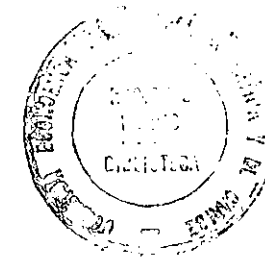

NEW FORMS OF INVESTMENT (NFI) IN LATIN AMERICAN-UNITED STATES TRADE RELATIONS

Mikio Kuwayama*

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* Staff member of the International Trade and Development Division of ECLAC. The paper is the exclusive responsibility of the author and does not necessarily reflect the opinions of ECLAC. I very much thank Héctor Assael and Michael Mortimore for their helpful suggestions.

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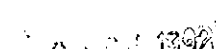

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I. INTRODUCTION: NEW OPPORTUNITIES FOR LATIN AMERICAN AND CARIBBEAN COUNTRIES IN THE NEW WORLD ORDER

A predominant feature of the trade relation between the United States and Latin America and the Caribbean is the asymmetry in which the dependence of the latter on the former has increased while the latter's relative position as a trade partner in the former's overall trade has been declining (for example, see SELA, 1991). As a facet of this phenomenon, throughout the 1980s, the region's exports to the United States grew faster than its exports to the rest of the world. This, in turn, to a large extent, has to do with increasing manufactured exports to that market. While the United States absorbed only 22% of the region's total manufactured exports in 1980, that figure increased to 46% in 1988. As a result, the share of these products in total exports from the region to the United States is now more than 50%, in contrast to the case of exports to Japan, or to a lesser degree, the EEC, where primary products predominate (UNCTAD, 1991). Such a high level of manufactures, distinct from the other major economic blocs, relates not only to different resource endowments but also to responses of economic agents to the emerging complementarities and opportunities between the two regions. A high intra-industry trade ratio of Latin America and the Caribbean with the United States (Baumann, 1991) reflects in part their adaptation process to the new international patterns of production and trade.

The drive to export manufactures to the United States has not been shared by all countries in Latin America and the Caribbean, however (Table 1). During the latter half of the 1980s, Mexico more than doubled its manufactured exports to the United States, being responsible for 6% of the total manufactured imports of that country, and roughly 18% of the total coming from the developing regions. Also, the exports from the countries of the Caribbean Basin Initiative, though still small in absolute terms, have increased markedly. Meanwhile, the share of South America, including that of Brazil, historically the second largest exporter of the region, has been stagnant. The imports of manufactures from Brazil now do not substantially differ in value from those coming from either Malaysia or Thailand.1/

These changes over the years have made Mexico at the beginning of 1990 account for the majority of both total United States imports and imports of manufactures from Latin America and the Caribbean. More surprisingly, as will be examined later, more than half of Mexico's exports to the United States enter under special preference regimes, either from production sharing plants, or maquiladoras (Harmonized Tariff Schedules 9802), or the Generalized System of Preferences (GSP). For the region as a whole, 45% of total United States imports of manufactures from the region utilized the HTS 9802, while 10% of total regional exports to the United States entered under GSP. Under the tariff provisions of 9802, articles assembled abroad with United States components and

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1/ Traditionally, the developed countries have been the most significant exporters of manufactures to the United States, though their combined share has declined over the years, accounting in 1990 for 66% of total imports of such goods (see Table 1). This observation applies not only to Canada and Western Europe but to Japan, whose large trade surplus in manufactures with the United States has been the cause of many intense debates. These declining shares of developed countries have been compensated for by those corresponding to the developing countries, especially of East Asian origin. Remarkable has been a substantial rise in imports from the countries of ASEAN, of relatively low-income levels, whose combined share has now reached over 3 %.

Table 1: U.S. Manufactured Imports*/, by Group of Countries:1985-1990

(In millions of current U.S. dollars)

	1985		1986		1987		1988		1989		1990	
World	257,478	100.0%	296,653	100.0%	324,444	100.0%	361,381	100.0%	379,425	100.0%	388,806	100.0%
Developed countries	188,149	73.1%	215,953	72.8%	224,059	69.1%	244,030	67.5%	253,588	66.8%	257,795	66.3%
Canada	50,312	19.5%	52,777	17.8%	54,213	16.7%	63,192	17.5%	68,269	18.0%	69,589	17.9%
Japan	68,093	26.4%	81,202	27.4%	83,868	25.8%	89,123	24.7%	92,925	24.5%	89,086	22.9%
Western Europe	67,037	26.0%	78,647	26.5%	83,524	25.7%	88,958	24.6%	89,458	23.6%	95,735	24.6%
Developing countries**/	65,696	25.5%	75,751	25.5%	94,005	29.0%	108,595	30.1%	114,154	30.1%	115,940	29.8%
Western Hemisphere	17,720	6.9%	19,359	6.5%	23,586	7.3%	29,503	8.2%	32,093	8.5%	33,694	8.7%
South America	6,683	2.6%	6,821	2.3%	7,475	2.3%	9,204	2.5%	8,880	2.3%	8,582	2.2%
CBI countries	2,046	0.8%	2,100	0.7%	2,471	0.8%	3,054	0.8%	3,633	1.0%	3,876	1.0%
Mexico	8,994	3.5%	10,443	3.5%	13,644	4.2%	17,250	4.8%	19,596	5.2%	21,236	5.5%
Brazil	4,265	1.7%	4,238	1.4%	4,890	1.5%	6,030	1.7%	5,581	1.5%	5,115	1.3%
Developing Asia***/	42,589	16.5%	50,134	16.9%	62,984	19.4%	70,669	19.6%	72,721	19.2%	72,484	18.6%
Asian NICs	37,765	14.7%	44,939	15.1%	56,244	17.3%	61,977	17.2%	61,584	16.2%	59,352	15.3%
ASEAN	4,824	1.9%	5,195	1.8%	6,740	2.1%	8,692	2.4%	11,137	2.9%	13,132	3.4%
Indonesia	561	0.2%	682	0.2%	933	0.3%	1,025	0.3%	1,289	0.3%	1,613	0.4%
Malaysia	1,850	0.7%	1,979	0.7%	2,439	0.8%	3,137	0.9%	4,050	1.1%	4,560	1.2%
Philippines	1,496	0.6%	1,417	0.5%	1,776	0.5%	2,120	0.6%	2,462	0.6%	2,851	0.7%
Thailand	917	0.4%	1,117	0.4%	1,592	0.5%	2,410	0.7%	3,336	0.9%	4,108	1.1%

*/ Manufactured products are defined as SITC (Rev.3) 5-9.

**/ The total of developing countries is the sum of Western Hemisphere and Developing Asia.

***/Developing Asia in this case cosists of the four NICs (Hong Kong, Korea, Taiwan, Singapore) and the four countries of ASEAN listed here.

Source: U.S. Department of Commerce (1991 a).

then imported into the United States are subject to duty only on their value added. This indicates in broad terms the degree of regional intra-industry specialization. Given the low tariff rates generally applied to these inputs, these observations suggest on the one hand that a creation of free trade zones contemplated under the Enterprise for the Americas Initiative might not lead to substantial duty reductions or saving benefits, and on the other that it would facilitate the consolidation of the globalization process already taking place among the trading partners.

