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# Exports and Policy in Latin-American Countries: Prospects for the World Economy and for Latin-American Exports, 1980-90

*Donald B. Keesing\**

In this paper I discuss prospects for the world economy and for Latin-American exports from now until 1990, and present a framework of facts, but my chief concern is the trade policy alternatives confronting individual Latin-American countries today. The country level is where the policy choices are meaningful. Indeed, in the absence of a regionwide economy, analysis of the region as a whole tends to be a waste of time. However, I cannot get entirely away from the regional level of abstraction because many of my data are for Latin America as a whole.

## **THE RECENT PAST**

### **Growth and Development Performance**

Since the 1950s economic performance in most Latin-American countries has been satisfactory by previous historical standards, but only mediocre compared with what has been achieved by countries at comparable levels of development in other parts of the world. By recent standards only the largest country in the region, Brazil, can be counted among the world's success stories in economic growth rates, having increased its GNP per capita at 4.9 percent per annum in the years 1960-77.<sup>1</sup> The next best performances have been the Dominican Republic (3.6 percent per annum), Panama (3.5), Costa Rica (3.2), and Ecuador (3.1), followed by Mexico and Guatemala (2.8 each). By comparison, per capita growth rates much higher than these were achieved in several industrializing countries of Southern Europe — Spain (5.2 percent per annum), Portugal (6.0), Greece (6.2), and Yugoslavia (5.6) — and in four East Asian economies — Korea (7.4), Taiwan (6.2), Hong Kong (6.5), and Singapore (7.5) — as well as a few others such as Iran (7.9). Intermediate

performers in some other developing regions have also done better than most countries of Latin America; for example, Thailand (4.5), Tunisia (4.3), Turkey (4.1), and Malaysia (3.9). Meanwhile, several of the Latin-American countries such as Cuba, Haiti, Uruguay, Chile, and Honduras have realized practically no growth in per capita income in these same years, 1960-77. The Latin-American countries have also recorded mixed but generally less-than-outstanding performances in other aspects of development; for example, even the more successful growth performances in the region have left large groups of the population behind in poverty.<sup>2</sup> Nevertheless, by most indications, most Latin-American countries other than Haiti are firmly established in the middle ranks of the developing countries, since they are not as poor nor as stagnant and technically backward as most of sub-Saharan Africa, and in most respects they are also ahead of South Asia.

### **Export Performance**

One reason that Latin-American countries have not done better has been their poor export performance, leading to sluggish expansion of trade. An exception to prove the rule was Brazil from 1967 to 1974, when swiftly rising exports led to an extraordinary growth of GDP. The sluggishness elsewhere contrasts sharply with the spectacular export increase achieved by East Asian countries and with the impressive trade expansion in most of Southern and Western Europe over the last 20 years; in these regions and in the world as a whole, trade has grown faster than output. By contrast, in Latin America, as Table 1 shows, exports increased from 1960 to 1976 at only 3.5 percent per annum, less than half the growth rate of world trade (7.4 percent) and far less than the region's GDP growth rate (5.9 percent) for the same period.<sup>3</sup>

Depressed rates of export growth have undoubtedly retarded development, so that today most Latin-American countries show symptoms commonly associated with insufficient exports, ranging from scaled-back growth plans and recurrent payments difficulties to continuing insufficiency of market size keeping costs high in most industries, disappointing trends in competitiveness, and high incremental capital-output ratios (ICORs) implying low returns on investment.

Slow increases in exports have been caused partly by the dictates of the region's resources, leading to a heavy concentration in primary exports which are held back as a result of slow growth of world demand as in coffee, and by a limited ability to increase output in each country because of natural-resource supply constraints. The region's manufactured exports have been growing fast, but only from a low base so that they only constituted one-seventh of the region's merchandise exports in 1977.<sup>4</sup> Table 2 shows some of the leading export products and their principal suppliers. Even for the countries trying hardest to export manufactures, the balance between natural and human resources

Table 1

GROWTH RATES OF LATIN-AMERICA'S MERCHANDISE EXPORTS COMPARED WITH THOSE OF THE WORLD AND OF ALL DEVELOPING COUNTRIES, 1960-76 (percent per annum, generally in 1975 prices)

	World	Developing countries <sup>a</sup>	Latin America
Fuels and energy	6.7	6.3	-0.9
Other primary products	4.4	3.7	3.4
Agricultural products	4.5	3.5	2.9
Food and beverages	4.4	3.5	3.1
Beverages (Coffee, etc.)	2.1	1.8	1.0
Nonfood agriculture			
Timber	5.1	3.4	-11.3
Minerals and nonferrous metals	3.9	4.7	4.7
Manufactured products	9.1	12.7	(14.7) <sup>b</sup>
Total	7.4	6.3	3.5

Sources: Except for beverages row, first two columns are from World Bank, *World Development Report*, 1979, Table 3; Latin-American manufactured products are computed from trade matrixes in UNCTAD, *Handbook of International Trade and Development Statistics*, 1979, deflated by a unit value index for all developing countries from United Nations (UN), *Monthly Bulletin of Statistics*, June 1978, Special Table G. Latin-American merchandise exports are from a UN quantum index (1970=100) in UN, *Yearbook of International Trade Statistics*, 1977, vol. I, Special Table C; other numbers are from [10] based on World Bank indexes.

<sup>a</sup>Defined here to include Southern Europe, Israel, and South Africa while excluding capital surplus oil exporters such as Saudi Arabia, Kuwait, Libya, and United Arab Emirates.

<sup>b</sup>Not strictly comparable with other numbers in this row but a comparable figure would be about the same as the growth rate for all developing countries.

poses problems in which abundant natural resources, through their effects on wages and exchange rates, make it difficult to compete in world markets for manufactures. Thus in many parts of Latin America in recent years, for example, in Mexico, Colombia, Chile, Argentina, and Uruguay, it has proved difficult to continue to expand manufactured exports amidst booming primary exports and inflationary pressures. Elsewhere in the world the countries with fast growing exports, apart from oil countries, have been those specializing in manufactured exports. This frees the countries to some extent from limitations of local natural resources and gives them export industries with immense possibilities for learning and increasing returns.

Besides difficulties caused by the natural resource situation, trade expansion has also been held back in most Latin-American countries by biases in their national development policies leading to neglect and discouragement of ex-

ports and of potential export sectors such as agriculture and mining. This has been largely a matter of incentives favoring manufacturing and, within manufacturing, production for the domestic market, while turning the terms of trade against agriculture and creating strong disincentives against exports. Patterns of public expenditure (and subsidy) have also been responsible — agriculture and mineral exploration and the opportunities to save resources through trade have been systematically neglected in favor of costly premature industrial

Table 2

## LEADING LATIN-AMERICAN EXPORT PRODUCTS IN 1976

Description	Value (mil. US \$)	Latin America's % share of world exports	Countries with at least 25% of Latin-American total
<b>Fuels</b>			
Crude petroleum	\$9,972 <sup>a</sup>	8%	Venezuela (57%)
Petroleum products	9,683 <sup>a</sup>	28	Venezuela (31%)
Natural gas	278	4	Venezuela (65%)
<b>Agricultural products</b>			
Coffee	5,307	60	Brazil (45%)
Sugar	3,246	44	Cuba (56%)
Soybean products	2,038	26	Brazil (88%)
Soybean meal, etc. <sup>b</sup>	975	34	Brazil (83%)
Soybeans	839	20	Brazil (94%)
Soybean O.7	224	27	Brazil (88%)
Cereals, unmilled	1,497	7	Argentina (78%)
Maize	542	7	Argentina (67%)
Wheat	439	5	Argentina (98%)
Meat and live animals	1,269	10	Argentina (42%)
Meat (fresh, chilled or frozen)	784	10	Argentina (44%)
Meat (tinned or prepared)	337	22	Argentina (52%), Brazil (39%)
Corn	850	21	Mexico (33%)
Bananas	644	78	c
Fish or shellfish (simply preserved)	600	12	Mexico (30%)
Tobacco (unmanufactured)	330	13	Brazil (50%)
Wool and other animal hair	330	9	Argentina (40%), Uruguay (32%)
Vegetables (fresh or simply preserved)	323	8	Mexico (55%)
Prepared fruit and fruit juice	221	12	Brazil (50%)
<b>Minerals and nonferrous metals</b>			
Copper (refined)	1,490	21	Chile (84%)
Iron ore	1,429	29	Brazil (70%)
Zinc and zinc concentrates	349	17	Peru (46%), Mexico (33%)
Bauxite	295	57	Jamaica (42%)
Tin	230	18	Bolivia (94%)
<b>Manufactures</b>			
Motor vehicles and parts	501	1	Brazil (60%)
Alumina	466	30	Jamaica (65%), Surinam (28%)
Clothing nor of fur	361	2	Brazil (25%)
Pig iron	279	10	Brazil (57%)
Textile yarn	269	4	Brazil (47%)
Textile fabrics	261	2	Brazil (29%)
Footwear	241	5	Brazil (73%)

Source: UN, *Yearbook of International Trade Statistics, 1978*, Vol. II.

