Nogues, Olechowski, and Winters 1986b.

Note: This coverage index is defined as the proportion of these countries’ imports subject to the following nontariff barriers: prohibitions, quotas, discretionary import authorization, conditional import authorizations, “voluntary” export restraints, variable levies, minimum price systems, “voluntary” price restraints, tariff quotas, seasonal tariffs, price and volume investigations, and antidumping and countervailing duties.

seen, coverage of this type of impediments is quite broad, affecting more than one-fourth of all these countries' imports, with textiles being the industry most severely affected. An important question is whether imports from all countries or regions are affected in the same way by the NTBs. Nogues, Olechowski, and Winters (1986a, 1986b) have shown that this is not the case; imports from the developing world are more severely affected by this type of "semidisguised" protectionism than those from the industrialized world.

Once the effects of the NTBs are taken into account, the degree of protection the industrialized countries grant to some products can be remarkable. Table 1.27, for example, estimates the total average rate of protection to which some Argentinian and Brazilian exports to the EEC, Japan, and the United States were subject in 1980. These figures are in many ways staggering, indicating that in many cases the NTBs more than double the tariff protection.

What is even more serious is that the existing evidence clearly indicates a slow but steady increase in the degree of coverage of the NTBs. For example Nogues, Olechowski, and Winters (1986a) found that the NTBs' coverage for all goods in the sixteen industrial countries increased by 1.5 percentage points between 1981 and 1983. To the extent that these NTBs increase, or even are maintained at their current levels, it will become very difficult, if not impossible, for Latin American countries to increase their exports at the rate required to solve

Table 1.27 Estimated Total Rates of Protection for Some Argentinian and Brazilian Exports, 1980 (percentage)

	EEC	Japan	USA
Argentina			
Fresh meat (011)	118	328	46
Wheat (041)	120	145	0
Corn (044)	63	n.a.	10
Textile fibers (26)	59	13	68
Hides (611)	18	25	5
Steel (67)	43	8	35
Garments (84)	59	18	79
Brazil			
Fresh meat (011)	118	328	46
Sugar and honey (061)	160	44	27
Coffee and derivatives (071)	93	161	39
Cocoa (072)	12	173	4
Textiles (65)	59	13	68
Footwear (851)	27	16	9

Source: CEPAL 1986e.

Note: The numbers in parentheses refer to the SITC classification. Total rate of protection is defined as tariff rate plus tariff equivalent of NTBs.

the current debt crisis. While the main responsibility for increasing exports rests with the Latin American countries, their efforts, no matter how serious, can be easily frustrated by the protectionist policies of the industrialized world.²⁶

1.5 Commercial Policies, Protectionism, and Latin American Trade

1.5.1 Historical Perspective

As noted in section 1.2, during the 1940s most of the Latin American countries embarked on ambitious industrialization programs based on an import substitution development strategy. This inward-looking development program was based on the idea that small developing economies would only grow sufficiently rapidly if they were able to develop a large and diversified industrial sector. This, in turn, could only be achieved if sufficiently high protection in the form of import tariffs or quotas was granted to the incipient domestic industries. Most proponents of the import substitution strategy also pointed out that the high degree of protection would only be necessary as a temporary measure; after an initial learning period these “infant industries” would move into their “adolescence” and would not require tariffs (Prebisch 1984). Reality, however, showed this view to be wrong. In a way, protectionism became a semipermanent feature of the Latin American economies.

During the first years of the industrialization process, a number of the larger countries’ important heavy industries were created, as the bases for a manufacturing sector were set. However, alongside the industrialization process, an impressive array of restrictions, controls, and often contradictory regulations evolved. In fact, thanks to these import restrictions many of the domestic industries were able to survive. For example, a number of comparative studies have indicated that some of the Latin American countries (e.g., Chile) had for a long time one of the highest, and more variable, structures of protection in the developing world. As a consequence, many (if not most) of the industries created under the import substitution strategy were quite inefficient. In an empirical study directed by Krueger (1980), it was found that in Colombia, Chile, and Uruguay this inward-looking strategy resulted in the use of very capital intensive techniques, which hampered the creation of employment, among other inefficiencies.

As in most historical cases, the Latin American import substitution strategy was accompanied by an acutely overvalued domestic currency which precluded the development of a vigorous nontraditional export sector. In particular, in many of these countries the agricultural sector was seriously harmed by the real exchange rate overvaluation. In fact in many cases the lagging of agriculture became one of the most noticeable symptoms of Latin America’s economic problems of the 1960s.

During the early and mid-1960s the import substitution strategy began to run out of steam. At that time, most of the easy and obvious substitutions of imported goods had already taken place, and the process was rapidly becoming less dynamic (Furtado 1969).

Starting in the late 1960s, and during most of the 1970s, most countries made some movements toward rationalizing their external sectors via the reduction in coverage of quantitative restrictions and reduction in the average level of tariffs. In many cases these liberalization efforts were accompanied by active policies aimed at promoting exports. In a number of countries these export promotion schemes were based on an active management of the nominal exchange rate, aimed at avoiding overvaluation, and thus helped maintain a steady growth in exports.

The Colombian experience is particularly interesting. After decades of an almost chaotic external sector policy—where exchange rate crises were the norm rather than the exception—in 1967 the Colombian government implemented a series of measures aimed at encouraging exports and at reducing the extent of protectionism. The exchange rate was devalued significantly, and a crawling peg system based on periodic adjustments of the nominal exchange rate was adopted. At the same time the percentage of commodities subject to prior import licensing was drastically reduced, as were the average levels of tariffs. The exchange rate and import liberalization policies were supplemented with a dynamic export subsidies scheme (the so-called CATs). The Colombian experience was in many ways a big success. Exports soared, new efficient industries were developed, and the external sector stayed extremely healthy, to the extent that Colombia was the only country among the large and medium Latin American nations not affected in a traumatic way by the debt crisis.²⁷

Undoubtedly, the most ambitious attempts to liberalize the external sector took place in the Southern Cone during the late 1970s. Starting around 1975, Argentina, Chile, and Uruguay embarked on major programs to reform their economies. These cases were particularly interesting since the reforms implemented corresponded closely to what many economists have been advocating for a long time: quantitative restrictions on trade were eliminated, tariff levels and dispersion were reduced, domestic capital markets were developed, and restrictions on international capital movements were lifted. The main objective of these reforms was to transform these countries into open export-oriented economies.

A decade after these reforms were first implemented, the evidence indicates that they were to a large extent failures. In all three countries the liberalization reforms have been partially reversed. Tariffs have been raised, so that these economies are tending once again to become less integrated with the rest of the world. Severe financial crises resulted in the collapse and virtual nationalization of the banking sectors.

Although this is still an area of debate, it is possible to argue that the failure of these liberalizations was, to a large extent (but not exclusively), due to the implementation of inappropriate macroeconomic policies, including wage rate and exchange rate policies. Also, the way in which the financial reforms were implemented—with little or no supervision on behalf of the authorities—played an important role in the final disappointing outcome.

A major indirect negative effect of the failure of the Southern Cone experiences is that they have generated a bad press for import liberalization and market-oriented policies in the rest of the region. The collapse of these economies, the financial scandals, and the reversal of the policies have given ammunition to those who, on political or other grounds, oppose economic liberalization and tariff reform as a development strategy.

1.5.2 Tariffs and “True Protection”

Table 1.28 contains data on nominal and effective rates of protection for selected Latin American countries.²⁸ Although these data refer to only a handful of countries, and in some cases to quite a few years back, they give a flavor of the extent and evolution of protectionism in the region. First, the effective rates of protection (or protection to value-added) are extremely high. This is especially the case in the 1960s and 1970s. Second, for the cases of Argentina, Chile, Colombia, Peru, and Uruguay, these figures reflect vividly the move toward tariff liberalization that took place in the late 1970s and early 1980s.

What is not reflected in this table, however, is the post-debt-crisis (i.e., post-1982) generalized movement toward greater protection in the region. As these countries were forced to reduce imports and improve their external balance, they hiked their tariffs fairly significantly and imposed other forms of import controls. Even Chile, under the super-open-economy approach of Pinochet, responded to the crisis by (temporarily?) increasing tariffs by more than 50 percent in 1983 (see Edwards and Edwards 1987, 126–29).

Tariffs, of course, constitute only one form of protection, and countries in fact use many other mechanisms to introduce *de facto* wedges between domestic and world prices. As discussed in section 1.3, nontariff barriers (NTBs) can take many different forms ranging from prior deposits to outright quotas. The history of nontariff barriers in Latin America is long. As a number of authors have pointed out, import licenses, prior import deposits, and quotas have been generalized in these countries. Not surprisingly, use of nontariff barrier mechanisms increased significantly after the debt crisis (Cepal 1986f). In Colombia, for example, the proportion of imports subject to an import license increased from 47 percent in 1980 to 66 percent in 1983 (see Edwards 1983).