In Latin America and the Caribbean, foreign participation has historically been in the form of United States foreign direct investment (FDI) in majority-owned subsidiaries to serve the import-substituting needs of the local market, thereby not having prepared these recipient countries to take advantage of new export opportunities to the world market. However, in the last two decades transnational corporations (TNCs) have intensified their efforts to globalize their production and marketing, knitting the developing countries into their international activities as suppliers not merely of raw materials but of specific manufactured products (UNCTC, 1988). On the other hand, TNCs and local firms have intensified their trade relationships via non-equity forms of investment, particularly subcontracting and other similar operations as maquiladora. Through these distinct forms of investment, manufacturing for export has been the new frontier for international business in the developing countries, and process and component specialization has become a major avenue for these countries to expand their exports of manufactures. Moreover, in recent years there has developed a complex international division of labour among country participants in the foreign investment and value-added chain, reflecting not only the comparative advantages of different host countries, but also the global strategic goals of increasingly heterogeneous international investors. These changes provide new opportunities especially to the better prepared countries in Latin America and the Caribbean.

This study tries to shed light on the complex nature and form of United States-Latin American trade relations and the process of intra-regional specialization, by examining major variants of United States corporate strategies, namely FDI, new forms of investment (NFI) and preferential schemes. It demonstrates that with respect to the United States-Latin American affinity, there is a common element among the three, being that in each one can observe an increasing volume of transactions which are essentially production-sharing or overseas sourcing operations. It argues that in spite of a notable increase in Latin American exports of manufactures to the United States stimulated in part by them, ample potential benefits provided by NFI are not yet fully exploited. NFI offers new production opportunities to enhance simultaneously international competitiveness, the creation of local industrial linkages and technological absorption. Furthermore, the traditional type of FDI is changing its emphasis from a local market orientation to exports, and a large proportion of exports of manufactures from the region to the United States are now carried out by TNCs, but with smaller, flexible, and specialized FDI operations, characterized principally by production sharing. Though this new United States TNC perspective offers opportunities to the countries in the region to participate more effectively in the new world economic order, care should be taken so that national interests in indigenous technological development would not be hindered. Following the Asian example, wholly- or majority-owned FDI is in many cases not a necessary condition or best means for successful manufactured exports. There exist possibilities for export expansion and technological advance without high equity capital participation of foreign TNCs.

II. TRADE AND THE ADVANTAGES OF NEW FORMS OF INVESTMENT

International corporate business operations have been traditionally divided into two large categories: arm's-length transactions and intra-firm ones. The latter usually refers to foreign investment in wholly- or majority-owned subsidiaries. But more recently, a variety of inter-corporate, international business operations have emerged which are an intermediate position between the two. These new forms of investment (NFI) include subcontracting, licensing, production sharing, franchising, management contracts and turnkey projects. Some NFI operations combine two or more of these arrangements. Despite their wide and heterogeneous activities, they operate under one common denominator: a foreign company supplies goods (tangible or intangible) to an investment project or enterprise in a host country but local interests in the host country retain majority or whole ownership of the investment project or enterprise (Oman, 1989, p. 10).

Traditional FDI normally offers a "package" of real and financial assets (technology, management and marketing capacities as well as tangible real and financial assets) to the host country. However, some developing countries that have already built up considerable local capacities in some of these areas might desire to acquire only those assets that are absolutely necessary for a given investment project and which cannot be obtained locally at economically viable costs. As the Korean case indicates, by restricting FDI and relying on indirect means to acquire foreign technology (e.g., licensing) and market access (e.g., subcontracting), the developing countries can successfully undertake export-oriented manufacturing.

Some evidence, though sporadic, indicates that there has been an overall shift away from traditional FDI towards NFI in developing countries (Oman, 1989; UNCTC, 1988). In earlier periods it was most drastic in the petroleum and metal refining industries. However, it was also found in manufacturing, and especially import-substituting activities to capture host-country markets. Today, TNC involvement shows a clear shift towards manufactured exports, not only of differentiated products and inputs where their participation has been traditionally higher, but also of labour-intensive products, which somehow entail substantial production sharing or overseas sourcing. It could be argued, on the one hand, that the changes towards non-equity forms of foreign investment or involvement have been a response to host government policies, nevertheless that the recent "liberalization" policies regarding foreign capital in these countries might once again induce some return to the traditional FDI mode. On the other, NFI today involves and reflects a new evolution of investment and international corporate behavior, involving distinct risk-sharing, management and financing paradigms, which might enhance even more its role in international corporate strategy. The evidence in the following sections tends to support the second scenario, and in view of positive effects on the development of indigenous technological capacity, NFI could well be a viable option for Latin America and the Caribbean, if the opportunities are seized in time and properly exploited.

A. THE NEW PRODUCTION PARADIGM

The manufacturing system perfected for the age of mass production of standardized products is becoming outdated in the light of the new age in which a greater variety and more custom-tailored goods are demanded and need to be manufactured in large-scale systems, but in small lots. This type of production, backed by efficient inventory management and rigorous quality control, tends to permeate all layers of the vertical system from final assemblers to subcontractors in a continuous

search for technological improvements. The increasing importance of both perfect component quality and reliable delivery calls for changes in the supplier-producer relationship. Components are increasingly supplied as part of a system rather than as separate items to be assembled by the final producer. Producers and suppliers must develop and design a relationship that often results in the component supplier taking over a large share of the design and assembly burden. These changes in turn might cause contractual relationships to become single-source and multi-year in duration (Kaplinsky, 1991; UNCTC, 1990).

Besides, the maximization of product innovation and quality requires on the one hand work flexibility supported by a multi-skilled labour force and, on the other, the utilization of flexible electronically-controlled automation. Rapid product innovation also means that formerly distant inter-firm relations have to give way to much closer integration of production schedules and product development, in which proximity and reliability of supply are essential. Both factors tend to mitigate against the principles of geographically-scattered production. Under this new paradigm, though price keeps being a major factor in determining the production site, another basis of global competition is product innovation.2/

The preceding has had important implications for the competitive advantage of the mature, mass-production industries presently undergoing restructuring, such as automobiles, consumer electronics, textiles, iron and steel, etc. The competitiveness in these industries has been in large part determined by the ability to acquire the following conditions: (i) the use of flexible, integrated automation technologies, (ii) the incorporation of new management forms and production organization within firms, which allows for high quality and flexibility standards, and (iii) a new set of corporate relations between consuming firms and their suppliers based on cooperation and trust, in contrast to the adversarial relations of the past (Mortimore 1992). International competition in these previously scale-based industries is assuming characteristics which used to be common only in technologically leading industries such as microelectronics, biotechnology, telecommunications and others.

These features may lead one to question the utility of traditional FDI, which has been the predominant type in Latin America, forcing it to adopt more flexible operation modalities. In general, the Latin American countries historically opted for a TNC-centric industrialization process centered on substituting industrial imports. In contrast, the Asian counterparts stressed a "TNC-associated" export model for its industrialization process. The difference in emphasis has translated into divergent trade performance in manufactures in which the Asians have made very significant gains, especially in research and development-intensive electronics. These countries have acquired the ability to compete internationally and to incorporate themselves into the new international industrial order. The incorporation of these countries into the international trade system has, in turn, relied heavily on the subcontracting of components primarily in the electrical machinery industry and low cost original equipment manufactures (OEM, to be discussed later). On the other hand, the Latin American countries seem to be more marginalized from the new order, despite several exceptions to this rule. "They faced the triple whammy of having to implement new more open economic models in a crisis situation, to restructure both nationally- and TNC-owned industry and to compete not only with the

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2/ A study based on the 1984 figures indicates that low economies of scale, high import penetration in the importing country, and high labour intensity tend to strongly encourage offshore assembly production of the United States enterprises, while tariff avoidance is not a major factor in the decision to transfer them abroad (Clark, Sawyer, and Sprinkle, 1989).

major global TNCs from the industrial countries but also with the Asian NICs which possess advantages gained from years of coherent long-range industrial policies and more compatible strategies on the part of TNCs." (Mortimore, 1992, p.53).