<sup>a</sup>Including large exports by Caribbean refiners.

<sup>b</sup>Vegetable oil residues for animal feed.

<sup>c</sup>Costa Rica led with 23 percent followed by Honduras (17%) and Ecuador (16%).

Table 3

LATIN-AMERICA'S CHANGING SHARE OF WORLD EXPORTS,  
BY PRODUCT CATEGORY, 1955-77 (percent)

	1955	1960	1965	1970	1974	1977
All merchandise	10.0	8.0	6.9	5.6	5.9	5.4
Fuels	27.5	25.6	20.5	13.4	11.3	9.2
Other products	7.9	6.0	5.5	4.8	4.5	4.5
Agricultural products	16.2	13.7	13.6	13.2	11.8	13.9
Minerals and nonferrous metals	14.5	13.3	13.8	12.8	12.5	10.7
Manufactured products	0.7	0.5	0.7	1.1	1.3	1.4

Sources: 1955 to 1965: trade matrices of UNCTAD, *Handbook of International Trade and Development Statistics*, 1979; 1970: UN, *Yearbook of International Trade Statistics*, 1975, Vol. I, Special Table B; 1974 and 1977: UN, *Monthly Bulletin of Statistics*, May 1979, Special Table D.

undertakings. Indeed, it is not so clear the "natural" wage differences are unfavorable to manufactured exports in Latin America, now that wages of unskilled workers are higher in Korea, Taiwan, and Hong Kong than in many Latin-American countries.<sup>5</sup>

Partly as a result of deficiencies in policies, as Table 3 shows, Latin-America's share of world exports decreased from 1955 to 1977 in all major primary product categories even though the region has a rich natural resource potential. Looking closely, however, one can see signs of a recent reversal in the long-term downtrend in the region's share of world agricultural exports, perhaps because the policy bias against agriculture has been reduced in Brazil, Argentina, and Chile. At a more detailed product level (see Table 4), while the region's export performance has been miserable by comparative and absolute standards in most primary commodities, a spectacular growth has been achieved in soybean products, mainly in Brazil, while a very satisfactory performance has been in coarse grains (including maize) and iron ore. These products have been exceptions to the rule, benefiting from reasonably favorable exchange rates and government attention.

#### Effects of Setbacks in the World Economy

Latin-American countries' export difficulties in the last few years have been compounded by the recent slow and erratic growth in the world economy, cutting the rate of trade growth to less than what it was previously. Their ever lagging exports have been hurt as a result, declining absolutely in volume in the period 1974-77, as shown in Table 5, while GDP growth in the region fell from about 6.5 percent a year in 1965-74 to about 4 percent a year in 1974-77. This fall must have been caused in large measure by the export decline and the resulting cutting by half of the import growth.

Table 4

HISTORICAL GROWTH PERFORMANCE OF SELECTED NONFUEL  
COMMODITY EXPORTS BY VOLUME, 1960-76  
(percent per annum)

	World	Developing countries	Latin America
AGRICULTURAL PRODUCTS			
Coffee	2.0	1.7	0.7
Sugar	2.0	2.8	0.3
Beef	4.1	-1.7	-0.6
Bananas	3.3	3.3	3.0
Wheat	3.0	3.7	3.7
Coarse grains	8.0	5.4	8.3
Soybeans	7.9	23.5	26.6
Soybean meal	15.1	35.1	37.8
Cotton	0.6	-0.2	-2.0
MINERALS AND NON-FERROUS METALS			
Copper	4.0	3.7	3.1
Iron ore	6.6	6.9	7.4
Tin	0.4	0.9	2.9
Bauxite	4.9	3.6	1.2
Lead	2.9	-0.5	-0.1
Zinc	4.4	2.6	3.3

Source: [10], based on volume indexes of the World Bank's Commodities and Exports Projections Division. Developing countries here exclude Southern Europe.

Though these setbacks have sprung partly from the high degree of linkage to the world economy, they also reflect the fact that in most of the region exports are not competitive and their expansion has little built-in momentum, while imports have had to be pared down to the point where further reductions have a large negative effect on growth. By comparison, as Table 4 shows, other developing regions have suffered less, the most striking contrast to Latin-America's performance coming in the "middle-income" countries of East Asia and the Pacific which are among Latin-America's leading rivals in exporting manufactured goods. Thanks to a remarkable export performance their GDP growth has been sustained at high rates averaging about 8 percent a year.<sup>6</sup>

Latin-America's troubles have continued since 1977. Preliminary estimates show GDP growth of about 4.7 percent in the region in 1978, and the purchasing power of its exports fell rather sharply in that year due mainly to adverse price trends in key commodities such as coffee.<sup>7</sup>

Table 5

GROWTH OF GROSS DOMESTIC PRODUCT AND MERCHANDISE TRADE IN  
FOUR GROUPS OF COUNTRIES, 1965-74 AND 1974-77  
(percent per annum in 1975 dollars<sup>a</sup>)

	Industrial countries	Latin America	All developing countries	Developing East Asia <sup>b</sup>
<b>GDP</b>				
1965-74	4.3	6.5	6.2	8.3
1974-77	2.7	4.0	4.9	8.0
<b>Exports</b>				
1965-74	9.3	4.0	6.0	12.9
1974-77	3.4	-0.9	4.1	13.2
<b>Imports</b>				
1965-74	8.5	8.8	7.8	11.0
1974-77	2.7	-0.4	3.8	5.3

Source: World Bank, *World Development Report*, 1979, Table 11; OECD *National Accounts*; UN, *Monthly Bulletin of Statistics*, October 1979.

<sup>a</sup>Except for industrial countries' exports and imports which are based on UN quantum indexes (1975=100).

<sup>b</sup>"Middle income" countries only -- principally Republic of Korea, Taiwan, Hong Kong, Singapore, Philippines, Malaysia and Thailand.

Table 6 shows some of the parallels and links year by year between growth and trade in industrial countries and in Latin America. The table is arranged to tell the story and to reveal the transmission mechanism, except that some parts, such as export price changes, are left out. The main influence runs from the industrial countries to Latin America. Trends in industrial countries, especially in their manufacturing output, show up quickly in their imports, leading to immediate repercussions on the volume and also (though not shown) the prices of their exports. With a slight lag, less than one year, export troubles affect the region's imports, and in major setbacks GDP is soon affected. Presumably in the longer run, growth performance is further affected by the influence of perceived export trends on the region's capacity to borrow to pay for imports.

GDP fluctuations in the developed countries transmit themselves to most parts of Latin America, as can be seen in Table 7. Important features of the industrial countries' growth pattern have had their counterparts throughout the region, usually in the form of smaller fluctuations than those in the industrial North.

Despite these shared vicissitudes, a look at trends in export volume in industrial Latin-American countries (Table 8) shows that there is more at work than outside influences. Export performance in the region has varied widely in individual countries. Most have experienced a slower growth rate in 1970-77 than in 1960-70 — indeed several have suffered declines in recent years.<sup>8</sup> Seven economies, however, have expanded their exports faster in the 1970s. In most

Table 6

HISTORICAL RELATIONSHIPS BETWEEN THE INDUSTRIAL COUNTRIES AND LATIN AMERICA IN "REAL" GROWTH RATES OF GDP, MANUFACTURING OUTPUT, EXPORTS AND IMPORTS, 1960-78 (percent per annum)

Year(s)	Industrial countries				Latin America <sup>a</sup>			
	GDP	Mfg. output	Exports	Imports	GDP	Mfg. output	Exports	Imports
1960-70	4.9	5.8	8.4	8.9	5.7	6.8	3.6	4.9
1970-74	3.9	4.9	9.1	7.1	7.6	9.2	3.8	9.9
1974-77	2.7	1.4	3.4	2.7	4.0	3.0	-0.9	-0.4
1971	3.6	3.0	6.8	6.1	7.0	8.0	-1.0	7.0
1972	5.4	6.8	10.1	9.2	7.1	10.2	6.1	2.8
1973	6.0	9.1	12.6	12.6	8.6	10.9	10.5	13.6
1974	0.6	0.8	7.1	0.9	7.5	8.4	0.0	16.8
1975	-0.7	-8.3	-4.8	-7.4	3.5	-0.7	-6.0	-2.1
1976	5.2	9.0	11.0	13.0	4.9	5.7	11.9	2.1
1977	3.6	4.1	4.5	3.5	4.2	4.0	...	...
1978	3.8 <sup>b</sup>	4.8	6.0	4.3	4.7 <sup>b</sup>	3.2	...	...