Table 1.28 Nominal and Effective Rates of Protection in Selective Latin American Countries

	Year	Nominal Rate of Protection	Effective Rate of Protection
Argentina			
Manufacturing	1969	51.5	97.4
All industries	1969	35.5	46.9
Manufacturing	1976	94.0	n.a.
Manufacturing	1980	53.4	n.a.
Brazil			
Consumer goods (manufactured)	1967	n.a.	66
Capital goods	1967	n.a.	52
Chile			
Manufacturing	1974	n.a.	10.1
Manufacturing	1979	n.a.	13.6
Colombia			
All industries	1979	n.a.	47.6
All industries	1981	n.a.	38.7
Peru			
All industries	1973	80.1	n.a.
Manufacturing	1975	n.a.	198
All industries	1980	37.0	n.a.
Uruguay			
All industries	1974	452	n.a.
All industries	1982	53	n.a.

Sources: Argentina: Cavallo and Cotani 1986; Brazil: Carvalho and Haddad 1981; Chile: Edwards and Edwards 1987; Colombia: Edwards 1983; Peru: Noguez 1986; Uruguay: Favaro and Spiller 1986.

Unfortunately the data available on NTBs in the developing countries, and in particular in Latin America, are exceedingly sketchy. In fact, as far as I know it is not possible to find, for Latin America, data on the coverage of NTBs which would be equivalent to the data presented in section 1.4. However, a recent study by ALADI (1984) provides some indication of the coverage of two forms of NTBs: outright prohibitions and prior import licenses. Table 1.29 summarizes these data. As can be seen from this table, NTBs are as prevalent in Latin America as in the developed countries, if not more so.

Multiple exchange rates are another mechanism used extensively by the Latin American nations to impede trade flows. Interestingly, studies on NTBs have not focused on this protective tool. In section 1.6, however, we look into this problem in more detail.

The lack of reliable data on NTBs has generally frustrated analysts trying to assess with some rigor the extent of protection in the developing world. For this reason, in a recent massive cross-country study

Table 1.29 Coverage of Some Nontariff Barriers in Selected Latin American Countries, 1983

	Percent of Import Items Subject to Outright Prohibition	Percent of Import Items Subject to Import Licenses
Argentina		
All products	23	29
Brazil		
All products	42	n.a.
Textiles	93	n.a.
Agriculture	86	n.a.
Wood	80	n.a.
Chile		
All products	0	0
Colombia		
All products	n.a.	60
Ecuador		
All products	30	n.a.
Agriculture	71	n.a.
Mexico		
All products	n.a.	82

Source: ALADI 1984.

undertaken at the World Bank, an effort to construct subjective “indexes of liberalization” was made. These indexes are supposed to capture the extent of trade impediments, including tariffs and other NTBs. They are *subjective* in the sense that they do not combine actual objective measures. Although there are some shortcomings related to this subjectivity, including the nonverifiability and noncomparability across countries, their construction has been extremely useful in helping to understand the evolution of “true protectionism” in some of these countries. For the five Latin American nations included among the eighteen countries covered by the study, the indexes reflect the protectionist history of these countries as well as the efforts toward liberalization implemented in the late 1970s and early 1980s (see Michaely, Papageorgiou, and Choksi 1986).

1.6 Latin America’s Exchange Rate Policies and the External Sector

This section briefly analyzes the exchange rate policies of the Latin American countries, placing special emphasis on two issues: (a) real exchange rate overvaluation, and (b) the protective role of multiple and parallel (or black) market exchange rates. The evolution of the external sector can be affected in several ways by the evolution of the real exchange rate.²⁹ For example, real exchange rate misalignment,

and especially an overvalued real exchange rate, greatly harms export performance (and in particular nontraditional exports) and encourages capital flight. On the other hand a highly volatile real exchange rate enhances uncertainty, tending to reduce and even mislocate investment.³⁰

1.6.1 Exchange Rate Policies, the Dollar, and Real Exchange Rates

During the last thirteen years or so, the Latin American countries have followed the most diverse nominal exchange rate policies, including fixed to the dollar, crawling peg (i.e., periodic adjustments approximately determined by the differential between domestic and world inflation), periodic devaluations, preannounced declining rate of nominal devaluation, and so on. Surprisingly perhaps, in spite of these different policies, during the late 1970s and early 1980s a large number of countries experienced significant real appreciations, which led to acute overvaluation of their currencies.³¹

In general, it is possible to single out three main causes of these fairly generalized movements toward real overvaluation: Many of these countries pursued expansive monetary and fiscal policies that became incompatible with the nominal exchange rate regime chosen (i.e., Mexico, Peru, Argentina). In this case, the loose macropolicies resulted in expansions of aggregate demand, which exercised upward pressure on domestic prices. As prices increased at a rate higher than the nominal rate of devaluation (which under fixed nominal rates is zero), the real exchange rate appreciated and the country's exports became less competitive in international markets. A second cause of real appreciation, which affected mainly the Southern Cone countries, was the adoption of preannounced declining devaluation schedules, which started at rates below the ongoing rate of inflation (i.e., the *tablitas*). The combination of these *tablitas* with other policies, such as backward wage indexation in Chile and relaxation of capital controls in Argentina, Chile, and Uruguay, conspired to generate significant real appreciations in these three countries (Edwards 1984). A final and important factor that contributed to the loss in the region's competitiveness was the significant appreciation of the dollar in international financial markets between 1980 and 1985. Most of the Latin American countries either peg their nominal exchange rate to the U.S. dollar or use the dollar as a term of reference to conduct their exchange rate policy. Consequently, as the dollar appreciated in the international financial markets with respect to other industrial countries' currencies, so did most of the Latin American currencies.³²

Figures 1.4–1.7 depict the behavior of two indexes of the real exchange rate for Brazil, Chile, El Salvador, Paraguay, Peru, and Mexico. These indexes were constructed using quarterly data and in most cases

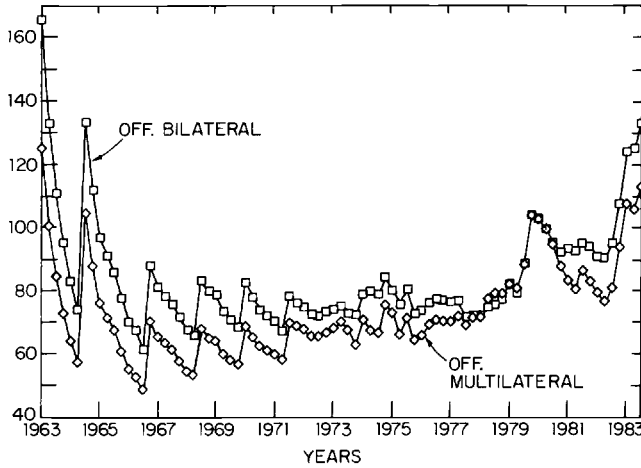


Fig. 1.4 Brazil. Real exchange rate: $e = E*CP1(\text{world})/CP1(\text{home})$ (1980 = 100).

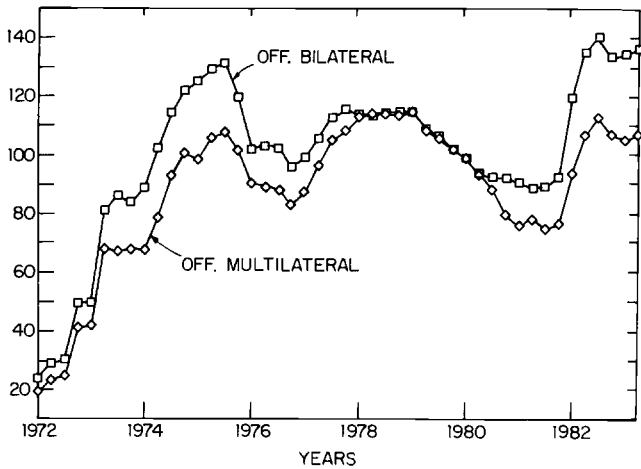


Fig. 1.5 Chile. Real exchange rate: $e = E*CP1(\text{world})/CP1(\text{home})$ (1980 = 100).

cover up to mid-1983 or early 1984. The average for 1980 is equal to 100.³³ In these diagrams an increase in the indexes reflects real depreciation, while a decline in the index denotes real appreciation or loss of international competitiveness. The first index is the traditional bilateral real exchange rate computed with respect to the U.S. dollar and is called "off bilateral" in the diagrams. The second index, called "off multilateral," was constructed taking into account, for each country,

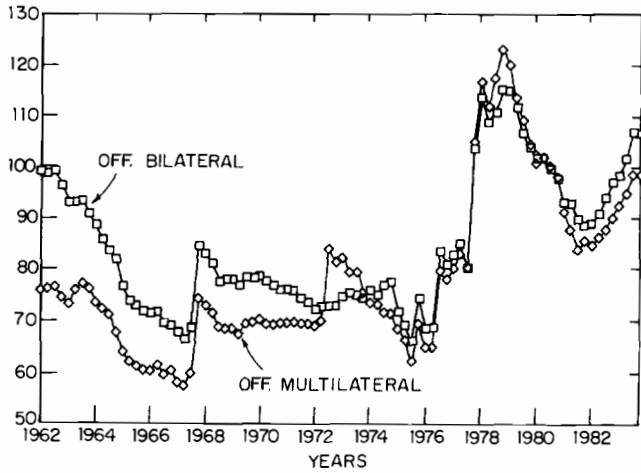


Fig. 1.6 Peru. Real exchange rate: $e = E \cdot CP1(\text{world}) / CP1(\text{home})$ (1980 = 100).