Foreign investment in the Asian NICs (Korea, Taiwan, Hong Kong, and Singapore) and near-NICs involves a greater diversity of investors, including those from the NICs themselves, and of forms of investment. NFI in this region reflects shifting comparative advantages and a trend towards global rather than national strategies on the part of investors. More important than external capital inflows, NFI promotes the development of domestic industrial capabilities, international competitiveness and a global division of labour. It is noteworthy that these advantages are increasingly exploited by the Asian NICs, who are also becoming capital exporters and focus their operations within the Asian region. Faced with problems of labour shortages and rapidly rising wage and land costs that eroded their competitiveness in international trade, they have relocated some of their labour-intensive industries, mainly to Southeast Asia and China, and now to a lesser degree to the CBI countries. Meantime, FDI and NFI directed to these countries are engaged in the more technologically advanced manufacturing.

B. INTRA-INDUSTRY TRADE AND NFI

It is well known that a large portion of world trade in manufactures takes the form of intra-industry trade, that is, mutual exchanges of merchandise within the same product category. Some estimates indicate that in 1985 the proportion of intra-industry trade in total manufactured exports by developed countries reached 57% (De Castro, 1989). For some developing countries for which data are available, the same figure was almost 30%. This type of trade has been gaining importance for Latin America as well and is especially significant for trade with the United States, while for that country, the incidence of such trade is higher with East and Southeast Asia (Baumann, 1991; Fukasaku, 1992). At the sectoral level, for Latin America, a high incidence of intra-industry trade is observed for textile products, paper products, metal manufactures, apparel and shoes, toys, photographic articles, electrical and non-electricalmachinery, road vehicles, etc. As can be confirmed later, these observations "can be interpreted as indicative of a regional adaptation to the new international patterns of production and trade" (Baumann, 1991, p. 32).

Intra-industry trade in the North-South context might be, for instance, explained by production specialization based primarily on the theory of product cycle.3/ North-South intra-industry trade may also emerge, as the firms of the North adjust to competitive pressures stemming from the catching-up of the counterparts of the South which differentiate products horizontally, by design, brand names, etc., or vertically, by quality. This type of intra-industry trade seems to be important in the case of consumer goods (like shoes, toys, clothing, calculators, cameras, watches, radios and television sets) and industrial inputs such as textiles and steel products. This way, developing countries specialize in exports at the lower technological end of such products, while developed countries supply the upper end of more differentiated products.

3/ Introduction of new products, generally by developed countries, with new superior characteristics and attributes, makes older varieties obsolete over time. This allows these countries to enjoy a temporary monopoly position in supplying new products. However, as the technology becomes more available, the production location will move to developing countries, due to cost advantages and/or local market incentives.

Another type of intra-industry trade in the North-South context can arise from the globalization of manufacturing activities, which involves assembly production based on imported parts and components in different countries. While this type is characterized by world-wide corporate strategies of TNCs, it might take place under subcontracting, production sharing, or other similar arrangements (Fukasaku, 1992). The expansion of intra-industry trade of this type, which is increasingly determined by differences in technological, human resource and marketing capacity, might also have relatively low adjustment difficulties on the part of importing countries. This is because high levels of protection against developing countries' exports are mainly found when import penetration from these countries takes place as a result of traditional inter-industry exchanges (De Castro, 1989). The incidence of intra-industry trade, by contrast, seems to be more associated with industry characteristics, such as the degree to which production sharing is permitted, rather than with restrictive measures at national borders. Reflecting the nature of the new industrial order, the last type of intra-industry trade should increasingly characterize the trade relationship between the United States and Latin America and the Caribbean.

C. THE EXAMPLE OF THE OVERSEAS OPERATIONS OF JAPANESE MANUFACTURING FIRMS

The most illustrative case of the above paradigm is the operations of Japanese firms in East and Southeast Asian developing countries, and to a lesser degree, in Mexico. The increasing flow of Japanese FDI to the region 4/ has contributed to and has been stimulated by the spatial restructuring of production there, creating two-way or triangle trade flows among the home and recipient countries. Now, parent companies may provide parts and components to their affiliates for assembly, or intermediate goods for further processing. The affiliates, in turn, send semi-finished products to be further assembled in a third country or back to Japan for final assembly.5/ Japanese parent companies are intensifying their regional networks by locating regional headquarters and procurement centres between their affiliates, as well as the exportation of final goods to expand trade within the region (Ozawa, 1991).

4/ Japan's unprecedented expansion of FDI brought its world total to US$ 227 billion during 1986-1990. Of this figure, East and Southeast Asia received US$ 28.1 billion, of which US$ 15.6 billion went to the four Asian NICs, US$ 9.5 billion to the ASEAN countries, and US$ 2.5 billion to China. The relative importance of this period is easily seen from the fact that these five-year flow totals corresponded respectively to 67%, 46% and 89% of total investment of this country in the region, 1951 to March 1991. Of the total of US$ 28 billion, US$ 11.1 billion were absorbed by the manufacturing sector. By way of comparison, during the same period, Latin America and the Caribbean received US$ 24.8 billion, of which only US$ 1.7 billion were directed to the manufacturing sector (Japan Institute for Social and Economic Affairs, various issues).

5/ According to a survey on overseas operations of Japanese firms, their Asian affiliates in the four Asian NICs (Hong Kong, Singapore, South Korea and Taiwan) sold on average 56% of their manufactured products in 1988 to local markets, while the remainder was destined to Japan (15%), to other Asian countries (11%) and to the rest of the world (18%). For the five countries of ASEAN, which includes Brunei, the corresponding figures were: local sales (61%); exports to Japan (13%); other Asia (13%) and the rest of the world (14%). By manufacturing sector of the four NICs, high export ratios to the Asian region excluding Japan were registered for precision instruments (18%), non-ferrous metals (17%), and electrical machinery (15%), while for ASEAN, wood and pulp (24%), food (27%), precision instruments (42%), and electrical machinery (26%). Regarding their procurement practices, Japanese affiliates in the NICs made close to 50% of their total purchases from local markets, 42% from Japan and 7% from other Asian neighbors, whereas for the affiliates in ASEAN, 42% from local markets, Japan 39% and other Asia 15%. High procurement ratios from Asian sources other than Japan were noted in the case of the NICs: precision instruments (11%) and wood and pulp (60%). The correspondingly high ratios for ASEAN are registered for electrical machinery (25%), iron and steel (18%) and transportation equipment (14%) (Nohara and Kagami, 1991, Table VI, p.25).