Sources: World Bank, *World Development Report*, 1979, Tables 11 and 13; UN *Monthly Bulletin of Statistics*, January, April, August, and October 1979; World Bank Economic Analysis and Projections Department, data bank, supplemented by staff estimates. Note that some of the 1974-77 numbers are from different sources than the year-by-year numbers and may not be wholly consistent with them.

<sup>a</sup>Not including Cuba, at least in the GDP series.

<sup>b</sup>Preliminary estimate.

cases these higher growth rates have been associated with a shift in national policy, placing greater emphasis on export expansion. Comparison of Table 8 with Table 7 shows that, in Argentina and Chile, positive effects of export volume on GDP growth were slow to materialize up to 1977; unfavorable price trends in major exports have been partly responsible for this. In 1977-79, however, Chile's GDP is estimated to have grown at over 8 percent a year amidst continued rises in exports.<sup>9</sup>

## THE FUTURE: 1980-90

### Overall Outlook

The general expectations for the next few years is for slow and erratic GDP growth in industrial countries, erratically rising energy prices combined with uncertainties of supply, worldwide inflation met by periodic efforts to combat it through conservative fiscal and monetary policies, and in consequence, a slow growth of world trade. Military threats and political instability in Western Asia add to the uncertainties. In these circumstances, the major question in projections today is how gloomy one should make them. Given the renewed

Table 7

GDP GROWTH RATES IN INDUSTRIAL COUNTRIES AND LATIN AMERICA BY COUNTRY AND REGION, 1960-78 (percent per annum in 1975 US dollars)

Region or country	1960-70	1970-77	1970-74	1974-77	1971	1972	1973	1974	1975	1976	1977	1978
Industrial countries	4.9	3.3	3.9	2.7	3.6	5.4	6.0	0.6	-0.7	5.2	3.6	...
North America	4.0	3.3	3.4	3.1	3.2	5.8	5.6	-0.9	-0.8	5.5	4.6	...
United States	3.9	3.1	3.2	3.1	2.9	5.7	5.4	-1.3	-1.0	5.5	4.8	...
Western Europe	4.7	2.9	3.7	1.7	3.4	4.0	5.3	2.3	-1.5	4.5	2.1	...
EEC (9)	4.7	2.9	3.8	1.9	3.5	4.0	5.5	2.1	-1.5	5.0	2.3	...
Asia and Oceania	9.7	4.9	5.6	4.0	5.0	8.3	9.2	0.0	1.5	5.8	4.6	...
Japan	11.1	5.2	6.0	4.3	5.2	9.3	10.0	-0.3	1.4	6.4	5.2	...
Latin America <sup>a</sup>	5.4	6.8	8.3	4.0 <sup>b</sup>	8.4	7.2	9.3	8.4	3.5	6.1	4.6	...
Brazil	6.1	9.8	12.4	6.4	13.8	11.3	13.1	11.2	5.7	9.0	4.7	6.3
Argentina	4.3	2.9	5.1	0.1	4.8	3.1	6.1	6.5	-1.3	-2.9	4.7	-4.1
Colombia	5.3	5.7	6.7	4.4	5.8	7.8	7.1	6.0	3.8	4.6	4.8	8.0
Peru	6.0	4.0	5.8	1.7	5.1	5.2	6.2	6.9	3.3	3.0	-1.2	n.a.
Venezuela	6.0	5.5	4.7	6.8	3.5	3.0	6.7	5.8	5.2	7.8	6.8	6.8
Chile	4.5	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other South America <sup>c</sup>	3.0	5.2	4.7	5.9	2.7	2.3	7.6	6.3	5.6	6.4	5.6	5.4
Other	6.5	4.6	5.9	3.0	4.1	7.1	7.1	5.3	3.5	2.2	3.2	...
Mexico	7.0	4.6	6.0	2.8	3.4	7.2	7.7	5.6	4.0	1.6	2.9	4.5
Central America <sup>b</sup>	6.0	5.4	6.0	4.8	6.0	6.2	6.1	5.9	2.1	5.0	6.3	...
Cuba	1.1	2.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other Caribbean <sup>d</sup>	4.2	3.8	4.8	2.4	6.9	6.7	3.6	2.3	2.0	3.2	2.0	3.3

Sources: Computed from World Bank, Economic Analysis and Projections Department data bank.

<sup>a</sup>Not including Cuba. Series for Latin America and South America include approximations for Chile.

<sup>b</sup>Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

<sup>c</sup>Bolivia, Ecuador, Guyana, Paraguay, and Uruguay.

<sup>d</sup>Barbados, Dominican Republic, Haiti, Jamaica, Trinidad, and Tobago.

Table 8

AVERAGE ANNUAL GROWTH RATES OF EXPORTS IN LATIN-AMERICAN COUNTRIES, 1960-70 COMPARED WITH 1970-77 (percent per annum in "real" terms; countries listed in order of 1977 population)

Country	1960-70	1970-77	Country	1960-70	1970-77
Brazil	5.0	6.5	Dominican Republic	-2.3	6.9
Mexico	3.3	1.9	Haiti	n.a.	n.a.
Argentina	3.3	5.5	El Salvador	5.6	2.6
Colombia	2.2	-1.2	Honduras	11.1	0.6
Peru	1.9	-4.4	Uruguay	2.1	5.5
Venezuela	2.0	-10.5	Paraguay	5.4	9.1
Chile	0.6	7.7	Nicaragua	9.7	5.2
Cuba	n.a.	n.a.	Costa Rica	9.4	4.2
Ecuador	3.7	9.0	Jamaica	4.7	-1.4
Guatemala	9.0	3.4	Panama	10.4	n.a.
Bolivia	9.7	3.5	Trinidad and Tobago	5.0	-0.8

Source: World Bank, *World Development Report, 1979, Annex, Tables 1 and 8.*

increases in energy prices over the past year, the new recession, and the worsening of world inflation, there is room to project even slower GDP growth in the industrial countries through 1985 than the 3.4 percent achieved in the 1970s.

Economic growth is being slowed largely by what is happening in the private sector — notably by a lack of private investment caused, presumably, by uncertainty, low expectations, low savings in face of inflation, and a squeeze on profits. Meanwhile, productivity growth has wilted due to features of the industrial economies that will not change quickly — widespread government intervention, inflation and its interaction with tax and other incentives, slow trade growth, changing attitudes toward work and risk-taking if only because of welfare and tax systems, increased expenditures and regulations to protect the environment, insufficient past investment, changing structural features of the richest economies such as the growing importance of services with their limited opportunities to raise productivity, changing age and sex composition of the labor force, inflexibility of political institutions preventing governments from correcting outworn policies, and the dead weight of physical capital no longer appropriate for increasing productivity. Some observers would attribute at least part of the problem to a down period in technological innovation and others would point mainly to the energy situation. Whatever may be at fault, however, most explanations suggest that it will not soon be corrected. Only a handful of newly industrializing countries can be expected to do well in the next few years based on their momentum and recent investments.

While a few experts expect the negative conditions to last through the 1980s, most observers are uncertain and agnostic in regard to economic trends past about 1985, anticipating that what happens then may well be shaped by

forces we do not understand well today or by unexpected developments in the intervening years. However, even if favorable trends occur in the second half of the 1980s they will take some time to gather momentum, so that one can expect only modest growth in the decade as a whole.