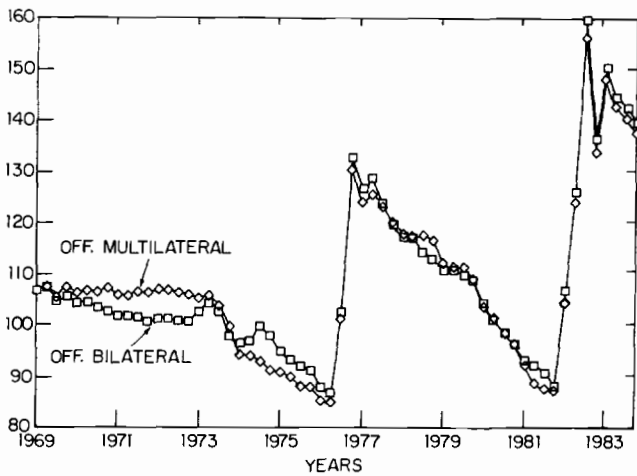


Fig. 1.7 Mexico. Real exchange rate: $e = E \cdot CP1(\text{world}) / CP1(\text{home})$ (1980 = 100).

the changes in international competitiveness relative to a group of its ten most important trade partners. In this way this multilateral real exchange rate index is able to take into account the way in which fluctuations among the partners' exchange rates affect international competitiveness.

These diagrams neatly reflect some of the features of real exchange behavior discussed earlier. First, in all countries we observe that in the mid- to late 1970s a process of real appreciation, which entailed a

reduction in the countries' degree of international competitiveness, took place. While in some cases this declining trend in the RER was reversed in the early 1980s (Brazil, Chile, Peru, Mexico) via nominal devaluations, in others (Paraguay, El Salvador) it continued until at least 1984. These diagrams also reflect in a nice way the differences between bilateral and multilateral real exchange rates, as well as the effects of the dollar appreciation in the first half of the 1980s. Notice that in all countries after 1980 the multilateral index declines (i.e., appreciates) much faster than the bilateral rate, indicating that the degree of "true" overvaluation—which takes into account changes in the degree of competitiveness relative to all trade partners—was much greater than that computed with respect to the U.S. dollar only.

1.6.2 Multiple Exchange Rates, Parallel Markets, and Protectionism in Latin America

In many cases nonunified exchange rates play an important protective role. To the extent that two types of international transactions are subject to different rates of exchange, a wedge between their prices that acts in the same way as a tax will be imposed.³⁴ Moreover, multiple exchange rates for commercial transactions will have an effect equivalent to import tariffs (or export taxes), since the domestic public will have to pay a higher price for those imports subject to a higher exchange rate.

For the exchange rate system to play a protective role, the authorities need not officially adopt multiple rates. In fact, a parallel market for foreign exchange will usually also have a protective effect. Generally speaking, in many cases marginal imports will be brought into the country at the higher parallel market (or free) exchange rate.³⁵

The Latin American countries have had a long tradition with multiple exchange rates. In many cases—as in Argentina and Colombia for example—a lower rate has been applied to traditional exports as an implicit way of taxing them. Also, in many countries, and for long periods of time, different rates have been applied to commercial and financial transactions. Perhaps the most extreme case is that of Chile in 1972, when fifteen different "official" exchange rates were in effect.

In fact in the 1980s multiple rates have become such a commonplace that in 1983 all but three of the Latin American countries for which there are data had two or more official exchange rates. While in many of these countries multiple rates have been a long-term feature (Argentina, Colombia, Paraguay, Ecuador), in many others they have only made an appearance (or reappearance) in the early 1980s, usually as part of the packages aimed at dealing with the debt and economic crisis (i.e., Chile, Venezuela, Dominican Republic). This profusion of multiple official rates as well as the significant parallel market premiums

observed in many of these countries indicate that the extent of protection in Latin America is generally higher than what data on tariffs, or even import licenses and quotas, would suggest.

1.7 Direct Foreign Investment in Latin America

For many years, direct foreign investment has been a controversial issue in Latin America. Most countries in the region have carefully regulated the conditions under which direct foreign investment can take place, and have determined with even greater care regulations that govern profits repatriation, reinvestment, transfer pricing, and so on. Moreover, in a number of countries regulations establish a time limit after which any foreign investment should be “nationalized,” with at least 51 percent of the equity belonging to locals. Perhaps the most severe of these regulations regarding direct foreign investment was contained in article 24 of the Cartagena Agreement which governed the functioning of the Andean Pact.³⁶ According to this regulation, any foreign investment had to be nationalized before fifteen years had elapsed.

Latin America’s attitude toward foreign investment has in many instances been discriminatory and sector-specific; while direct foreign investment is welcomed in some sectors, it is completely kept out of other so-called strategic areas. Good examples of this type of policy are the Brazilian and Mexican rejections of recent proposals to develop U.S.-owned computer manufactures in those countries.³⁷ Also the incorporation in the Chilean constitution of state *ownership* of all major copper (and other) mines is striking.³⁸

In spite of the “suspicious” attitude with which many of the Latin American countries have faced the subject, direct foreign investment in the region has continued to be substantial, with the United States as the principal actor. Table 1.30 contains the latest available data on the *accumulated value* of direct foreign investment in Latin America by country of origin. Although these data—as is much of the information on direct foreign investment in the region—are highly incomplete, they reflect two interesting facts. First, the United States plays a very dominant role in the area. Second, as far as this information shows, the relative importance of the United States declined between 1976 and 1981. In fact, according to the data the U.S. share in the accumulated value of foreign direct investment fluctuated around 63–64 percent between 1967 and 1978; in 1981, the last year for which there are data, this share was only 54 percent.

Between 1982 and 1984 there was no change in the value of U.S. investments in the region. However, 1983 was a year of a fairly important net disinvestment, concentrated almost exclusively in Vene-

Table 1.30 **Accumulated Value of Direct Foreign Investment in Latin America by Country of Origin (millions of U.S. dollars)**

	1967	1976	1977	1978	1979	1980	1981	1984
U.S.	11,777	23,934	27,514	32,662	35,056	38,882	38,864	28,094
Japan	403	3,301	3,757	4,373	5,000	6,168	n.a.	n.a.
Germany (FR)	753	3,494	4,381	4,674	n.a.	n.a.	n.a.	n.a.
U.K.	1,228	n.a.	n.a.	1,995	n.a.	n.a.	n.a.	n.a.
Canada	1,093	2,287	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
OECD Total	18,453	37,740	43,293	50,550	n.a.	n.a.	71,800	n.a.
ALADI	n.a.	n.a.	n.a.	n.a.	n.a.	590	654	n.a.

Source: CEPAL 1986b.

zuela. In 1984 there was a net positive investment of almost the same value as the drop of 1983. However, the geographical as well as the sector composition changed drastically. While investments in Venezuela were minimal in 1984, they surged in Brazil. Also, oil saw a big dip in 1984, with manufactures and commerce experiencing important increases.

Undoubtedly, the economic and political uncertainties of the last few years in Latin America have dictated the relative stagnation of U.S. investment flows into the region. On the other hand, abundant natural resources and substantial labor cost differentials still make the region a very attractive place for U.S. and other multinationals to locate. For example, the data in figure 1.8 suggest that the relative differential between U.S. and local labor costs has widened since the mid-1970s.³⁹

In the aftermath of the debt crisis, direct foreign investment will probably become very important for the Latin American countries. For a number of years to come the region will not be able to obtain abundant (or even meager) funds from the international banking community, or from the flotation of bonds. Consequently, additional funds to finance increased capital accumulation and the resumption of growth will have to come from other sources. Of course, the natural alternative sources of funds to finance investment are (a) increased domestic savings (both private and public), (b) reversal of the massive capital flight that took place in the early 1980s,⁴⁰ (c) increased funds obtained from multilateral organizations such as the World Bank and the Interamerican Development Bank, and (d) increased direct investment.