A sector which provides strong evidence for the existence of regional core networks is the electrical/electronic equipment industry. In this industry, the regional market plays an important role, capturing 45% of total exports. If the exports to other Asian countries are added to the local sales of the electronics affiliates, then the share of sales to Asia other than Japan reaches close to 60%. More importantly, nearly three-quarters of exports to other Asian countries are undertaken at arm's length, that is to say, to non-affiliated buyers (UNCTC, 1992; Mortimore, 1992). This reflects their strategy to develop an international division of labour with distinct operations in distinct locations to exploit different comparative advantages, with little duplication of facilities among locations. Some parts are supplied from sister operations abroad rather than locally, and capital-intensive or high-tech research and design activities are concentrated in one or a few locations rather than spread among many different countries (Lim and Fong, 1991, pp. 177-178). At the same time, the developing countries in the region try to attract FDI by exploiting regional rather than merely national factors in their investment promotion efforts. They take advantage of complementarities of resources and production and an enlarged market. Moreover, with growing preference for locations closer to customers and sources of supply, the regional core networks serve to enhance the quality standard and the reduction of inventories and turnaround time. The Asian experience demonstrates that it is possible and even preferable to promote manufactured exports by way of NFI, which seem to have greater spillovers of training, learning and quality control effects.

With respect to Latin America and the Caribbean, apart from the finance-related investment in the "tax-haven" countries, Mexico has been a principal recipient of Japanese FDI, only surpassed by Brazil. Most Japanese investment in Mexico is concentrated in manufacturing and natural resources. Though still minuscule compared to the size of the United States FDI (US$ 17.4 billion), the Japanese stock of such equity flows to Mexico reached in 1989 close to US$ 1.5 billion (in comparison with US$ 6.9 billion from the OECD members of Europe). Within manufacturing, today a Japanese firm in Mexico may operate several plants in various sectors. While the majority of these plants were initially established to produce for the domestic market, some later adopted an international market orientation. In addition to these, Japanese firms have been important participants in the maquiladora programme. Though still modest, over 70 maquiladoras are Japanese-owned and their heavy concentration of investment in the electronics (56%) and automobile (24%) industries makes their presence highly visible (Székely, 1991, p. 18).

Unlike America's Big Three, a Japanese automaker, Nissan, by far the most prominent Japanese plant ever established in Mexico, has no maquiladora operations. While the Nissan plant in Cuernavaca primarily produces more economical vehicles for Canada and Latin America, the Aguas Calientes plant will produce higher-priced and more sophisticated versions for the United States and the Japanese markets, "thus integrating Mexico as an important production site for several segments of the increasingly sophisticated world auto market" (Székely, 1991, p. 15). In this way, Nissan moves to a more export-oriented strategy while it strengthens its position in the domestic market.

Within electronics, one of the most concentrated sub-sectors in Japan's maquiladoras operations is color television set production.6/ The driving force behind this, according to Koido (1991, p. 71) consists in, among other reasons: (i) intense price competition forcing manufacturers

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6/ Mexico is a major color television set exporter, exporting in 1989 US$ 1.3 billion to the United States. Mexico's television exports are no longer limited to labour-intensive subassembled products (chassis) and it is the largest exporter of complete sets to the United States market. It can be estimated that 65% of color television receivers sold in the U.S. in 1989 were either completely or partially produced in Mexico (Koido, 1991).

to relocate stages of production to cheap-labour countries; (ii) competition to respond quickly to changes in the product market necessitating a reduction in lead time and supply lines and the same time encouraging the establishment of sites closer to the market; and (iii) the need for communication between different segments of the production process to improve production as a whole, requiring a higher-than-expected degree of integration in offshore production.

The foregoing has several implications for export-led growth of the developing countries based on manufacturing FDI and other NFI. Patterns of industrial organization have undergone significant changes from the older form of the international division of labour, underpinning the growth of manufactured exports based on exploitation of cheap labour and economies of scale in production. Given the comparative advantage of the developed countries in skilled human resources, it might be argued that this might undermine one of the most important comparative advantages of the Third World.7/ However, instead of searching not only cheap labour, TNCs now seek "economies of scope", final markets, proximity to suppliers, and a strong human capital base. This new "flexible specialization", therefore, offers renewed opportunities for developing countries to attract FDI or NFI in smaller scale and specialized local production. Today, FDI-related operations need not to be "foot-loose" industries, for which the principal determinant of production site is cheap labour. The growing importance of proximity is evident in the ASEAN countries where TNCs went originally in search of cheap labour and have stayed because not only of the quality of human resources and the closeness to their suppliers but also of the opportunities for a regional division of labour based on individual countries' comparative advantages. In this sense, trade liberalization within Latin America and preferential access to the huge United States market allow for considerable potential for export-oriented FDI or trade generated by NFI, or even cross-border investment within the region.

D. NEW OPPORTUNITIES IN LATIN AMERICA

Analysts of the apparel industry indicate that in addition to some preferential trade benefits offered by such schemes as the Harmonized Tariff Schedules (HTS) 9802 (discussed in detail in Chapter III), low labour costs and proximity to the United States have led many manufacturers to leave Asia, including numerous firms from that region,8/ and opt for Caribbean Basin production. The key factors responsible for this phenomenon are: (i) shorter design and production cycles; (ii) consumer-driven retailing; and (iii) better quality control.

7/ Some have argued that the spread of new technologies may cause developing countries to lose their attractiveness as low labour-cost locations for production and lead to an erosion of their global comparative advantage, leading to a shift of production location to the developed countries. However, so far trade figures do not support this view. From a share of about 5% of world exports of manufactures in 1970, developing countries accounted for 9% in 1980 and 15% in 1988 (UNCTAD 1991).

8/ Some Asian countries, like Korea and Taiwan are investing in Central America and the Caribbean, especially in the textiles and apparel and electronics industry, mainly induced by low wages and United States trade concessions in the latter area and rising labour costs and United States quotas on Pacific Rim products. There are reported to be more than 140 Korean manufacturing companies in Central America and the Caribbean, amounting to about US$ 150 million annual exports to the United States. An additional 40 enterprises are scheduled to begin operations in the region in the near future. In Guatemala alone, Koreans have opened 55 maquiladoras (The United States has fewer than 20), contributing to an 800% growth rate in maquila exports in the last four years (Business Latin America 1991 c; The Journal of Commerce 1991 a).

With respect to the first factor, though not necessarily essential for basic apparel, such as socks and underwear, they are vital to the fashion industry. The fashion-conscious garment sector is characterized by its limited production span in small lots, with premium designs and small inventories. Regarding the second, compared to the earlier periods when the manufacturer made garments and "pushed" them to the market, getting more common is a "pull" production where the consumer tells the retailer what he/she wants and the retailer tells the manufacturer what to make. This means less idle capital, greater cash flow and again smaller inventories. For the latter, it can be easily imagined that geographical proximity facilitates stricter monitoring of quality, more frequent visits by the importer and quicker replacement of defective merchandise (Business Latin America, 1991 b). There is an increasing premium in locating production near final markets, which mitigates against the export of products with a high transport-to-value ratio in distant developing countries since these require time-consuming shipping, rather than allowing for rapid air transport.