In turning ideas such as these into quantitative forecasts one has to contend with a paucity of published projections applying to the medium-term future. Although much is written that touches lightly on the subject, the only recent medium-term projections for 1980 through 1990 are those of the World Bank in its *World Development Report, 1979*.<sup>10</sup>

#### **World Bank Projection**

In retrospect most people would view these World Bank projections as optimistic, even at the time they were made. They assumed GDP growth in industrial economies from 1980-90 at 4.2 percent, about halfway between the rates of the 1970s and those of the 1960s, and no further increase in the real price of energy, even though projections based on this assumption turned out to show world demand outstripping world supply toward 1990.<sup>11</sup> Obviously these assumptions would no longer be made today, and indeed, the energy price began rising above the projected level just before the report came out. The report also included a "low case" based on 3.5 percent GDP growth in industrial countries but with no rise in energy prices. In each case, further assumptions had to be made which included a conservative pattern of private commercial borrowing by developing countries.

Tables 9 and 10 show some results of the base case and low case projections. In contrast to these projections, the past relationships shown in previous tables indicate that the decline in GDP growth rates in Latin America tends to be smaller than the GDP decrease in industrial countries giving rise to it; thus it is unlikely that a one-point decline in the growth rate of world trade and of Latin-America's exports from the base to the low case would lead to a reduction of over 1 percent in Latin America's GDP. The 1965-74 and 1974-78 comparison involves a fall of over four points in the growth of both world trade and Latin-American exports, associated with a decline of a little over two points in Latin America's GDP growth rate. On this basis one would expect a decline of only about half a point.

However, to the extent that bad news is expected in the world economy in the first half of the 1980s, the "low case" projection of 4.6 percent GDP growth in Latin America could nevertheless be close to the mark, since the region's GDP seems to have been increasing at no more than this rate from 1974 to 1978. Still, this is not a mechanical relationship, and the region may have a potential for doing better within existing constraints. The base case projections for the 1980 *World Development Report* are being built around

Table 9

BASE CASE AND LOW CASE PROJECTIONS FOR LATIN AMERICA, ALL DEVELOPING COUNTRIES AND THE WORLD ECONOMY, 1980-90 (average annual percentage growth rates at 1975 prices)

WORLD ECONOMY	Base case	Low case
GDP of industrialized countries	4.2	3.5
Real price of energy	0.0	0.0
World merchandise trade	6.0	5.0
ALL DEVELOPING COUNTRIES		
Net private medium- and long-term loans	3.9	-1.0
Net official development assistance	3.6	3.1
Merchandise exports	6.5	5.2
Primary products	3.3	2.8
Manufactures	11.1	8.8
Gross domestic product	5.7	4.8
GDP per capita	3.3	2.4
LATIN AMERICA		
Gross domestic product	5.7	4.6
GDP per capita	3.2	2.1
Exports of goods and nonfactor services	5.8	4.8
Nonfactor services	6.2	5.1
Merchandise	5.6	4.7
Primary products	3.7	3.2
Manufactures	11.8	9.6
Imports of goods and nonfactor services	6.1	6.1
Merchandise f.o.b.	6.0	5.0

Sources: World Bank, *World Development Report, 1979*, Tables 16 and 17; World Bank, Economic Analysis & Projections Department.

industrial country GDP growth in the 1980s at somewhere between 3 and 3.5 percent a year, along with a rising price of energy. What will this do to the growth projections for the volume of exports from Latin America? Its volume growth, paradoxically, might not be reduced much. Fuel, which would be nearly half the total exports in today's prices, will not fall and may rise in response to the higher prices. Meanwhile the oil-importing countries of the region will not be able to slacken their export efforts; on the contrary they are being moved to try harder to export, even if this requires reductions in consumption and investment. Finally, momentum provided by existing policies and programs will not necessarily change, and export expansion appears to depend more on policies and supply conditions within the region than stimuli from outside. In sum, Latin America's export results depend mainly on the countries' success in improving their own supply performance, which may cancel out the effects of a weakening in demand and in some prices.

Table 10

BASE CASE EXPORT PROJECTIONS FOR LATIN AMERICA, 1980-90  
(in constant 1975 prices)<sup>a</sup>

Product category	Avg. annual growth rate (% p.a.)	Percent composition		
		1980	1985	1990
<i>Manufactures</i>	11.8	18.0	23.9	32.0
Machinery and transport equipment	16.0	5.8	9.3	14.9
Other manufactures	9.3	12.2	14.6	17.1
<i>Fuels</i>	3.1	37.5	34.6	29.5
<i>Other primary products</i>	4.4	44.5	41.5	38.6
Food and beverages	3.8	33.3	30.8	27.9
Nonfood agriculture	7.0	2.8	2.8	3.2
Minerals and nonferrous metals	4.4	8.4	7.9	7.5
Total merchandise exports	5.6	100.0	100.0	100.0

Source: World Bank, Economic Analysis and Projections Department.

<sup>a</sup>Components may not add up to totals because of rounding.

### Fuels and Energy

There are large contrasts in energy balances in Latin America, as shown in Table 11. Six countries are net exporters based on crude oil and natural gas; together they had 110 million people in 1978. Two more countries, Argentina and Colombia, with 52 million people in 1978, are able to cover practically all of their energy requirements out of their own production. Brazil and Chile with 130 million people in that year had not nearly enough fossil fuel output to cover their requirements, while the other 15 countries shown, with 56 million people in 1978, have no significant primary energy output apart from hydroelectric plants and the expanding but still small oil production from Guatemala; thus all are dependent on imports. Brazil, with relatively low export earnings per head, devotes the largest share of its imports to fuel and will have to pay at least \$10 billion for its oil imports in 1980 compared with \$3.75 billion in 1977, even though import volume will be only about 17 percent higher.

Among the oil-producing countries, Mexico has been rapidly increasing its output and continues to discover big new oil fields. Meanwhile, output has been declining over time and this is expected to continue in Venezuela, Colombia, and Bolivia, while in the future output is expected to decline sharply in Peru and Ecuador, with the former ceasing to export by mid-decade. Argentina along with Trinidad and Tobago can probably expand output a little.

Table 11

CONSUMPTION, NET EXPORTS AND NET IMPORTS OF PRIMARY ENERGY AND PRODUCTION OF CRUDE OIL AND NATURAL GAS IN LATIN-AMERICAN COUNTRIES, 1978

	Net exports/ imports	Energy consumption	Production of crude oil and natural gas	Consumption per capita
	(million metric tons of oil equivalent)	(million metric tons of oil equivalent)	(million metric tons of oil equivalent)	(kg. of oil equivalent)
<b>Net exporters</b>				
Venezuela	95.2	26.7	124.7	2,033
Mexico	14.1	63.0	73.9	941
Trinidad and Tobago	9.3	3.8	14.2	3,377
Ecuador	7.2	2.7	9.9	344
Bolivia	1.8	1.5	3.2	250
Peru	0.1	7.4	7.5	442
<b>Net importers</b>				
Argentina	5.9	33.6	30.1	1,274
Brazil	45.6	62.4	9.4	540
Chile	3.4	7.4	2.6	678
Colombia	0.5	12.3	9.1	476
Costa Rica	0.6	0.8	...	384
Cuba	8.4	8.0	0.1	794
Dominican Republic	1.7	1.6	...	316
El Salvador	0.8	0.8	...	181
Guatemala	1.2	1.2	0.03	177
Guyana	0.6	0.6	...	728
Haiti	0.2	0.2	...	39
Honduras	0.7	0.6	...	193
Jamaica	2.9	2.6	...	1,240
Nicaragua	0.8	0.8	...	351
Panama	2.6	1.2	...	674
Paraguay	0.4	0.4	...	136
Suriname	0.6	0.7	...	1,463
Uruguay	2.0	2.1	...	717

Source: United Nations, *World Energy Supplies 1973-1978*, Table 5.<sup>a</sup>Excluding bunkers, that is, fueling of ships and aircraft.**Other Primary Commodities**

In most primary products, apart from coffee, bananas, and bauxite, Latin-American countries are relatively small suppliers compared with the world market, so that within limits they can potentially expand their exports faster than the rest of the world without triggering a major slide in the price, although in a few other commodities, such as copper and cocoa, the world price may be quite sensitive to output from Latin-American suppliers, and in beef their scope for expanding exports is constrained by quotas.