Whether these potential sources of additional foreign funds will actually become available will depend on a series of factors, including

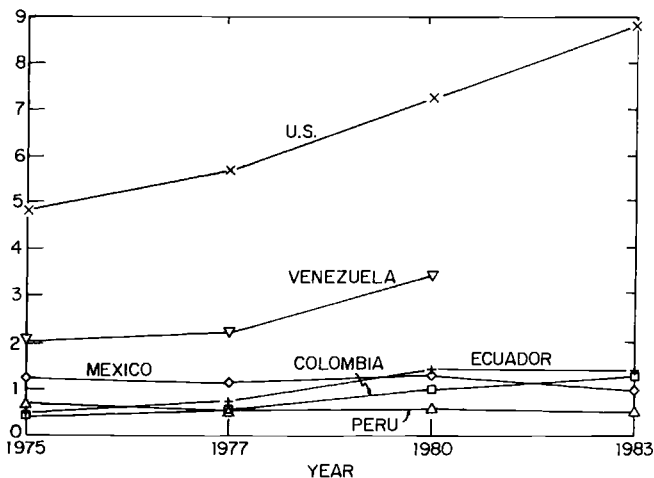


Fig. 1.8

Wages in manufacturing for the United States and five Latin American countries, selected years, 1975–83.

the countries' domestic policies. However, with respect to direct foreign investment, substantial increases in the flow of funds will require fairly creative policies by the Latin American countries that would encourage these additional funds from abroad, while at the same time would allow these countries to maintain their main development and "national objectives." An interesting possibility would be to link any efforts to attract new direct foreign investment to the opening up of the "services sector." For example, in 1984 the United States' accumulated direct investment in the commercial banks, finance, insurance, and real estate sectors was only 11.9 percent of the total of these investments.⁴¹

1.8 Concluding Remarks

In this paper I have analyzed in detail a number of different aspects related to the evolution and recent behavior of U.S. trade relations with the Latin American countries. In this section I wrap up the analysis by summarizing the findings and by discussing the possible future evolution of U.S.-Latin American trade relations. The main conclusions of this study are the following:

1. When market import shares (computed using U.S. dollar values of imports) are used as an indicator of competitiveness, there is no evidence of a loss in the U.S. degree of competitiveness in Latin America in the last fifteen years or so. In fact, the statistical analysis of the existing empirical evidence shows that there has been no significant change in the U.S. share of the aggregate Latin American import market since 1970.

2. At the individual country level, however, there have been some changes. In nine countries, the U.S. share of imports has not changed significantly; in two it has increased; and in five, including Nicaragua, there has been a decline.

3. Although at the *overall aggregate* level there have been no significant changes in the degree of U.S. competitiveness in Latin America, there have been substantial changes in what the United States exports to these countries. There has been a very important increase in Latin American imports of primary products and of chemicals from the United States, with a decline in imports of other (traditional) manufactured goods. Thus, there has been an increase in the "degree of competitiveness" of U.S. primary products and chemicals in Latin America, accompanied with a loss in competitiveness of traditional manufacturing sectors.

4. Although the share of the United States in total Latin American imports has not changed, the (real) dollar value of U.S. exports to the region has declined very significantly in the last three or four years. This is because, as a result of the debt crisis, every country in the

region has gone through major—and in some cases highly innovative—adjustment programs, which have resulted in important reductions in total imports. For the region as a whole, the *real* value of aggregate imports declined by more than 45 percent between 1980 and 1985.

5. The reduction in the real value of Latin America's imports in the last years was a result of the contractionary demand policies implemented in many countries, of important (real) exchange rate adjustments, and of the imposition in many cases of fairly massive import controls. These import controls—which take many forms, including higher tariffs, more generalized NTBs, multiple exchange rates, and parallel exchange rates—mark an important turn from a liberalizing trend observed, since the mid-1970s, in most countries in the region. It is clear that this mode of Latin American adjustment is not sustainable in the long run. The resumption of growth will require a rationalization of the external sector and an increase in imports and in exports.

6. In terms of foreign competition, Japan has not experienced any significant increases in its presence in the Latin American import market. At the manufactured goods level, the drop in the U.S. share has been picked up by other NICs (i.e., Korea, Taiwan) and especially by intra-Latin American trade. In fact, CEPAL/ECLA projects a substantial increase in overall intraregional trade for the next years (CEPAL 1986c). For example, in July 1986 CEPAL/ECLA projected that the share of intra-ALADI imports would increase from 16 percent in 1985 to 18.6 percent in 1990 and to 22.2 percent in 1994. Naturally, if this happens, other countries' shares, including the United States', would decline. Although we cannot discard ECLA's projections casually, their numbers are possibly on the high side, since they are based on the (fairly unlikely) assumption of "dedollarization" of the interregional trade.

7. A remarkable fact, surprisingly not widely known, is that practically all of the recent adjustment has come through a reduction in imports, with the *real value* of exports having declined in many of these countries, mainly as a result of the reduction of prices of commodity exports.

8. The recovery of the Latin American economy will require an increase in exports and a rationalization of these nations' import sector, via reduced protection and increased efficiency. This rationalization and easing of the current high levels of import restrictions will probably come about slowly. It is highly likely that these countries will proceed cautiously, avoiding this time around the errors and mistakes of the recent Southern Cone liberalization. Special care will be placed on avoiding exchange rate overvaluation.

9. A sustained increase in Latin America's exports—which is, of course, a prerequisite for an increase in its imports—requires a number of conditions. First, there has to be a steady increase in the demand

for these goods by the developed world. In fact, it has been recently estimated that an average increase in industrial countries' GDP of approximately 3 percent per annum will be "required" during the next years (Balassa et al. 1986). Second, increased efficiency in the regional productive process must occur; this could be achieved via a generalized increase in efficiency, including the rationalization of the external sector. Also, real exchange rate overvaluation must be avoided. More important, the current protectionist trend in the industrial countries must be reversed.

10. The data presented in this paper indicate that at this time the extent of nontariff barriers, as a form of protection in the industrial countries, is very significant. Moreover, the data show that these NTBs are particularly important for goods originating in the developing nations and that their tariff equivalents are in many cases very significant.

11. Although the United States is still the most important country regarding direct investment in Latin America, its relative importance has declined in recent years. Since 1981 the accumulated value of U.S. investment in Latin America has not changed. However, its sectoral and geographical composition has changed, with oil and commerce being negatively affected. Both because of its resources and labor costs, Latin America continues to be an attractive region for foreign investors. Moreover, in the aftermath of the debt crisis, direct foreign investment has become one of the few possible sources of foreign funds to finance capital accumulation and growth in the region. Whether significant investments will materialize will depend on expected economic and political stability and on innovative changes in local regulations.

The evidence examined in this paper suggests that the United States' overall competitive position in Latin America has not changed significantly in the last fifteen years or so. At the sectoral level, however, the composition of U.S. exports to Latin America has changed, reflecting a changing pattern of U.S. comparative advantage: chemicals and primary products have increased their shares, with traditional manufactures hurting. Foreign competition in Latin America is not coming from Japan but from other NICs, and, more important, from intra-Latin American trade. As a result of the debt crisis the value of Latin American imports has greatly declined, bringing down with it the value of U.S. exports to the region. As imports recover and move toward their peak (real) value, the United States will also increase its exports to the region. How will the recovery of imports be financed? Possibly, in part by higher exports—this in turn requires steady growth in the industrial world and an end to the protectionist mood—and in part through new funds made available by increased direct foreign investment.

Appendix

Table 1.A.1 Regressions Results for U.S. Import Market Shares in Sixteen Latin American Countries; 1970-83

Country	Constant	Time Trend	Log U.S. Real Exchange Rate	Log U.S. RER Lagged	D.W.	R ²
Argentina	0.626 (0.292)	0.013 1.088	-0.044 (-0.066)	-0.439 (-0.571)	1.229	0.222
Brazil	3.061Q* (4.678)	-0.046* (-12.469)	0.387 (1.824)	-0.470 (-1.890)	2.572	0.975
Chile	1.487 (0.398)	-0.009 (-0.442)	-1.383 (-1.143)	1.003 (0.706)	1.238	0.132
Mexico	2.999* (4.973)	0.009* (2.603)	-0.171 (-0.877)	-0.059 (-0.258)	2.173	0.598
Uruguay	0.613 (0.246)	-0.009 (-0.677)	-0.232 (0.281)	0.131 (0.971)	2.010	0.159
Venezuela	4.271* (3.798)	-0.005 (-0.887)	-0.569 (-1.564)	0.657 (1.537)	1.521	0.211
Colombia	4.354* (4.008)	0.021* (-3.462)	-0.176 (-0.501)	0.287 (-0.696)	1.805	0.647
Paraguay	-1.659 (-0.557)	-0.061* (-3.608)	0.354 (0.367)	-1.331 (1.175)	1.377	0.814
Costa Rica	1.984* (2.521)	0.001 (0.305)	-0.389 (1.525)	0.065 (0.219)	1.475	0.388
Guatemala	3.453 (3.742)	-0.004 (-0.676)	-0.577 (-1.929)	0.560 (1.598)	1.749	0.278
Ecuador	3.023* (2.758)	-0.005 (-0.757)	-0.179 (0.505)	0.043 (0.103)	1.041	0.144
Peru	3.480* (2.521)	0.027* (3.469)	0.395 (0.882)	-0.359 (0.684)	1.254	0.658
Nicaragua	7.534 (6.311)	-0.045* (-6.680)	0.063 (1.627)	0.182 (0.402)	2.674	0.901
El Salvador	3.017 (2.334)	-0.002 (-0.232)	0.680 (1.625)	-0.753 (-1.532)	1.091	0.378
Honduras	5.211 (5.816)	-0.011* (-2.147)	0.067 (0.237)	0.277 (0.665)	1.539	0.435
Bolivia	-1.365 (-0.760)	0.009 (0.904)	0.274 (0.470)	-1.238 (-1.813)	1.940	0.428

Notes: The regression run was the following log share_t = a₀ + a₁ TIME + a₂ log USRER_t + a₃ log USRER_{t-1} + μ_t. The data on real exchange rates correspond to (the inverse) of the IMF MERM indexes.