Another case in point is the Mexican maquiladora industry 9/ whose main activities have moved from unskilled-labour assembly in the late 1960s and early 1970s to relatively skilled-labour assembly and manufacturing industries. This shift in focus came from the changing sectoral composition of the maquiladoras, which moved from the apparel industry to one more concentrated in electronics, electrical equipment and its components, and vehicle parts. In these new maquila activities, there can be observed widespread use of modern managerial techniques, which involve just-in-time inventories, statistical process control, quality circles, zero-defect techniques, and work teams. These practices in turn call for more labour training and efforts to reduce high turnover rates of workers. In spite of limited linkage effects with other domestic operations,10/ the maquiladoras in general have had positive effect on labour skills, both of workers and supervisors, as well as staff and technical levels (Peres, 1990). Success in Mexico have prompted several United States companies to shift from simple maquiladora operations to full-scale factories there. Ford Motor Co., for instance, produces a number of automobiles for sale in the United States in the Hermosillo plant, which was judged in a 1990 Massachusetts Institute Technology study as the highest quality auto assembly operation in the world. Besides Hermosillo, the company operates five other major automotive facilities in Mexico as well as six maquiladoras. It also participates in two joint ventures with Mexican firms. The company sells locally about half its Mexican production of 260,000 cars and trucks and the other half in the United States and Canada (Washington Post, 1992; Journal of Commerce, 1992 c).

It is often argued (for instance, Montoya, 1990) that the maquiladora operations of foreign corporations provide only limited stimulus to the Mexican economy, the major reasons being: (i) a small percentage of inputs incorporated in the assembly operations are of Mexican origin; (ii) a relatively small amount of licensed domestic sales, despite the government's effort to phase out regulations that limited the sales by the maquiladoras in the domestic market up to 20% of their

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9/ In 1980 the sector, with a total of more than 1900 maquiladoras, most of which are of United States origin, employed about 120,000 workers and registered a value added of US$ 886 million; by 1990 the sector employed 470,000, or 12% of all industrial workers in the country, and generated, according to the Mexican statistics, US$ 3.1 billion in value added. It has been the second most important earner of foreign exchange, after the petroleum sector.

10/ All available evidence indicate that maquiladoras have not increased their use of Mexican-produced materials, parts and components, which account for no more than 3% of total inputs (Peres, 1990; Montoya, 1990). This reduced rate of integration with local markets in major part reflects the shortcomings of local producers such that: (i) their products are of inferior quality; (ii) they have not proved able to develop a system for timely delivery of parts and components; (iii) their prices are not competitive; and (iv) transportation facilities are inadequate (ECLAC, 1991 c). The overcoming of these difficulties should lead to a even higher level of maquiladora operations and a greater integration with the local market.

production; (iii) little transfer of technology to the rest of the economy and the nature of assemblies which require an unskilled labour force with little training; (iv) limited employment generation capacity to absorb the traditionally unemployed and underemployed males, focused instead on young women who have not previously been in the workforce; and (v) the fact that a significant portion of wages paid to maquila workers are not spent on Mexican goods and services. However, in east and southeast Asia assembly plants transformed themselves from activities solely in export processing zones to an integrated part of national production capacities. This was due, among other considerations, to the non-existence of restrictions on domestic sales, the involvement of local firms as subcontractors from the beginning in joint ventures, or as suppliers doing assembly work and production for the home market and for exports. Local entrepreneurs, managers and workers assimilated foreign technologies to their own production, thereby being able to replace most components previously imported (Grunwald and Flamm, 1985; Grunwald, 1990/1991).

Some of the deficiencies mentioned above can be attributed to trade barriers that have insulated the developing countries' markets from foreign competition. In this context, ongoing trade liberalization should increase competition and force local firms to reduce costs and at the same time raise the standards of performance so that they might be able to meet the more stringent requirements of export production, both as potential suppliers to assembly plants and as operators. In the long run, trade liberalization policy might contribute to increases in the national content of assembly operations and the participation of local capital in export activities.

These observations demonstrate that it is possible to establish internal linkages in maquiladora-related activities, going far beyond simple assembly operations. They also indicate that some FDI operations are increasingly becoming export-oriented, distinct from the import substitution type which has characterized United States FDI in developing countries. The sustained growth of NFI under assembly-type operations could lead to the diversification of products and markets, as well. As has occurred in the Asian NICs, assembly operations can "become a springboard for industrialization, a spur to international competitiveness, and an engine for economic growth. By making shrewd use of the assembly plants, the four tigers moved up the ladder of technology and upgraded their labour force" (Grunwald, 1990/1991).

In sum, the new production paradigm therefore offers a counterbalance to the common view that the changes taking place now, particularly in the technological field, will work to the disadvantage of developing countries. They need not be passive participants in this process of change, but can take deliberate steps that may influence how well they will fare in the future in the exportation of manufactures at the international level. This means that opportunities exist for better prepared Latin American and Caribbean countries to increase manufactured exports, through export-oriented-FDI or NFI in smaller-scale and specialized operations. If they do not take advantage of these opportunities, Asian firms will capture an increasingly large share of world exports of manufactures in which Latin American and Caribbean countries today aspire to specialize.

E. NEW CONTRACTUAL ARRANGEMENTS

In general, manufactured exports from developing countries begin through "importer-pull" rather than "exporter-push" processes. That is to say, it is normally an importer, seeking cheap yet good quality supplies, who stimulate manufacturing in the developing country. The importer's involvement may vary from direct investment in a wholly-owned facility, at one extreme, to simply providing purchase

orders to a manufacturer with whom no formal links exist, at the other. Typically, the developed-country partner brings technology and, more importantly, market access. In the following section, various types of NFI operations are briefly examined separately. By no means should they be considered mutually exclusive. In fact, combinations of these variants give rise to distinct forms of production sharing or overseas sourcing.

1. Production sharing options: shelter and subcontracting

In response to the necessity to reduce costs and remain competitive, TNCs are diversifying their manufacturing activities, integrated parts of which are sourcing from existing overseas facilities and production sharing operations. The latter means that home-country production is basically limited to the most complex tasks while other parts of production are performed at low cost abroad. This competitive pressure and Latin America's trade and financial liberalization tend to make it more attractive for TNCs to source from the region. This enables them to bring world-class products and services to the global market at competitive prices. At the same time, this enables them to take advantage of the local market as an element in global sales.

In fact, a number of factors will make Latin America an important sourcing site in the present decade, the most notable among them being: (i) proximity to the world's largest and most sophisticated market in North America, with an exceptionally high level of complexity and product mix; (ii) vastly improved operating conditions, supported by government efforts to compete more aggressively for foreign capital which can upgrade technology and stimulate exports; (iii) increased use of export processing zones; (iv) a supply of inexpensive, stable and skilled labour; (v) a large and relatively sophisticated industrial base; and (vi) a large natural resource pool (Business International Corporation, 1989 a). These incentives are available not only to the TNCs of United States origin and the counterparts from other countries but also to national firms, which try to use Latin America and the Caribbean as a springboard to the North American market.

For companies involved in production sharing which have not yet chosen to start full-scale operations on their own but wish to take advantage of what the maquiladora industry offers, there are two basic production options available: shelter programmes and subcontracting services. The selection of either depends largely on the degree of commitment the parent company is prepared to make and the degree of management, product and technology control it wants to exercise over the operation.

Under the option of subcontracting, an existing maquiladora operator agrees to assemble a product for another company, usually charging the latter on a piecework basis. The parent company supplies the raw materials, any special equipment required and appropriate drawings and guidelines. The subcontractor provides other services, including workers, technical personnel, and customs clearance requirements. The most marked difference from the shelter option is that the parent company is exempted from severance pay to workers once they terminate the arrangement.