With rare exceptions, however, in projecting their exports in the 1980s Latin-American countries must be less concerned with world demand than with future price trends. Table 12 shows the prices of Latin-America's leading commodity exports, other than fuel, in 1979 by comparison with 1970-74, a period of fairly high prices by historical standards. The table also shows as a measure of price instability the annual average change in the "real" price

Table 12

PRICES OF SELECTED COMMODITIES OF SPECIAL INTEREST TO LATIN AMERICA IN 1979 AS A PERCENT OF AVERAGE PRICES IN 1970-74 AND 1965-69, IN CONSTANT DOLLARS, AND AVERAGE ANNUAL PRICE CHANGES, 1955-78

Selected commodities	Actual current price in 1979 (US dollars)	Percent of average "real" price in		Price instability annual average percent change <sup>a</sup> 1955-78
		1970-74	1965-69	
Coffee	3.82/kg.	137	130	18.1
Sugar	213/met. ton	39	138	37.4
Beef	1.69/kg.	77	87	12.3
Soybean oil	662/met. ton	67	90	18.3
Soybean meal	243/met. ton	64	76	14.2
Soybeans	298/met. ton	69	82	11.0
Cotton	1.71/kg.	73	81	10.4
Bananas	326/met.	87	65	7.3
Maize	116/met. ton	63	67	9.9
Wheat	172/met. ton	68	79	10.0
Cocoa	3.27/kg.	157	163	26.5
Tobacco	1,880/met. ton	80	67	10.6
Copper	1,984/met. ton	59	46	18.6
Iron ore	22.20/met. ton	64	51	8.5
Zinc	0.74/kg.	53	81	17.9
Bauxite	37/met. ton	114	100	8.3
Tin	15.31/kg.	140	131	10.2

Source: Unpublished tables from World Bank, Commodities and Export Projections Division, Economic Analysis and Projections Department.

<sup>a</sup> Computed as a deviation from a moving average,  $(P_0 - P_t^1)/P_t^1 \times 1/n \times 100$ , using "real" price.

in the period 1953-78, computed as a deviation from a moving average. With the exception of coffee, where the price has been raised by frosts in Brazil in recent years, and the further exceptions of cocoa, tin, and bauxite, commodity prices in 1979 were well below the average price levels of 1965-74. Thus, while the prices of coffee and cocoa can be expected to weaken in the 1980s, many of the other prices may actually firm up despite weak growth in the world economy. In sugar, for example, prices have been depressed in the late 1970s below long-run costs of production, but they are now up sharply despite European Community exports of beet sugar at flagrantly subsidized prices. As another example, the price of copper began to rebound some months ago and supply may be tight at times in the next decade due to little investment in the 1970s. More generally, most metal and mineral prices can be expected to hold up apart from temporary setbacks, and as many countries' food and feed deficits continue to increase, this is also true of the prices of a number of agricultural products.

Table 13

MANUFACTURED EXPORTS<sup>a</sup> FROM LATIN-AMERICAN COUNTRIES IN 1976  
(value in million US dollars)

Country	Value	Country	Value
Brazil	2,500 <sup>b</sup>	Peru	101
Mexico	1,010 <sup>b</sup>	Bahamas	98
Argentina	975	Guyana	97 <sup>c</sup>
Colombia	384	Cuba	95
Jamaica	345 <sup>c</sup>	Nicaragua	87
Guatemala	218	Netherlands Antilles	66 <sup>d</sup>
El Salvador	209	Haiti	43 <sup>d</sup>
Uruguay	181	Honduras	39
Costa Rica	180	Barbados	38
Chile	142	Ecuador	34
Surinam	131 <sup>c</sup>	Paraguay	26
Trinidad & Tobago	122	Bolivia	20
Dominican Republic	120	Panama	18
Venezuela	103		

Sources: *World Development Report, 1979*, *World Development Indicators*, Table 12; UN, *Yearbook of International Trade Statistics, 1977*; and US International Trade Commission, "Tariff Items 807.00 and 806.30, US Imports for Consumption, Specified Years 1966-78," August 1979.

<sup>a</sup>Manufactured exports are defined here as SITC 5-9 less 68.

<sup>b</sup>This excludes practically all border assembly ("maquila") exports. US imports from Mexico under Tariff Items 806.30 and 807.00 were valued f.o.b. at \$1,135 million; almost all of this would have been manufactured for a total of over 2,100.

<sup>c</sup>Mainly alumina.

<sup>d</sup>Countries such as Haiti, heavily involved in offshore assembly for the US market, have considerably larger exports based on US import statistics, but only report their own country's value added in this production.

### Manufactures

Manufactured exports have been expanding rapidly, and this growth appears to be continuing year after year. In current prices their value rose from \$2 billion in 1970 to \$17.6 billion in 1978 [13; and 11, May 1980, special table D]. Table 13 shows the value of these exports in individual countries in 1976; since then the largest growth has taken place in Brazil where the value of these exports rose, by the same definition, to \$4,334 million in 1978 and perhaps \$5.5 billion in 1979.<sup>12</sup>

As a result of modest wage levels dictated by population pressure, a number of countries in Central America, the Caribbean, Colombia, and Peru are emerging with a comparative advantage in labor-intensive manufactures. Brazil has displayed a huge industrial export potential based mainly on its economies of scale and growing technical sophistication; Argentina, Chile, and

Uruguay have the know-how to combine quality output with suitable specialization; and there are export potentials based on experience gained from natural resource advantages — for example, Argentina is a potentially strong exporter of agricultural equipment, Mexico of equipment for the oil and gas industries among others, Peru of fishing boats, and Chile of mining equipment and technical assistance in mineral exploration. In addition, of course, natural resource advantages are exploited directly in manufacturing for export.

Up to now, most Latin-American countries have been defensive about their manufacturing abilities and have impeded their own export success through excessive protection and other measures that increase costs artificially, including high-cost fringe benefits and big indemnities for dismissing workers. Lack of access to imported inputs is a major problem in most countries, along with excessive costs of inputs and artificially high profits to be made in the domestic market. Administrative obstacles to exports abound. By way of compensation, some Latin-American countries provide export subsidies to manufactures combined with export taxes on their traditional natural resource exports, thus creating powerful but exceedingly uneven incentives for manufactures export based on local natural resources. Peru and Uruguay are prime examples today. Other artificial means are used to promote manufactured exports, for example, arrangements in which imports by industrial enterprises — or low-interest loans to them, or local assembly of automobiles — are only permitted in return for exports. One result is that exports of manufactures are frequently produced at costs well above world prices and are cross-subsidized by local consumers. Indeed, revalued at world prices, value added in many of these manufacturing activities for export would quite likely be negative. In a few locations, however, Latin-American countries allow access to imported inputs and permit the composition of manufactured exports to be shaped by comparative advantage — in the Mexican border assembly industry, in a few export-processing zones in the Caribbean, and now increasingly in Chile, where tariffs have been reduced to 10 percent or less.

Looking forward to the 1980s, although there is a great potential for manufactured export growth, one can also find reasons for worrying whether the region will in fact keep up, let alone improve, its export performance. One reason is the artificiality and costliness of much of the exporting. Local supplies of cotton, leather, wool, and natural resources used in exports are strictly limited; so are the exports generated as a side effect of excess capacity; and government leverage to induce enterprises to export in exchange for favorable treatment is also limited. Thus, beyond a certain point, better performance depends on improving policy regimes to give favorable export incentives to a wider set of manufacturing industries.

At a country level, one also finds concrete room for concern. In Brazil, for example, following the December 1979 package of reforms, there is a question

whether devaluations from now on will keep up with inflation. In Mexico, problems arise from the effects of oil: there is less incentive to industrialize efficiently and pay strong attention to nonfuel exports, and wages are being driven up compared with wages in the US and elsewhere, as an indirect effect of spending brought on by the oil bonanza; thus the outlook for manufactured exports is cloudy. In Argentina, Uruguay, and Colombia manufactured exports are being hurt by exchange rate appreciation brought about by natural resource exports, capital inflows, and attempts to fight inflation through currency appreciation; in a smaller way Peru may now run into the same problem. In much of Central America manufactured exports are being disrupted by political troubles.

Lack of momentum in world demand will also be a problem, because in many products Latin-American suppliers seem to be marginal and their orders are cut back more than those of East Asian suppliers when demand falls. This may be cushioned by the fact that 45 percent of the region's manufactured exports go to other Latin-American countries (see [14, Special table D]), but, of course, their ability to pay for each other's output and their willingness to import depends on their policy regimes and on the health of their own balances of payments.