The numbers in parentheses are t-statistics; D.W. is the Durbin-Watson statistic; R² is the coefficient of determination. All asterisks mean that the coefficient is significant.

Notes

Comments on this paper by Alejandra Cox Edwards, Arye Hillman, and the participants of the preconference meeting held in Cambridge, Massachusetts, December 1986, have been very useful. The help obtained from Dr. Rolando Sanchez during the author's visit to CEPAL (Santiago, Chile) to gather data for this paper is gratefully acknowledged. David Gould provided able research assistance. This research was supported by the NSF (Grant SAS 84 19932) and by UCLA's Academic Senate.

1. These are the countries for which disaggregated data on directions of trade are available.

2. On the evolution of Latin America's external sector see, for example, Furtado 1969. On Latin America and the Great Depression see Diaz-Alejandro 1982 and 1983, and Maddison 1985. On the development strategies in Latin America, see Corbo 1986.

3. See, for example, the discussion in Furtado 1969.

4. On the Southern Cone see, for example, Calvo 1986; Corbo 1985; Hanson and de Melo 1985; Edwards 1985; and Edwards and Edwards 1987.

5. An important issue concerns to which external price index should be used to compute the evolution of the real value of imports and exports. The figure quoted earlier was calculated using the U.S. CPI. If the wholesale price index for the industrialized countries as a whole, as computed by the IMF, is used instead, Latin American imports declined by 49 percent on real terms between 1980 and 1985.

6. In some of these countries imports had also grown at a fantastically high pace between 1975 and 1980 (i.e., the Southern Cone countries). Notice, however, that for the fourteen countries as a whole, the real value of imports grew at a slower rate during 1975–80 than in the period 1965–75.

7. However, both the trade-GDP and the import-GDP ratios exhibit quite a bit of fluctuation from year to year. To get a sense of the general trend in the degree of openness, regressions of the log of both of these indexes on time were run for the period 1960–83. The results show that in the great majority of these countries, openness increased during this period.

8. The decline of the trade ratio, however, is less marked than that of the imports ratio. The reason is that as a result of the adjustment program in some of these countries, exports increased during the period.

9. On the constant-market-share criterion for assessing the degree of international competitiveness, see Leamer and Stern 1970.

10. This can be illustrated using the following example. Assume that a particular Latin American country imports goods from the United States and the rest of the world. The quantities imported are M^{US} and M^R respectively. The price of imports from the United States is P^{US} , while the price of imports from R , expressed in U.S. dollars, is EP^R , where E is the nominal exchange rate between the United States and the rest, and P^R is the price of M^R in the rest of the world currency. Our market share then is equal to $s = [P^{US}M^{US}/(P^{US}M^{US} + P^R E M^R)]$. This can be rewritten as $s = [M^{US}/(M^{US} + (E P^R / P^{US}) M^R)]$. Notice that $[(E P^R / P^{US})]$ is the real value of the dollar. Clearly, then, even if M^{US} and M^R —the quantities imported—remain constant, changes in $(E P^R / P^{US})$ will affect s .

11. In Argentina, Chile, Venezuela, Peru, and El Salvador the U.S. share exhibited a slight increase between 1977 and 1982; in Brazil, Paraguay, and Nicaragua there was somewhat of a decline during the same period. In the

other countries the U.S. share fluctuated around a fairly stable value during 1977–81.

12. The coefficient for the time trend turned out to be -0.004 with a t -statistic of -1.2 . In fact, Nicaragua is the only country with a significant increase in imports from the Soviet bloc during the 1980s.

13. Due to space considerations, detailed data for the rest of the countries are not provided here. However, these data are available from the author on request.

14. Given the different sources (IMF and ECLA) there are some (minor) divergences between these figures and those in tables 2.1–2.4. See CEPAL 1985 and 1986d.

15. The Heckscher-Ohlin theory predicts that, in general, a country will tend to export those goods whose production process is intensive in the factor that the country has in relative abundance (see Leamer 1984). Notice that Leamer's study covers only up to 1975. The data presented here, then, confirms that Leamer's results are also valid for the more recent period.

16. This classification corresponds to ECLA.

17. This of course is consistent with the shift in the U.S. comparative advantage detected above and documented in the previous subsection.

18. In not all countries, however, did the real value of exports decline during this period. In Brazil, Ecuador, and Mexico, for example, the real value of exports was significantly higher in 1985 than in 1980. In both cases the real value of imports and exports were computed using the data in tables 1.2 and 1.3 and the U.S. WPI as a price deflator for the nominal dollar values. If, however, the wholesale price index for the industrialized countries as a whole is used as the deflator, real exports of these thirteen countries have declined by almost 18 percent.

19. For a comprehensive discussion on the role of exports in the recovery of Latin America, see the analysis in Balassa et al. 1986. Even in those quarters where traditionally there has been skepticism regarding the role of trade, there is now agreement on the importance of exports expansion in the next decade or so.

20. See, however, section 1.7 for a discussion on alternative sources of financing of new imports.

21. As in the case of imports, these shares have been computed by dividing the dollar value of exports to a particular country by the total dollar value of exports.

22. Another interesting regularity is that the relative importance of fuel exports (category 3) increased dramatically during the period. This rapid growth, of course, reflects increases in both oil prices (notice, for example, the jump of this share in 1979) and oil production. Naturally, the recent decline in the price of oil has had the opposite effect on these shares.

23. See Balassa and Balassa 1984; Cline 1985; Jones 1983; and Nogues, Olechowski, and Winters 1986a and 1986b.

24. Denmark, France, Germany, Greece, Ireland, Italy, the Netherlands, the United Kingdom, Australia, Austria, Finland, Japan, Norway, Switzerland, and the United States.

25. Since the numerator in this index is *actual* imports, its value will tend to be biased downward. For this reason Nogues, Olechowski, and Winters construct alternative indexes, which is pretty much the same story as that presented here.

26. In fact, in their recent blueprint for Latin American recovery, Balassa et al. 1986 stress that it is crucial that the industrialized countries avoid any

new import protection or export subsidization, "indeed [what is required is] a renewal of trade liberalization" (p. 34). In that regard, the U.S. 1984 Trade and Tariff Act allows for the possibility of implementing a series of protectionist measures. For an analysis of the act from a Latin American perspective, see Rodriguez-Mendoza 1986.

27. Of course, the coffee boom of 1975–79 and the boom in illegal drug-related trade also helped. On coffee and the Colombian economy see Edwards 1983. On the Colombian external sector see Diaz-Alejandro 1976 and Thomas 1986.

28. The effective rate of protection is a measure of the relative degree of inefficiency of domestic production relative to international production. A positive value means that domestic value-added for that particular activity exceeds value-added at international prices. The effective tariff for good i (τ_i) is computed as $\tau_i = (t_i - \sum_j a_{ij}t_j)/(1 - \sum_j a_{ij})$, where t_i is the nominal tariff, a_{ij} is the input/output coefficient between input j and good i , and t_j is the nominal tariff on input j . Notice that if the good and *all* inputs have the same nominal tariff, then the effective and nominal rates of protection are the same ($\tau_i = t_i$).

29. The real exchange rate is a measure of the international competitiveness of a country and is defined as $RER = EP^*/P$, where E is the nominal exchange rate, and P^* and P are foreign and domestic price levels. An increase in RER represents a real depreciation and reflects an increase in competitiveness.

30. On the effects of real exchange rate overvaluation in the developing countries, see, for example, Phefferman 1985. On overvaluation and capital flight, see Cuddington 1986. A series of essays on exchange rates in developing countries can be found in Edwards and Ahamed 1986.

31. Notice that since overvaluation is defined as a (significant) discrepancy between the actual and equilibrium real exchange rate, not all real appreciation necessarily reflects a situation of overvaluation. It is possible that the equilibrium real exchange rate appreciates. For a fuller discussion see Edwards 1987.

32. Balassa et al. 1986, for example, considers the dollar appreciation episode of 1982–85 as an important determinant of the debt crisis.

33. For a detailed discussion on the construction of these indexes, see Edwards and Ng 1985.

34. This is an extensive technical literature on multiple exchange rates. See, for example, Dornbusch 1986a.

35. For a general discussion on the role of multiple and parallel rates in the developing countries, see Dornbusch 1986a and 1986b, and Edwards 1987.