Shelter operations, common in Mexico's maquiladora industry, are an intermediate strategy between installing a wholly-owned maquiladora by a foreign parent and just subcontracting the product that the firm needs to an established maquiladora. Shelter operators perform for a foreign client the following services: (i) provision of plant facilities and utilities; (ii) supply of production personnel, except top management and very skilled workers; (iii) administering all registration

requirements; and (iv) overseas customs clearances. Shelters get paid on the basis of the services they provide, currently at a fixed price for direct labour hour worked with a range US$ 3.50 to US$ 4.50 per hour/worker. Besides a rapid start-up time, this system allows a company to lease the plant facility and to "test the water" without making a large commitment to set up a full-blown maquiladora plant. About 10% of the maquiladoras in Mexico now operate under this system (Peres, 1991, p. 38).

2. Export processing zones (EPZs)

As the world economy becomes more internationalized, production in export processing zones has become an increasingly popular choice for TNCs to manufacture competitively for global markets. An estimate suggests that in 1970 there were 10 developing countries which had some sort of maquila operation while the figure increased to 46 in 1986 and to 53 in 1990. The total number of such zones throughout the developing world even in the mid-1980s stood at more than 260 (ILO/UNCTC, 1988). In 1990, the number of workers employed in these zones could have reached roughly 2.5 million (Ramírez et al, 1990, pp. 16-17). Total exports from these zones should be well in excess of US$ 10 billion (UNCTC, 1988, p. 170). Some even argue that at present close to 40% of world manufactured exports are carried out among the entities which operate in these special areas or those which undertake subcontracting activities (Ramírez, et al, p. 16). Solutions to the bottleneck of insufficient infrastructure, as found in some Asian EPZs, should encourage even more exports from these zones.

From the point of view of emerging TNCs, the EPZ is a particularly important option because of its quasi-extraterritorial character, relatively risk-free environment and infrastructure support, not to mention the exemption from import/export tariffs and other trade restrictions, and certain fiscal and financial incentives. For the developing countries as well, EPZs are an efficient means to allocate scarce infrastructural and other resources and to shield local industry from the competitive effects of EPZ enterprises. For these reasons, the foreign enterprises which have located in these zones have generally not been the well-known TNCs, but have been smaller firms, which are often only just beginning to expand their international operations. The latter include not only domestically-owned firms but also Japanese firms which had not previously undertaken the establishment and operation of overseas affiliates and an appreciable number from newly industrializing developing countries.11/

There is an ambiguity regarding what constitutes an EPZ. The practical definition used by the ILO/UNCTC study is: "A clearly delineated industrial estate which constitutes a free trade enclave in the customs and trade regime of a country, and where foreign manufacturing firms producing mainly for export benefit from a certain number of fiscal and financial incentives." (p.4) Under this definition, Latin American EPZs include Mexico's maquiladoras and the Caribbean Basin free trade zones. Many South American countries also have EPZs, although their popularity and scale have been greatly limited. The Manaus free zone in Brazil could more accurately be described as an import processing zone since most production is destined to the domestic market.12/ Many EPZs are

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11/ Contrary to a widely held view, TNCs are not necessarily the largest or the only investors in EPZs. Fully-owned foreign subsidiaries represent a minority of the enterprises represented in EPZs. Domestically-owned firms are responsible for a quarter but if account is taken of their share in joint ventures, they represent some 44% of all EPZ enterprises (ILO/UNCTC, 1988).

12/ Recently Brazil implemented a new regulation which allows foreign and local companies to lease operating space in 14 EPZs for 20 years. Under this new law, zone companies will no longer be required to sell 10% of their production in Brazil (Journal of Commerce, 1992 a).

diversifying from the traditionally dominant apparel and electronics assembly industries into more high-tech ones such as data entry and information services (Business International Corp., 1989 a).

The role of EPZs, not as assembly "enclaves" but as an important creator of internal industrial linkage, is well orchestrated by Taiwan and Republic of Korea. In Korea, in 1987 the 251 companies operating in the three EPZs subcontracted 1200 complementary firms outside the zones. In Taiwan, it is estimated that as early as 1979, 34% of the electronics industry output in Masan, the most important EPZ there, was undertaken by subcontracting. This achievement was due to the 35 transnational firms, mostly Japanese, which sourced parts for their production processes from some 130 small and medium-sized companies. Moreover, close to 44% of their inputs and semi-manufactures were sourced from the internal market. It might be argued that the Mexican maquiladora should follow these examples where a higher internal sourcing for EPZ activities can contribute to the general industrialization process (Castillo and Ramírez Acosta, 1992).

3. Original equipment manufacturing (OEM)

A variant of new forms of subcontracting arrangements is original equipment manufacturing, by which a company produces to exact specifications a finished piece of equipment or durable consumer goods which carry the brand name of the purchasing company. It usually involves a long-term contractual relationship between a manufacturing firm and its main suppliers of components and sub-assemblers. These arrangements are usually concluded for a specified period but with an option for renewal. They are known to be responsible for a significant share of world trade in manufactured products, and are "a central factor in the internationalization of industry and the expansion of TNCs" (UNCTC, 1988, p. 167). Some scarce estimates on OEM indicate that in 1984 Japanese OEM exports to the United States amounted to US$ 6.3 billion, equivalent to 10.5% of all Japanese exports to the country. Korean OEM exports may have accounted for 50% of that country's exports to the United States in the latter half of the 1980s (UNCTC, 1988, p.167). Contrary to the conventional belief, OEM contracts cover a wide range of products with, in many cases, a very high level of technological sophistication. Cars from the Republic of Korea sold in the United States under the brand names of Ford or General Motors, forklifts, digitally-controlled lathes or personal computers are cases in point. A Taiwanese computer producer, Acer, began by producing OEM machines bearing wholesalers' brand names, for companies such as ITT, Texas Instruments and Siemens. It now markets products under its own name, without giving up the OEM work (Lim and Fong, 1991).

One of the obvious advantages of OEM for manufacturers in the developed countries is that it allows them to take advantage of lower production costs in the developing country without deploying their own financial and managerial resources. From the viewpoint of the importing firms in the developed countries, an essential condition for an OEM deal is the availability of producers who have the necessary technical or managerial capacity to meet delivery deadlines and quality standards and who can do so at the stipulated prices. The stability established under this system also benefits the supplier, who can plan his production schedule accordingly and count on a predictable cash flow for a relatively long period of time. The signing of an OEM deal with a big manufacturer known for his quality standards means to a small subcontracting firm a guarantee that the latter is a serious and reliable entity with a sufficient technological capability. In absence of such conditions, TNCs may prefer the greater reliability which would stem from establishing their own affiliates in developing countries. The OEM operation might be considered as a more sophisticated form of NFI, in comparison with assembly-related activities in EPZs or simple subcontracting. Experience in going

up the "technology ladder" through indigenous efforts might be important. In any case, a jump from OEM to independent exports under the proper brand names means a substantial improvement in technological, and especially design, skills and marketing capabilities.