Protection in industrial countries could hurt the region, but so far it has not had serious repercussions on manufactured exports. The only products hit systematically by quotas up to now have been textiles and clothing. To date, although a few of the quotas in the region are binding, the effects have been mild, and indeed the exports achieved up to now—notably by sewing in Mexico and the Caribbean of precut garments for the US market—have benefited to some extent from the price-raising effects of strict quotas on the formidable rival suppliers in East Asia.<sup>13</sup> Outside textile products, one finds threats and annoyances, notably in the form of US countervailing duties against export subsidies by Latin-American countries, but hardly anything more. The most palpable threats come in steel, where Brazil already has year-to-year agreements limiting its exports to the European community, and in shoes where, for example, US "orderly marketing arrangements" with Taiwan and Korea offer warnings to Brazil. With the US having already committed itself to a confirmation of strict textile quotas, as part of the price of achieving the Tokyo Round package of trade agreements, the industrial countries could slip into greater use of protection in the next few years, but even in a period of depressed growth this outcome is far from certain. Indeed, some observers have expressed surprise that more serious barriers have not emerged outside textiles and clothing. Even if barriers multiply, there is considerable likelihood that, as in the past, only the star performers will be hit by restrictions, and the countries affected will be sufficiently flexible to go around the restrictions and also to raise their prices of the products by way of compensation.

**Economic Growth Prospects**

If GDP in the industrial countries grows between 3 and 3.5 percent a year in the 1980s and no big surprises occur, GDP growth in Latin America as a whole could average 5 percent, with lower growth rates in years of adverse conditions.

Growth rates higher than this, above 6 percent a year, can be expected in Mexico thanks to its oil revenues. Brazil and Argentina are the biggest question marks, since both now face very difficult tasks in economic management — Brazil is trying to keep up its dynamism in face of a payments crunch and other growing difficulties, and Argentina is trying to right its policy environment to break out of its usual slow and erratic growth. Colombia even in face of lower coffee prices can potentially continue to grow at least as fast as the region as a whole; Venezuela and Ecuador with their declining volume of energy exports might fade to only average growth rates once oil prices level out; Chile having made its drastic transition to outward-looking policies will grow at well above the average rate, thanks to fast-growing trade; and Uruguay and Paraguay will do better than the average, assuming that they continue to shift their internal terms of trade in favor of agriculture. Conversely, however, I would be pessimistic about the growth prospects of Peru and Bolivia, with oil exports disappearing, and of most of Central America because of political instability. In the Caribbean, poor results can be expected in Cuba and Jamaica, and only modest growth in Haiti as a legacy of policy shortcomings, while the Dominican Republic may be able to achieve at least average growth as the price of sugar recovers.

**POLICY ISSUES****Three Questions Not Yet Fully Answered**

Three questions hang over economic policy in many Latin-American countries. The first is, what trade policies should an industrial country follow to keep up its economic growth as best possible in the face of reduced demand for its exports, higher prices for its (large) fuel imports, or both together? The second is, what regional measures can usefully be taken by Latin-American countries acting together in face of such a jolt from outside? Finally, what strategy should be followed by a developing country rich in natural resources, in order to move rapidly into the ranks of the fully industrialized countries?

**Policy for an Industrial Country in Face of Depressed Export Demand or a Jump in the Price of Fuel Imports**

Sustaining economic growth in face of depressed export demand or a sharp rise in the price of fuel imports turns out to bear a close analytical resemblance to a familiar question: how can a developing country increase its growth rate in a given world economic environment? A higher growth rate will imply a

big increase in the country's requirement for goods initially imported, since more capital equipment and intermediate inputs will be needed and imports will also be required to break bottlenecks and overcome shortages or gaps in what the country can supply for itself once its resources become tightly stretched. Thus, the country's demand for foreign exchange will shift outward compared with a continuation of the present growth rate; yet the supply of exports will not be increased immediately, but will tend to be reduced by rising domestic demand. Another problem is that raising the growth target implies a need to use trade policy more than before to help get more output out of existing resources of the economy, both directly in current production and over time through the efficiency of investment and the mix of activities chosen for expansion.

Maintaining growth when exports fall or when the cost of imports rises, poses essentially the same two challenges: exports must be raised and import needs reduced to bring payments back into balance, and the economy must attain more output from resources available. Thus it is not entirely surprising to find that trade policy recommendations in both negative cases will be broadly similar to those now generally accepted for promoting growth through improved trade policy. In each case, the broad prescription must be to promote exports along with efficient import substitution, and to use the incentives and price signals created by trade and exchange rate policy to foster a better use of resources and a more efficient pattern of growth throughout the economy. For these purposes the policy requirements are by now familiar: more realistic prices and exchange rates, reflecting to the extent possible, the true scarcity value of foreign exchange and factors; provision of equal incentives to the extent possible to production for export and for the domestic market, at least within the same industry; special attention to input needs of exports including, if possible, a free trade regime for imported inputs into exports and equal incentives for the use of domestically produced inputs; further use of trade opportunities and recommended methods of project appraisal in choosing investment patterns; and so on. There exist, however, significant differences in the three cases calling for different actions in detail. Thus, in the case of depressed exports caused by a depressed world economy, increased exports will be harder to achieve and smaller export results can be expected than in the other two cases, from any given shift of policy designed to promote exports. Meanwhile there will also be some idle resources in the economy, so that improved trade policy is likely to lead naturally to more import substitution, but less aggressive export expansion than in the first case; while a jolt from high fuel costs will call for shifts into activities that directly or indirectly save energy.

The real difficulty is that when the trouble hits, countries are in fact following policies full of distortions. Thus they cannot quickly move to the recom-

mended policies. Indeed, given the immediacy of the payment problem, the crisis must be met at first with the policy instruments at hand. Moreover, the technical and practical difficulties of achieving a transition to better policies may be especially serious in face of a jolt from abroad, especially since "natural" responses such as emergency quotas, embargoes, and import surcharges will increase incentive distortions.

There is a silver lining, however, because the setback from abroad will create pressure to make policy adjustments in directions needed anyway. In another paper I made recommendations for effecting a transition from the usual kind of inferior trade policy regime to a desirable one, starting in a difficult payment crisis (see [3]). Looking back at this list it seems that many of the actions recommended are ones that a sensible government would be inclined to take anyway in reaction to a sharp rise in oil import costs or a prolonged drop in earnings from traditional exports. What is especially worth noting, however, is that political support can probably be found for these actions in face of a setback to trade and growth originating outside, when there was no previous consensus on accelerating the country's growth by expanding its trade.

Among my tentative recommendations for transition, starting in the difficult case of a payments imbalance, were to

- (1) Look ahead and design a program of phased adjustments and corrections over a number of years, culminating with much larger exports and imports and higher rates of economic growth. Faster growth and development is the basic objective, not an optimal trade regime for its own sake.
- (2) Start by correcting the exchange rate and by expanding exports with the help of strong new incentives, even if this involves second-best approaches that will later be abandoned.
- (3) Make import policy changes at first only to give the export industries access to imported as well as local inputs at world prices; otherwise wait to reform the import regime until exports increase to the point where quotas and high tariffs can be phased out; but meanwhile try not to introduce new import restrictions that will be hard to abandon later.
- (4) Follow up a strong initial devaluation, which will help import substitution as well as exports, by further actions to correct prices and to reduce inflation — try to increase public revenues, hold down public expenditures, and especially foreign exchange expenditures, where there should be a stringent foreign exchange budget, make interest rates and public sector prices realistic, reduce fringe costs of labor to employers, and so on.
- (5) Take special measures to relieve the short-run credit squeeze on all but the least promising industrial enterprises, to keep them going through the crisis despite higher costs of working capital due to devaluation and higher energy prices.

(6) Channel available foreign exchange into inputs to maintain current production ahead of most investment,<sup>14</sup> then increase investment as foreign exchange becomes more abundant.

(7) Meanwhile switch investment into useful projects with low foreign-exchange requirements or quick returns in saving or earning foreign exchange, keeping the level of investment high enough to avoid unemployment on any large scale in the construction industries.

(8) Make careful plans for expanding the level of national development effort and accelerating the rate of growth through actions by the public, as well as the private, sector as import capacity grows. The increasing level of economic activity will more than compensate industries for gradually losing most of their protection, and the exchange rates required for this growth will give considerable "protection" to established industries.

This list has a twofold significance for a country hit by depressed exports or a higher import bill. First, it is at least one guide as to what to do and in what order. Second, the fact that it was initially made to guide a transition to better trade policy shows that it is only a short step from the actions required anyway, to a lasting improvement in the trade policy regime. Having corrected many exchange rate and price distortions, the country can move on to tackle the politically difficult business of reducing protection at a later stage when exports are booming and import controls become redundant.