36. Even the ultra-free-market-oriented Pinochet government in Chile showed apprehension regarding direct foreign investment when the Mining Law was enacted. See *Estudios Publicos*, Summer 1986.

37. On the Brazilian computer industry see Evans 1986.

38. The constitution allowed the state to grant concessions to foreign firms. The nature of these concessions was regulated by the Mining Law of 1979, which included an ingenious system for calculating indemnization in case of early termination of the concessions. See Pinera 1986.

39. Of course these comparisons are highly sensitive to the exchange rate used. To the extent that the Latin American countries succeed in avoiding real overvaluation, their real wages will remain relatively low by international comparisons.

40. On the extent of capital flight see, for example, Cuddington 1986.

41. This is significantly below its 1977 share of 25 percent.

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2. Thomas O. Enders

The Latin Debt Problem Can Be Downsized, but Growth Will Be Long in Coming Back

Why is it that after nearly five years of sacrifice—per capita income in Latin America has fallen by perhaps 8 percent in the 1980s and will fall again this year—the debt crisis appears no nearer to solution now than when it started?

The current crisis in Brazil—the product of a weak and divided government reacting to its own loss of control over the economy—throws a sharper light on that question; it puts the focus on the enduring domestic weaknesses that so exacerbate the impact of the debt.

Theoretically, when Latin America reached its borrowing limits in 1982, it could have gone on growing by sacrificing a couple of years' increases in consumption, increasing savings, switching those resources into exports, and running a trade surplus, in order to be able to service the debt without net new capital imports. Indeed, that is exactly what Korea did.

Latin America did swing from a trade deficit in 1981 to surpluses ranging from \$27 billion to \$37 billion in the last four years. But it has done so only to a small extent by diverting to export goods that could have been consumed at home. After decades of attempting to industrialize by building protected and often highly subsidized import substitution industries, Latin America—Brazil is the only significant partial exception—has had little to sell on the world market other than commodities and less experience in selling it. As a result, most of the burden of achieving a trade surplus has fallen on imports, which in the 1980s have fallen by no less than 45 percent in real terms.

This brutal cut has been achieved by restrictions at the frontier rather than by reductions in spending at home. But that in turn has left massive unsatisfied demand. The result: a sharp continentwide surge in inflation. And, as prices accelerated, governments that in better times already had only limited ability to raise revenue found themselves falling further and further behind. Ballooning *domestic* debts have become a central preoccupation of every government in the hemisphere, with *domestic* interest payments taking a bigger and bigger share of national income. As fiscal deficits widened and foreign balances swung to surplus, less and less of savings has been available for investment, which has fallen from nearly a quarter of GNP to about a sixth. Dramatic programs to control inflation—the Austral and Cruzado Price Freeze plans—have been tried, have worked for a while beyond their authors' wildest dreams, and then, in at least one case, failed beyond their wildest dreams. Ironically, the country most capable of switching resources from consumption to exports—Brazil—is also the country that has most spectacularly lost control of domestic demand and watches as its normally strong exports are sucked inexorably back into the country.

As a result of these internal mechanisms, it has cost Latin America enormously in income and employment to generate the trade surplus required to service a constant or slowly growing debt. Already, half a decade of growth has been lost. And the social consequences—growing disorder and violence in many of the hemisphere's main centers—are evident. Latin America shows no particular inclination to revert to the old populist dictators, who after all caused a lot of the economic problems from which the continent now suffers. But some Latin American societies do show signs of becoming ungovernable.

If it costs so much in lost income and jobs just to maintain the existing debt, why not do something about the debt itself?

One alternative—the Baker Plan—was to ease the burden of the debt by seeking additional commercial bank lending conditioned on market-oriented policy reforms. Some reforms are in fact occurring, but it is now clear that no matter what their scope, creditors are and will remain reluctant to see their Latin American exposure increase. Although new money has been obtained in individual cases—Mexico and Chile—private lenders continue overall to take out of Latin America more than official lenders put in.

Another alternative—the Bradley Plan and countless variations—is debt relief. In light of the current Brazilian impasse, new calls are being made for adoption of this solution, even though other major debtors are going in the opposite direction and conducting new deals with creditors—Mexico, Chile, Argentina, and Venezuela. While there are clearly good reasons for the banks to make provision for, write down,

or write off Latin American loans, they are unlikely to abandon claims for principal or interest without strong inducements or pressure.

Given high, if much reduced, exposure—Latin debt was still about 90 percent of the combined equity of U.S. money center and major regional banks at the end of 1985 and much higher for the former—there is no disposition on the part of the United States or other governments to pressure their banks to grant relief. And the borrower's interest in at least rolling over the existing debt gives the creditor banks bargaining power.

A third alternative—payments moratoriums—has a following in every country and of course keeps coming back as an option or bargaining tactic. Brazil has suspended payments pending a new restructuring. Peru has limited payments to 10 percent of foreign earnings. Both creditors and debtors are well aware that repudiation might be a political opportunity for some thrusting leader to make a breakthrough, as it was for Perón a couple of generations ago. But after decades of import substitution, more autarky is unlikely to work very well. And the immediate costs can be high as countries try to get on without trade credit or insurance. It will be interesting to see how Peru develops. Its partial moratorium was accompanied by a consumption boom.

But now the party's over and the question is whether Peru can grow without regularizing its participation in the world economy. That question applies even more strongly to Brazil. It is of course possible—and would be very damaging for all concerned—for Brazil's stalemated government to fail to find a timely compromise with the creditors. Argentina—struggling with the erosion of the Austral Plan—could go into crisis at the same time. But even if both those events occur, it would be a country-specific failure, not the start of a systemic failure and one not likely to last forever. Such moratoriums are unlikely to become the dominant phenomenon, unless there is a new, deep world-wide recession. At that point everything could start snapping.

A final option is the return of Latin money that has fled abroad. There may be \$100 billion or more of it. The usual fix on this is that if Latin countries adopt reliable market-oriented policies, some of the flight capital will go back. But recent experiments with tight money in Mexico and elsewhere suggest that some reflows can be induced if businesses find they have no alternative source of working capital. And governments are beginning to incentivize reflows by offering some variant of the debt-for-equity swaps many countries now offer to foreign nationals.

By themselves none of these options offers a systemic solution. That said, there are plainly trends under way that will eventually—in this decade—substantially downsize the debt problem.

One is the use of incentives to lessen the amount of debt outstanding. Many countries permit foreign nationals to buy debt in the open market (at a discount) and exchange it at par for equity. This is a form of subsidizing foreign investment. Clearly there are limits to it, given the small capital base for Latin American companies and concerns about foreign control and inflation. But there is a steady flow of transactions. Most of the open market purchases and sales of Latin American bank debt (perhaps \$3 billion or \$4 billion in a year) are related to debt-for-equity swaps.

The same concept can be applied to company debt—a much larger universe. Indeed, the new Mexican rescheduling agreement signed on March 20 does just that.

These mechanisms can also be used to attract flight capital back. Governments have an understandable concern about round-tripping, but the process is already starting. Mexico has just informed its creditors that such transactions will be authorized. The potential scope here is also very large.

A second trend is toward more write-offs. European banks are the most advanced in this regard and many have either fully provisioned or sold off their Latin portfolios. U.S. banks will have more scope for such actions in the next few years. As a simple matter of arithmetic, should present earning trends continue, exposure of U.S. money center and major regional banks could fall to half its present level as a percentage of capital by the end of the decade. Japanese banks are getting together to sell their Latin loans (at market discounts) to a sort of debt collection company.

The problem here is to develop a mechanism by which write-downs and write-offs can be translated into an actual reduction in debt outstanding—the interest of debtor—and into relief from participating in the next forced rollover—the interest of the creditor. Work is now underway on exchanges of existing debt for lower face value debt bearing the same interest, but which would not be subject to refinancing at maturity. Debtors could write down the debt, but give up the quasi-automatic roll-over option. Creditors would take a hit on their balance sheet, but could get out of the next forced loan. The point would be to give more options to both creditors and debtors to find a mutually convenient way to recognize, loan by loan, country by country, that a lot of money has been invested at a loss and cannot be fully recovered.

The third trend is toward more participation in the world economy. Mexico, once the most autarkic of all, is discovering the export market; at last it is keeping the exchange rate realistic and has made the historic decision to join GATT. If you go to Monterrey now, you find that companies that never made a dollar in the United States are suddenly

seeing their sales here take off. Last year, Mexico made more money exporting non-oil goods than petroleum. The collapsing price of oil contributed powerfully to the swing. But so did non-oil exports with growth of 34 percent. One finds similar trends in Chile and many of the smaller countries. Simultaneously, attitudes toward foreign investment are changing, and there is a continentwide move to privatize or at least subject state enterprise to better economic discipline.