4. Trading companies and large retail chains

Another type of trade transaction generally characterized as "arm's length" in which TNCs nonetheless play a dominant role is the one carried out by trading companies and large retailers. These companies often participate in foreign trade of developing countries not only as intermediaries between buyers and sellers but through equity participation. They are important promoters of subcontracting activities.

Among international traders, the best-known are the Japanese multinational, multi-product traders, known as "Sogo-Shosha" (general trading companies).13/ It can be estimated that the total foreign transactions of these nine companies alone accounted for 7% of world trade in that year. These companies play a critical role in identifying and developing new outlets for their clients' products. For instance, the share of sogo-shosha in the total trade of Asian and Pacific countries was estimated at about 17% at the beginning of the 1980s, when they also handled as much as 10% of United States exports.14/ Though the size and diversification of these companies have not been equalled by trading companies from other countries, transnational trading companies of this nature have emerged in some developing countries such as the Republic of Korea and Brazil. In the case of Korea, the seven largest general trading companies were estimated to have handled more than 40% of the country's exports in 1986 (UNCTC, 1988, P. 385).

In addition to the transaction intermediation function, these companies offer the necessary link between trade and investment. The traders themselves are often equity investors, frequently with a small share, in firms that are seen as offering promising prospects for foreign transactions. Having such equity participation enables them to introduce changes that both increase their control and profitability and also improve and check product quality, making it more acceptable abroad. The sogo-shosha also play an increasingly important role as organizers of large-size "national" projects in developing countries where a wide variety of private sector Japanese firms participate jointly with public financial institutions. For these undertakings, mutual confidence among and between the sogo-shosha, private and public financial organizations (such as the Overseas Economic Cooperation Fund) is crucial.

With respect to Latin America, the largest of Japanese traders engage in an average of US$ 2 to 3 billion in transactions annually. "In a typical situation, one third of that amount is exports from Japan, another third is imports to Japan, and the final third is offshore or third country trade.

13/ This term is usually used in connection with the top nine trading firms in Japan, which handled in 1990 more than 37% of Japanese exports and 68% of Japanese imports. Their combined total sales (domestic, exports, imports and offshore trade) accounted in the same year for 30% of the country's GNP. In 1990, the total combined sales for only the top nine companies came to US$ 874 billion. Of this figure, US$ 494 billion corresponded to foreign trade (imports to and exports from Japan and offshore transactions). It is important to note that for these companies the relative importance of offshore trade with third country markets is increasing markedly.

14/ More recent figures show that Mitsui & Co. U.S.A., for instance, arranged in 1990 United States exports of some US$ 5.5 billion, while Mitsubishi International Corp. handled United States exports equivalent to US$ 5.1 billion (Journal of Commerce, 1991 b).

This means that over half of the US$ 18 billion/year Japanese-Latin American trade is handled by the nine sogo-shosha. More surprisingly, perhaps 10 percent of total Latin American trade (about US$ 200 billion/year) is handled by these firms" (Stallings, 1991).

Another important marketing channel for manufactures exported by the developing countries is large retail chains (IFC, 1990). Through the establishment of a network of foreign buying offices or agents, the largest transnational retailing companies, particularly those in the garment, consumer electronics, or footwear industries,15/ have deliberately sought out suppliers in developing countries. Although the retailers have developed close business links with their suppliers, these links normally stop short of FDI in production facilities. The big retail stores, whether they sell their foreign made products under their own brand name or more anonymously, tend to be highly quality-conscious, and impose very strict quality-control standards on their suppliers. This trading channel, therefore, plays an important role in transferring "soft" technology, such as product design, quality control and packaging techniques, etc. to developing country producers. In effect, these large retailers serve as a complementary mechanism to the still poor developed national agencies responsible for checking the quality of export products.

In sum, in a scheme of a changing global division of labour, production sharing and other NFI can be seen as a major feature of the international reorganization of industry. Even though the rationale for production sharing may be large wage differentials, host developing countries of these operations can become more technically advanced, as their labour force get more highly skilled, and their industries more efficient. Evidence shows that more complex assembly operations are introduced gradually as the labour force becomes more highly skilled and relative wages rise in a developing country, as suggested by the cases of Haiti, El Salvador, and Mexico, a spectrum of countries with different wage levels and skills in assembly operations (Grunwald and Flamm, 1985). NFI, unlike outright wholly-owned or majority-owned firm activities, such as the United States variety which is examined in the following chapter, can promote manufactured exports and at the same time facilitate technology transfer.

15/ Brazilian exports of shoes, especially for women, is done through this marketing channel. Being a "fashion" sensitive and therefore a perishable product, the role of agents who act as intermediaries between local producers and the retail chain is known to be crucial for a successful operation. In Brazil, the footwear exports of $ 1.3 billion in 1989 were equivalent to 4% of total exports and 7% of manufactured exports of the country (for further details, see ECLAC, 1991 a).

III. THE OPPORTUNITIES PRESENTED BY UNITED STATES PREFERENTIAL SCHEMES AND THE DANGERS TO BE AVOIDED

During the 1980s, Latin American and Caribbean exports to the United States increased at a speed faster than those directed to other regions of the world. As a result, during the 1980's the proportion of the regional exports absorbed by the United States has increased by six percentage points to 40.4% in 1990. It can be stated at the outset, however, that in that year a quarter of total United States imports and more than 40% of manufactured imports from the region as a whole respectively entered under the United States tariff provisions of 9802, which underpin the maquiladora operations from the viewpoint of the United States. On top of this, close to 10% of total United States imports from the region entered under the GSP, though these schemes are not applied exclusively to the region. It will become clear from the analysis below that a good proportion of intra-firm imports by TNCs, NFI-related imports, and those via preferential schemes to a large extent have a feature of production sharing. The importance of these as well as other preferential schemes in the trade relation between the United States and Latin America and the Caribbean is examined in the following sections.

A. ROLE OF PREFERENTIAL SCHEMES IN UNITED STATES FDI

1. The global situation

One of the few countries that collect and publish extensive data on the trade flows associated with TNCs is the United States. From 1980 through 1989, about two thirds of all United States FDI went to developed countries while developing countries received 25%. The stock of United States FDI in Latin America and the Caribbean increased at an annual rate of 5.5%, reaching US$ 67.6 billion. By contrast, the average annual rate of growth for Asia and the Pacific was 11%, double that of Latin America and the Caribbean. With these rates of growth, the Latin American region's share in the total United States FDI in developing countries declined from 73% in 1980 to 68% during the decade, whereas that corresponding to Asia and the Pacific region developing countries increased from 15% to 22%.16/

Regarding the implications of FDI for trade, as can be seen in Table 2, in 1989, TNCs 17/ based in the United States accounted for over 66% of United States exports and for 39% of imports. While those figures represent some decline from those of the early 1980's, they are still very significant. These shares associated with TNCs capture not only trade between enterprises related by majority- or wholly-owned equity links but also a proportion of the trade that is associated with some lesser equity participation like sub-contracting and other forms of NFI discussed above.

16/ United States FDI stock in Latin America showed a significant expansion in 1990, reaching US$ 72.5 billion. Investment patterns were characterized by surges in some countries, like Mexico and Chile, moderate growth in others, such as Brazil, Argentina, Venezuela, and Colombia, and a sharp contraction in one, Peru.

17/ As defined as a TNC, the 1989 Benchmark Survey of 1989 on the United States Direct Investment Abroad covered all foreign affiliates of United States direct investors that had assets, sales or net income of more than US$ 3 million.