#### **Policy Action at a Regional Level**

Setbacks in the world economy increase the incentive to undertake efficient measures to save or earn foreign exchange through regional cooperation, while at the same time they increase the costs of regional schemes that have the opposite effect. Thus "regional self-sufficiency" or "regional import substitution" is an appropriate response if it means, for example, building a fertilizer plant to serve several Andean Group countries at costs lower than those of imports, while scrapping plans for separate plants in each country, or if it means striving for more intraregional trade and division of labor within existing agreements, but not if it means creating new distortions and artificial barriers. The real goal must be to increase the efficiency of production, while earning and saving foreign exchange. For this purpose, it would be useful, for example, to do more joint promotion of tourism, to aim for more production of motor vehicle and tractor parts in Brazil and Argentina for both markets to take further advantage of economies of scale and help expand exports from both countries, and to create payments facilities at a regional level along the lines of the European Payments Union, to help facilitate purchase from one another.

Further reciprocal preferential measures can help where, as in Brazil, severe obstacles still exist against imports, but perhaps even more important in promoting a swift growth of trade within Latin America are the steps being taken in some countries to make exchange rates realistic, reduce exchange controls, liberalize tariffs, and eliminate quantitative import restrictions. As a matter of geography and information costs, when Chile and Argentina do this, it has an especially big effect on their trade with one another. The trend in major countries toward reliance on realistic exchange rates and tariffs, rather than exchange controls and quantitative restrictions, also means that existing tariff preferences, which once meant very little, now begin to count. Thus, with the help of outward-looking policies, a Latin-American common market is starting finally to become a reality, to the point where the next few years may witness a swift growth of trade among the leading countries based on private, commercial self-interest and decentralized decision-making.

#### **How Does a Resource-Rich Country Quickly Become Fully Developed?**

In most countries of Latin America, the basic challenge starting in the 1980s is to move quickly and decisively toward becoming fully industrialized, "developed" countries, with high living standards that are not dependent to any large degree on rents from natural resources. For "models" of how to do this in a country with a predominantly European culture and fairly substantial rental resources per head, one would have to turn to such countries as Spain, Greece, and Finland. In these and other countries that have industrialized within the 20th century, the drive to a fully industrialized status has featured rapid export growth, with the main thrust coming in manufactured exports. As the experience of many Latin-American countries helps to show, however, this crucial phase of the development process may be difficult to achieve in a country rich in natural resources, since this resource wealth may stand in the way, preventing industries from becoming fully competitive because of the high wage costs, easygoing standards, and inferior policy regimes fostered by a cushion of natural-resource-based exports.

How, then, can a resource-rich country achieve full development rapidly? Not enough is known as yet about the answers, but my own tentative answer would start with one word: quality. The country must strive for quality by international standards in its manufactured exports, its other goods and services, its equipment and infrastructure, its government and economic institutions; and it must seek to increase rapidly the quality of its human resources through educational standards and practical experience, above all in areas such as engineering, technology, and marketing. The attainment of quality will require a strong quantitative performance as well through decades of suitable experience and wise investments, and the shift to full development will require changes in people's attitudes and ways of living at the same time.

Today some Latin-American countries are obviously decades closer to full development than others. Without the pursuit of quality on a broad front, however, even a resource-rich country cannot expect to become fully developed.

Almost equally important, and intimately related, is the need to expand manufactured exports rapidly, in ways that can be sustained based on learning and true competitiveness. This frees the country to a degree from constraints set by its capacity to import, its natural resource base, and the size of its home market; and it generates or reveals an ability to compete successfully with the richer countries of the world across a wide spectrum of industries in the home market as well as abroad. Trade growth also permits a rapid rise in output, investment, and living standards during the drive to full industrialization.

From this point of view, the heart of the policy problem in a resource-rich country such as Venezuela, Argentina, Chile, or Mexico, is how to make and keep its industries competitive in face of the wage, exchange rate, and indirect social, cultural, political, and other effects of its resource riches. Exchange rate policy may be one of the answers. I would want to resort to special measures in this regard to keep wages and prices competitive, even if this means running a trade surplus that is neutralized or invested abroad to reduce the inflationary effects. Also important is to work continually to improve the country's infrastructure, education, and public services, which will affect quality and thus export competitiveness. Improving the scale, structure, and costs of industries may be crucial. Trade policy is certainly a key by making the price system realistic, liberalizing imports, and promoting exports in ways already discussed. Experience in Canada and Western Europe suggests that steps toward free trade and economic integration with industrially advanced neighbors may be nearly essential for many countries in making and keeping industries fully competitive, a point that deserves careful consideration in Mexico and that suggests long-run possibilities in the area around Brazil and Argentina. Here steps to liberalize imports should be valued, above all, for their indirect contribution to the ability to raise output quality and to compete in export markets.

## NOTES

\* The views expressed are mine and are not necessarily those of the World Bank.

1. This and other data in this paragraph are from [18, Table 1], and are limited to countries with populations of over one million in 1977. Per capita growth rates for the years 1970-77, in countries of all sizes, are given in [16].

2. Much comparative information can be found in [5 and 18].

3. As a result, in 1975 prices, the region's exports were only two-thirds as large relative to its GDP in 1976 as in 1960, according to unpublished World Bank estimates made as background for [17]. For simplicity this paper will only treat merchandise exports. However, by 1977, according to World Bank estimates, exports of nonfactor

services from the region were valued at nearly one-third as much as the region's merchandise exports, and from 1970-76 they grew in constant 1975 prices at 6.6 percent a year compared with 2.8 percent a year for merchandise exports.

4. Manufactures defined as SITC 5-8 less 68 constituted 14.4 percent of the regions' total merchandise exports and 21.6 percent of nonfuel exports in 1977, according to [11, May 1979, Special Table D].

5. In 1978 the average manufacturing wage in Taiwan exclusive of fringe benefits, reached 80 US cents per hours or \$7.02 per day (\$176.14 per month), up from 41 cents an hour or \$3.57 per day as recently as 1974. In Hong Kong the average manufacturing wage in 1978 was \$7.21 per day and in Korea, \$7.52 per day, whereas the Korean average stood at only \$9.24 per day as recently as 1974. Lower wages than these are found now in many Latin-American countries, especially in relatively low-skilled, low-wage industries. (These comparisons are based on data from [8; 9; 11, December 1979, pp. xvii and 146; and 1], and exchange rates from [2].) At an industry-specific level, Morawetz found higher wages with or without fringe benefits in the clothing (garment) industry in the East Asian economies just named than in Colombia, where garment workers earned 30 cents per hour ([6, pp. 104-108]).

6. In the 1974-78 period, while exports in the world as a whole grew at only about 4 percent per annum, those of Korea grew in real terms at 23 percent per annum, those of Taiwan at 19 percent per annum, and even those of Hong Kong grew at 9 percent per annum; see [2, pp. 114-15 and 238-39; and 14, p. 571].

7. The first figure is from [15]. According to International Monetary Fund data the region's exports grew in nominal value in 1978 at only 5 to 6 percent compared with a rise of about 15.5 percent in the value of world trade; meanwhile, as shown in [11, December 1979, Special Table D], the US dollar unit value of developed countries' manufactured exports rose through inflation by about 14.6 percent.

8. The statistics in the table are misleading in the case of Colombia because of increasing unreported drug transactions and in Trinidad and Tobago because exports of its own oil increased, while those based on refining of Venezuelan oil fell.

9. Based on interviews with Chilean authorities, in real terms GDP rose 8.6 percent in 1977, 7.9 percent in 1978, and 8.5 percent according to their (ODEPLAN) estimates.

10. Some mention should be made, however, of OECD scenarios for the years 1975-2000 in [7] which imply a wide range of possibilities for 1990.

11. [17, Tables 16 and 24 on pp. 17 and 35]. The underlying model contains no feedback from energy effects to prices and output.

12. [14] and recent statistics in Brazilian classifications from Banco do Brasil.

13. Textile quotas and their effects are analyzed in [4]. Within the region, the US has textile quotas at present against Brazil, Colombia, Dominican Republic, Haiti, and Mexico; the European Community has quota agreements with Argentina, Brazil, Colombia, Mexico, Peru, Guatemala, Haiti and Uruguay, although the last three agreements contain no quotas, only agreements to negotiate and accept quotas if exports rise to specified levels; and among the other industrial countries the only quotas against Latin-American textile products appear to be those in Austria restricting cotton yarn and printed fabric from Brazil.