Finally, the cost of the debt itself is coming down. Recent deals—Mexico, Chile, Venezuela—have saved almost a full percentage point on earlier spreads. No doubt Brazil, when it finally comes to terms, will also succeed in comprising its spread.

We swing from pessimism to optimism back to pessimism. Last year we were extolling Brazil and excoriating Mexico, with well-known figures predicting Mexican collapse into anarchy or revolution. Today it is Brazil we agonize about. Actually, behind the stop/go so characteristic of the hemisphere, the basic situation is changing only with soul-trying slowness.

Few Latin American countries have sufficient capacity to govern expenditures and to raise revenue to control internal demand. That defeated the Cruzado Plan, is defeating the Austral Plan, and could easily bring the currently improved performance of Mexico to grief. There is no evidence of any real institutional or political change in this crucial respect.

Without adequate demand control and still with few internationally tradable goods, it is painfully difficult and astonishingly costly to divert domestic resources to the creation of foreign trade surpluses. That leaves Latin America clawing away at the problem: borrowing a few dollars more where it can, trying to compress the cost of each new forced loan, using incentives to extinguish what debt it can, and just beginning to invent a capability to export goods other than commodities. The cumulative effect of each of these small changes will accelerate. But it will be the end of the decade before most of the countries can come back to the market—perhaps the most operational of definitions of the conclusion of the crisis.

Per capita income at the start of the 1990s will still be below that of 1980. And nothing we know about Latin America permits us to believe that it can find its way back to the sustained 6 percent growth of the last generation that made it one of the important engines of U.S. exports in the 1960s and 1970s.

3. *Jesus Silva-Herzog*

A Latin American Perspective

Latin America is probably going through the most severe economic and social crisis in more than fifty years. This is a well-known fact. After enjoying a period of relatively fast growth, Latin America began to see a profound change in its economic environment in the early 1980s.

Today's per capita income is 10 percent lower than in 1980. A number of social indicators are showing a serious deterioration that will affect potential growth. Investment has diminished; unemployment is on the rise, exports are sluggish, and the region has been a net exporter of capital since 1983.

On the other hand, around 94 percent of the population of the region are now living under democratic regimes.

The problem is not only the present situation, but the immediate prospects, which do not look very promising. It is possible that the 1980s will be remembered as a lost decade for the Latin American region as a whole. The basic reasons are complex and vary from country to country, even though there are some common elements. However, the explanation cannot rely on negative external factors or erroneous domestic policies alone. The basic causes of the process include both external and domestic factors.

The essential responsibility, however, lies on the domestic front. We, the Latin Americans, are the ones mainly responsible for what happened in Latin America. But we must recognize that there were a number of important unfavorable external factors that contributed significantly to the origin and permanence of the crisis.

The sudden and abrupt upward change in the level of interest rates in 1981, from low or negative real levels in the previous years, the deterioration of the terms of trade, and the interruption of financial flows to the region after the summer of 1982 were very destabilizing elements in the Latin American picture. On the other hand, inward-oriented trade policies, heavy foreign borrowing, overvaluation of the currencies, huge government deficits, and a more generalized inflationary atmosphere were domestic factors that have also contributed to the crisis.

Given that it will be difficult to change the negative transfer of resources in the short run, because of the very high level of external indebtedness, and that the prices of the main export commodities look unfavorable over the next few years, we might conclude that there are difficult times ahead for Latin America. And there is a real menace to

the well-being of the majority of the population and to the democratic process that has been so welcome in different countries. Austerity and democracy cannot live together for too long.

Latin America has faced the crisis in a serious and responsible manner. Basic economic attitudes that had been sustained for a long period of time are changing, and a closer perception of the necessary changes is more evident all over the region. Recent efforts to bring down inflation through the so-called heterodox approach are good examples.

In the basic challenge that lies ahead there is one essential element: resumption of economic growth. Growth needs to be stimulated as the only way to come out of the crisis. And growth will not come by itself. It will need the proper doses of domestic economic policies, with a favorable external environment.

The essential responsibility for growth lies with the Latin Americans. No one will do for us what we do not do for ourselves. One thing must be stressed: the emphasis on growth cannot be interpreted as forgetting about control of inflation. Avoiding rapid rates of inflation is a precondition for sustained economic growth.

Given the economic constraints that we are facing and that we will face in the coming years, the resumption of growth, with greater importance attached to equity considerations, will require profound changes in the economic policy of Latin America. Many of the traditional ways things have been done in the region will have to be altered—from the essential orientation of trade policies to the basic attitude toward the mobilization of internal savings and the role of the state.

In the next few years it is reasonable to expect that the region will not have net external financing comparable to the levels of the past decade. This necessarily implies that greater reliance on domestic savings will be absolutely necessary. We will have to learn, as we have on several past occasions, to live more closely linked with our own means and to do more with less.

On the other hand, an expansion of the export capacity will be the only way to earn the necessary foreign exchange to pay for imports and the service on the debt. If exports have always been a priority, at least in the official statements, today they have reached an indispensable precondition level for the coming years.

In the near future the options open to the Latin American countries will depend, perhaps to a greater degree than in the past, on a number of domestic determinants. This is not to say that we do not require an ample effort of international economic cooperation but only that we will depend more on our decisions and actions.

The resumption of economic growth in Latin America will require, in my opinion, four basic elements: (1) in the trade field, a more clearly export-oriented approach; (2) in the savings field, a mobilization of a

higher level of domestic savings and its improved allocation; (3) in relation to the external debt problem, a more clear and definite solution; and (4) a sustained effort to control inflation.

After some brief comments on each element, the possible role of the United States in this region will be self-evident.

Trade

The Latin American region has been, in general, inward oriented during the last decades. The import substitution model followed after the Second World War, which was useful for a certain period of time, has produced some important domestic distortions that need to be corrected.

Protectionism was translated in many cases into a barrier to improved efficiency and productivity, resulting in a significant loss of international competitiveness. As the Economic Commission for Latin America has recently recognized, protectionism was "excessive, too general, and too prolonged."

The only way Latin America will obtain the foreign exchange needed to pay for imports and to service its external debt is through an expansion of exports, both of raw materials and of manufactured products. This implies a needed change in the mentality of government, business, and labor. It will not be easy, nor will it be obtained in the short run. But it is absolutely necessary. We already see some encouraging signs, especially in Brazil and Mexico. Two things are essential to this objective. One, a lowering of the highly protectionist trade policies the majority of the Latin American countries have followed. And two, the maintenance of adequate exchange rate policies, avoiding a common phenomenon of overvaluation, which so deters the expansion of exports.

There is enormous room for an expanded export of manufactured products from Latin America. Latin American exports of manufactured products are less than one percent of total consumption in the industrial countries. A very small increase in market share in the United States or in other industrial countries, at the expense of East Asian or western European reductions, could mean a tremendous difference for the region as a whole.

However, we must recognize that we face a protectionist mood in the industrial countries and in the United States. As Sebastian Edwards' paper mentions, to the extent that these nontariff barriers increase, or are maintained at the current level, it will become very difficult, if not plainly impossible, for the Latin American countries to increase their exports at the rate required to solve their current debt crisis.

While the main responsibility for increasing exports rests within the Latin American countries, their efforts, no matter how serious, can be easily frustrated by the protectionist policies of the industrialized world.

The reciprocal trade between the Latin American countries has diminished during the years of the crisis. We now have a special opportunity to foster in a more aggressive way the efforts for economic integration. It could be a way that better utilizes existing capacity and scarce foreign exchange resources.

Savings

The reduction in foreign borrowing necessarily implies the need to rely more on domestic resources. Thus we need to foster domestic savings, including savings in the public sector, where they have been negative. A positive real interest rate, a tax policy directed at stimulating savings, a decisive effort to reduce public sector deficits, the possible establishment of mechanisms to attract the repatriation of capital invested abroad, and new flows of foreign investments are essential elements for the fulfillment of this objective.

In this connection, a healthy trend has been the selling back to the private sector of a number of government companies in different countries. The process has begun; now it needs further acceleration.

Debt

The difficult and very tiresome yearly restructuring exercises and the obtaining of fresh money on a forced lending basis has given the Latin American debtors time and breathing space, but the debt problem is not solved. More debt to solve the debt problem is not the solution. The issue is becoming more and more politicized. In industrial countries the problem is still of a financial nature. In the debtor countries it is a highly political issue. Latin America and its creditors are beginning to feel so-called debt fatigue.

The problem needs to be recognized as one that impedes the resumption of growth. A new, more farsighted attitude needs to be adopted, and the closer interrelationship between trade and debt should be recognized.

Different approaches, so far considered unorthodox, will increasingly take the place of the more business-as-usual arrangements. In this connection, the adjustment of payments to a debtor country's real capacity to pay will also be increasingly observed. The concept of debt relief, a reduction of the debt burden, is growing in acceptance in different circles.

Any economic projection exercise for the region as a whole makes impossible the maintenance of the present debt burden and an adequate rate of economic growth in the coming years. On the other hand, the

basic situation of the three main Latin debtors—Argentina, Brazil, and Mexico—may become more similar in 1987 than in any of the previous years since the debt crisis began.