14. Investment in human resources through education, training, health programs, and the like ought to continue unabated, however; foreign exchange requirements are generally slight.

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## Comment on "Exports and Policy in Latin-American Countries"

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Keesing leaves little doubt that Latin America is not his favorite export performer, either in primary commodities or in manufactures, either in the past or in the future. Export performance is described as "slow, miserable, ever lagging" and is unfavorably compared with what has been achieved elsewhere. The reasons for the sub-par performance are suggested: policies biased against manufactures exports through restrictions of access to intermediate inputs, favoring production for the home market, high wages, lack of competitiveness

due to favorable natural resource endowments, and generally unfavorable exchange rate and commercial policy. The remedies suggested amount, in so many words, to achieving competitiveness by setting prices "right." In what follows I shall question some of Keesing's conclusions, if only to suggest that there may be room for alternative views.

#### LATIN-AMERICAN ECONOMIC PERFORMANCE

Keesing observes that Latin-American performance, while satisfactory by historical standards, has been mediocre compared with what has been achieved by countries at comparable levels of development in other parts of the world. Table 1 questions these conclusions and shows real growth rates and growth rates of export earnings in real terms for all non-oil LDCs, for Asia and the Western Hemisphere, covering various subperiods from 1967 to 1980.

One is hard-pressed, indeed, to see a substantial difference in the 1970s between Asia and Latin America. The comparison of larger aggregates, as suggested here, reveals the tendency for each region to have an average behavior and to deemphasize the superior performance of places such as São Paulo, Seoul, or Singapore.

I would also question the extent, more particularly the channels, through which the business cycle in industrialized countries spills over to developing areas. Keesing believes that within a year a deceleration in industrial countries' growth spills over into volumes and prices in the developing countries, soon bringing about a setback in growth. Surprisingly, the evidence is really not that strong. Consider the Brazilian growth rate of GNP, export volume, and the OECD GNP growth rates as shown in Table 2.

Table 2 reveals the uneven pattern of Brazilian real growth, and the even more erratic growth rates of manufacturing exports in volume terms. There is a temptation to look to 1975 as a vindication of the view that a decline in Brazilian export growth, due to reduced growth in industrialized countries, led to lower income growth. Given the very small share of exports in GNP that

Table 1

#### LDC TRADE AND GROWTH

	All nonoil LDCs			Asia			W. Hemisphere	
	1967-72	1973-77	1977-80	1967-72	1973-77	1977-80	1967-72	1973-77
Output	5.9	5.4	4.9	4.9	5.8	5.7	6.8	5.5
Real exports <sup>a</sup>	7.7	6.0	6.6	11.3	9.2	7.2	4.6	9.2
Partners' GNP <sup>b</sup>	5.0	3.0	3.1	6.4	3.3	3.3	5.0	2.9
Commodity prices <sup>c</sup>	2.2	21.1	10.4	-6	20.2	14.9	4.3	21.3

Source: International Monetary Fund, *World Economic Outlook*, Tables 2.9 and 10.

<sup>a</sup>Real export denotes export earnings deflated by import prices.

<sup>b</sup>Partners GNP refers to growth rate of trading partners' GNP.

<sup>c</sup>Commodity prices denotes the dollar prices of the regions nonoil primary commodities.

Table 2

## BRAZIL: TRADE AND GROWTH

	1973	1974	1975	1976	1977	1978
OECD growth	6.3	0.6	-0.5	5.3	3.8	3.9
Brazilian growth	14.0	9.8	5.6	9.0	4.7	6.0
Manufactures export volume	14.2	9.6	6.2	3.9	23.8	28.0

view is, however, not correct. Export performance, as 1977 and 1978 make clear, does not exercise a dominating role on income growth and, more important, export behavior is primarily governed by home market conditions and profitability, not by world demand. The fact is brought out in a particularly strong way by the 1977-78 evidence. 1975 by contrast, reflects low real income growth because of a homemade reduction in demand in an effort to stabilize inflation.

There is no doubt about the strong cyclical behavior of commodity prices, but for manufactures one does not in fact observe a pattern that is strongly cyclical. Manufactures exports are, to a significant extent, dominated by home supply and macroeconomic conditions, not by world demand. LDCs, while marginal suppliers, made their strongest inroads at the very time of slack demand in developed countries. I find this one of the very puzzling facts of the LDC export performance and one that at present goes without an explanation.

## EXPORTS AND GROWTH

Keesing takes a firm position on the issue of trade and growth. In his view exports are the source of growth. Indeed, he goes as far as ascribing Brazilian supergrowth in 1967-74 to swiftly rising exports. Surely that is an argument that has no basis whatsoever, once it is remembered that in the case of Brazil exports account for less than 10 percent of GNP. The same is, of course, apparent from a comparison of export and growth performance for several Latin-American countries. Table 3 reveals little association between export growth and real income growth. There are cases such as Chile where repressed domestic activity and overdepreciation lead to high export growth but, of course, at the expense of domestic activity. There is the Brazilian case where high export growth ensures that trade problems do not become a bottleneck for a growth process that is centered at home. And then, of course, there are a number of countries where no precise pattern emerges.

I would expect that only the Brazilian pattern makes much sense: strong export performance so that the growth process is not hampered by external constraints. The alternative strategy of seeking high export growth through a cut in real wages and under-valued exports is certainly a vehicle for fast

Table 3

## GNP AND EXPORT GROWTH RATES

	1960-70		1970-77	
	Exports	GNP	Exports	GNP
Argentina	3.3	4.3	5.5	2.9
Chile	0.6	4.5	7.7	0.1
Brazil	5.0	6.1	6.5	9.8
Mexico	3.3	7.0	1.9	4.6
Peru	1.9	6.0	-4.4	4.0

export growth, but it is rarely a recipe for economic success. (In making that assertion, one must, of course, bear in mind that in Far East Asia it *was* the recipe for high, broadly shared growth in per capita incomes.)

The "growth through exports" strategy that international organizations have adopted as their economic ideology for developing countries has a side aspect that has not been sufficiently emphasized, namely, that the contrived competition between LDCs as new manufacturing suppliers cannot but affect their terms of trade adversely. The process affects their terms of trade adversely as they seek to expand and it does so even more when, in reaction to external shocks, they attempt to maintain their relative shares through competitive depreciation and real wage cutting. Since LDCs are now competing among themselves for the import levels that developed countries have conceded, the export competition involves to an important extent implicit transfers toward final consumers in the developed countries. This is an implication of the growth through exports strategy applied to LDCs as a group and its international income distribution implications need serious discussion.

#### GROWTH PATTERNS AND PROSPECTS

Keesing's paper shows how little we know about export growth prospects for industrializing countries. Rather than pursue growth scenarios I shall raise a number of short points. First I would draw attention to a shifting in trade pattern. GATT has noted the fact that trade growth between LDCs and DCs is now proceeding at a higher rate than trade growth among industrialized countries. At the same time trade among LDCs is growing at very high rates (as shown in Table 4).

The high growth rates of LDC exports suggest to me two patterns. One is that developing countries are becoming integrated into intraindustry trade in consumer and capital goods. The other is that they are swiftly increasing intra-LDC trade, both by trade creation and by trade diversion. There is little doubt that in an atmosphere of substantial state trading this is the area where significant expansion must be anticipated.

Table 4

## EXPORT TRENDS

	1963-73	1973-79
<i>Exports:</i>		
Intraindustrial	11.5	5
Nonoil LDCs		10
GATT, <i>Press Release</i> , 15 February 1980		

As Keesing rightly notes, in a regional setting there may well be room for important scale economies to be achieved. In the same context learning by doing, which is essential to the quality aspect that Keesing stresses, can be practiced. The quality aspect is, of course, also an area where an important increase in public intervention may be entirely appropriate (see on this point the important paper by G. A. Akerlof, "The Market for Lemons," *Quarterly Journal of Economics*, Vol. 84 (August 1970), pp. 488-500).

In considering Latin-America's export potential we should not limit ourselves to merchandise trade. One of the quite unanticipated side aspects of the oil shock has been the large-scale development of international contracting. Asia, in particular Korea and Pakistan, has taken an important place in this service trade. In Latin-America countries combining abundant labor and contracting expertise such as Brazil's would naturally be expected to take a place in this trade.