It is not an exaggeration to say that Latin America has been neglected by the United States. The region has not been given proper attention. We do not represent a great risk. Nor do we represent a great economic or security advantage.

In the recent past, Washington's interest in Latin America has been overshadowed by its obsession with Central America. However, what the United States will or will not do will affect Latin America in a very direct manner. One important U.S. contribution would be to give greater attention to the repercussions of its own national economic decisions.

Finally, the United States has a long tradition of pragmatism, while Latin America has been under the influence of ideological considerations for many years. But now it seems the roles have changed: we are pragmatic, and the United States is now religious.

The external presence has been too dominant in recent years, and we require more indigenous solutions of our own. They are essential for successful implementation and for the society in general. Latin America has an enormous potential for economic and social growth. Important changes are taking place within democratic regimes that are in essence stimulating the possibility of change. They require a better climate in the international world, and I think it can be provided.

Summary of Discussion

The discussion centered around the opportunities and climate for direct investment in Latin America and the need for a global solution to the problems of the region.

Peter Peterson was struck by the apparent contradiction between the need for the Latin American debtors to increase manufacturing exports and the fact that a correction in the U.S. trade balance implies that the U.S. role as the market for manufacturing imports will have to change. The United States will have to become a manufactured goods exporter to pay the interest on the debt and eventually the principal; this suggests a roughly \$200 billion swing in the U.S. manufactured goods trade balance.

Thomas Enders pointed out that the current Latin American trade surplus with the United States is probably sufficient to sustain the debt service with growth, but agreed that in the face of a large swing in Latin America's trade balance with the United States, the debts would be written off.

Sebastian Edwards agreed that there is no way for the debtor countries to service their debt and run trade deficits with the United States. He noted that the aggregate U.S. share in Latin American manufacturing imports has been about the same since 1970. The composition has shifted significantly, he noted, especially from manufactured goods to food. Most strikingly, total imports of the region fell by about 50 percent in real terms. For Latin American imports from the United States to increase, exports will have to increase. The adjustment to the debt problems has come more than entirely in imports, since declining terms of trade have caused the value of exports to decline since 1982.

Jesus Silva-Herzog agreed that everyone wants to export, but argued that the United States could increase manufacturing imports from Latin America and correct its own trade imbalances by focusing on the regions of the world where its trade deficit is more important and where the primary problem lies. Latin American problems are not independent of other problems, agreed Saburo Okita. The solution to the need of both the United States and Latin America to increase exports will indeed require increased imports in other parts of the world, such as Japan, Taiwan, and other emerging countries.

Attention shifted to the possibilities for direct investment and their role in a resolution of the problems of the region. Philip Caldwell argued that, Silva-Herzog to the contrary, he has not seen any fundamental change in policy toward direct investment in Latin America. The key word is profit, and he has not seen any encouragement there. He expressed doubt about the idea of investing during the downslide, as he has tried that four or five times without getting close to any upswing; more and more of his colleagues say they are giving up unless and until opportunities for profit improve.

George Vojta concurred and wondered how far the political endorsement of equity investment had come. He suggested that the policy orientation has moved but that the essential doctrines are fundamentally intact.

The Andean Pact discourages investment, reported Maurice Greenberg, who claimed that bilateral treaties are needed to encourage investment. Enders suggested that this type of treaty will be negotiable and proposed that, while the climate will be spotty for a while, the situation will become more reliable. He pointed out that many automakers are investing in Mexico, where the number of controlled domestic prices has been reduced substantially. Automobile investments—primarily for export—were mandated by decree for those who wished to continue a domestic presence in Mexico. Such investments have been the source of more recent profit problems for investors.

Rudiger Dornbusch disagreed with Caldwell's characterization of the lack of political change in the region. He pointed out that the area is in a major depression, worse than the depression of the 1930s. The upswings were there quite recently, he argued, noting that the main source of profits for Ford in 1981 was Argentinean income, as overvaluation made repatriation very profitable. The profit aberrations of the early 1980s have been largely dissipated by later economic and political upheavals which have caused the more current unsatisfactory investment environment.

There has been a move to a more liberal trade regime, argued Silva-Herzog. In Mexico in 1982, for example, all manufactured imports required permits, but by 1985 such quantitative restrictions were beginning to decrease, and now only a third of imports are under such restrictions. Thus, while official prices have been established as compensation, the picture has completely changed. Furthermore, Mexico has joined GATT. A basic change is taking place in the orientation of production and marketing outward, after four decades of looking inward. The situation is similar in other countries, but it may be too early after the basic decisions for Caldwell to see the change.

On the foreign investment question, Silva-Herzog conceded that recently the situation has not been very favorable. There are indications, however, that some investment is coming in to take advantage of the approaching upswing. There are indications that the regulations on direct investment are being applied in a more flexible manner than before. There are serious misunderstandings in industrialized countries about the degree to which Mexico, for example, still restricts foreign investment. In the highly publicized IBM case, the problem was that IBM's terms could not be better than those given to Hewlett-Packard and Apple. After all, IBM has been in Mexico for forty years. The rules on foreign investment are clear and decreasingly discretionary. Ten years ago there was the same legislation and large foreign inflows, so the problem is not the legislation.

Several people commented on capital flight and its possible repatriation. The foreign money will come in when capital flight money is repatriated, suggested Robert Ingersoll.

Silva-Herzog explained that the most important cause of capital flight was speculation against overvalued currencies in 1981. People expected a devaluation and they were right. Eventually general economic prospects determine capital flight. In Mexico in 1984 and 1985, for example, a search for safety provoked capital flight. There can be other reasons for capital flight, or reflow. In the second half of 1986 a credit squeeze forced domestic businesses to resort to repatriation as a source of working capital. Contributing factors were a high real interest rate and an exchange rate that was undervalued by 20 percent to 25 percent.

Special incentives for repatriation are politically difficult to sustain, Silva-Herzog pointed out. For this reason, subsidized debt-equity swaps do not have a bright future, he believes. In response to a suggestion by Bruce Atwater that the amount of the capital flight was roughly proportional to the external debt, Silva-Herzog argued that some of the higher estimates of the amount of capital flight are highly exaggerated. He brought the discussion around to broader issues by arguing that confidence is the key to capital reflow and that no simple policy of high real interest rates and exchange rate undervaluation will bring the capital back; the answer is a longer-term solution to the debt problem itself.

Thomas Johnson and Rudiger Dornbusch agreed with this analysis from two different points of view. Johnson contended that a policy of focusing on getting foreign or repatriated capital will be self-defeating if it only treats the symptoms. Dornbusch alluded to recent developments in the economic literature on the option value of time which suggest that in a highly uncertain environment it will always pay for capital that has flown to wait until the incentives for repatriation are entirely frontloaded so as to compensate for the risk of getting stuck. This type of program is self-defeating, as the level of profits required is impossible to sustain politically, especially since the economies have shrunk so much that there is not that much incentive available.

Focus then shifted to the broad outlines of a resolution to the debt crisis. John Block argued that there is a double standard in the treatment of the large money-center banks and banks in rural America, where no one is bailing out anybody. The cloud of the interest burden hangs over the debtor economies, discouraging investment because the future is so uncertain. It is time, he believes, that people accept that the money just is not coming back with interest.

Gerald Corrigan made several summary points. First, there is no magic plan that will solve all the problems. Second, sovereign debt is more difficult to deal with than private debt, partly because every decision requires a consensus of hundreds of partners, private, governmental, and multinational, not to mention the lawyers. Third, the Latin American countries have, all things considered, done a good job of policy adjustment. The nature and direction of change is correct.

Corrigan recommended taking the long view in the search for a solution. Growth is key. We are in the fifth year of worldwide growth, and it may be difficult to sustain this growth for five more years, but we have to do it. This requires, among other things, keeping inflation under control. A second key is a flow of savings into these developing countries, as development always requires external financing. Whatever form the solution takes, it will involve positive net capital flows. Third, the creditworthiness of countries cannot be undercut or every-

one is worse off. Finally new techniques and instruments, such as the debt-equity swap, can be useful, but not as a generalized approach.

Enders agreed about the need for growth. He added a note of caution, however, adding that it used to be said that if the price of oil and interest rates would fall and U.S. growth sustain itself, the debt problem would go away. These conditions prevailed, yet the problem is still with us. Policy reform received his emphasis as well. He suggested that even more emphasis is needed on the fundamentals within the debtor countries. These countries still cannot tax income, and without taxes these shocks are difficult to solve. In this area there is less room for optimism than elsewhere. More generally, the issue of continuity in policy reform remains; investors wonder how long policy changes will last. In summary, Enders believes that a variety of individual instruments and partial solutions will be needed. The creditors and debtors must realize that much money has been invested nonprofitably.

Silva-Herzog echoed the need for consistency in policy and proposed that the approach be long term. Closer links between debt and trade are needed but not clearly accepted.