TABLE 2: U.S. MERCHANDISE EXPORTS AND IMPORTS ASSOCIATED WITH NONBANK U.S. TNC's

(In millions of current US dollars)

	1977	1982	1983	1984	1985	1986	1987	1988	1989
TNC-associated U.S. exports, total (1)	101,846	163,383	154,360	168,713	171,904	171,125	178,698	215,392	241,491
Shipped to affiliates, as reported on affiliates' forms (2)	40,787	56,718	57,545	66,240	69,616	71,065	78,687	95,027	102,069
To MOFAs (3)	35,813	52,753	54,468	63,408	66,510	67,749	74,904	90,916	97,077
By U.S. parents (4)	29,275	46,559	45,107	52,533	57,567	58,916	65,246	78,336	85,648
By unaffiliated U.S. persons (5)	6,539	10,159	9,361	10,875	8,943	8,833	9,659	12,579	11,428
To other affiliates (6)	4,974	3,965	3,077	2,832	3,108	3,316	3,980	4,112	4,990
Shipped to unaffiliated foreigners by U.S. parents (7)	61,059	106,666	96,815	102,473	102,288	100,060	100,011	120,365	139,425
Total U.S. merchandise exports (8)	120,163	212,276	200,536	223,976	218,815	227,158	254,122	322,427	363,812
Intra-firm exports (4) + (6)	34,249	50,524	48,184	55,365	60,675	62,232	69,226	82,448	90,638
Share of TNC-associated exports in total exports (1)/(8)	84.8%	77.0%	77.0%	75.3%	78.6%	75.3%	70.4%	66.8%	66.4%
Share of intra-firm in total exports (4) + (6)/(8)	28.5%	23.8%	24.0%	24.7%	27.7%	27.4%	27.2%	25.6%	24.9%
TNC-associated U.S. imports, total (1)	86,759	120,768	124,740	140,997	153,570	147,285	166,423	179,543	192,584
Shipped by affiliates, as reported on affiliates' forms (2)	41,525	51,406	53,237	62,529	68,181	65,468	75,837	87,156	93,694
By MOFAs (3)	36,000	46,101	48,328	57,162	60,301	57,268	65,542	76,042	84,646
To U.S. parents (4)	30,880	38,533	41,551	48,919	51,751	49,961	55,867	65,881	72,374
To unaffiliated U.S. persons (5)	7,120	7,567	6,777	8,243	8,551	7,307	9,675	10,161	12,474
By other affiliates (6)	3,525	5,305	4,909	5,367	7,879	8,200	10,395	11,114	8,948
Shipped by unaffiliated foreigners to U.S. parents (7)	45,234	69,363	71,503	78,468	85,852	81,817	90,486	92,387	98,890
Total U.S. merchandise imports (8)	147,847	254,884	269,878	346,364	352,463	382,295	424,442	459,542	492,922
Intra-firm imports (4) + (6)	34,405	43,838	46,460	54,266	59,630	58,161	66,262	76,995	81,220
Share of TNC-associated imports in total imports (1)/(8)	58.7%	47.4%	46.2%	40.7%	43.6%	38.5%	39.2%	39.1%	39.1%
Share of intra-firm in total imports (4) + (6)/(8)	23.3%	17.2%	17.2%	15.7%	16.9%	15.2%	15.6%	16.8%	16.5%
Balance in TNC-associated trade	15,087	42,615	29,620	27,716	16,334	23,840	12,475	35,849	48,907
Balance in intra-firm trade	(156)	6,686	1,724	1,079	1,045	4,071	2,966	5,453	9,418

Source: U.S. Department of Commerce (1981, 1985 b, 1986 a, 1986 c, 1988, 1989 a, 1989 b, 1991 c).

Speaking strictly of intra-firm trade 18/ which takes place only between the parents and their affiliates (rows 4 and 6 of the table), it can be discerned that it is responsible for roughly 25% of total exports and 17% of total imports of the United States respectively.19/ That is to say, much of the foreign trade associated with TNCs is not intra-firm, and a great majority of the transactions of TNCs abroad go to unrelated parties. Moreover, the share of TNC-associated trade and intra-firm trade in total exports and imports have been declining. This marks a shift from the traditional United States FDI type to NFI. It is noteworthy that both United States TNC-associated trade in general and United States intra-firm trade generate a trade surplus, especially the former being responsible for close to a US$ 50 billion surplus in 1989.

On the other hand, in 1988, the most recent year for which data are available, foreign-owned United States affiliates accounted for 19% of total United States merchandise exports and one-third of total United States imports. It might be obvious that these percentages cannot be simply added to the shares of United States-TNCs in the United States mentioned earlier, because of a significant degree of double counting.20/ According to the United States Department of Commerce (1991 b, pp. 30-38), during 1984-1987, the share of the overall United States trade deficit represented by non-manufacturing (primarily wholesaling) affiliates was relatively large and growing, as a result of increases in sales through local marketing arms.21/ In 1988, with United States affiliate exports of US$ 60 billion against their imports of US$ 150 billion, there was a deficit of US$ 90 billion (United States Department of Commerce, 1991, Table 5-23, 1991). In the same year, exports by foreign-owned manufacturing affiliates in the United States amounted to US$ 21 billion, about 8% of total United States exports of manufactured goods. The corresponding figure for imports stood at US$ 29 billion, with an 8% share in the United States imports of manufactures (Lipsey, 1991).

The relatively weak position of intra-firm commercial flows in overall trade can be confirmed by looking at distinct forms and directions of sales by majority-owned foreign affiliates (MOFAs) of United States firms (Table 3). Over the years, when all destinations are considered, sales, in this case including goods and services, to unaffiliated persons have been increasing their relative importance. Especially, sales to the local market, and to unaffiliated foreigners, have been the major and increasingly more important destinations, occupying close to 70% of total sales. In absolute terms, sales to third-country markets have increased rapidly and they now double the figure corresponding to sales to the home country. In short, at the world level, United States MOFAs resort increasingly

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18/ In the case of the United States direct investment is said to exist when 10% or more of the voting stock of a foreign enterprise is owned by a United States person. The definition of "intra-firm" adopted here is therefore a firm in which 10% or more of equity is owned by the other foreign firm with which it trades.

19/ Apart from trade which originates in some non-equity forms between TNCs and other firms, there is no specific reason to suppose that trade conducted by TNCs at arm's length should differ in any significant respect from that by national firms. However, trade associated with TNCs which are internal to firms can be expected to show different behavior from that mediated by markets. In this sense, intra-firm trade is a good proxy for the extent to which TNCs internalize their activity across national borders.

20/ If a United States affiliate of a non-United States corporation itself has an affiliate abroad, and those affiliates trade with each other, such trade would be reported both as trade of United States-TNCs and trade of non-United States TNCs operating in the United States.

21/ A large part of exports by affiliates outside manufacturing was related to the transactions by Japanese trading companies, acting as intermediaries and not being to large extent involved in production.

TABLE 3: SALES BY MOFA's COUNTRY OF AFFILIATE BY DESTINATION

(In millions of current US dollars)

	WORLD					
	1977		1982		1989	
Sales to all destinations	507,019	*100.0%*	730,235	*100.0%*	1,015,263	*100.0%*
To affiliated persons	168,024	*33.1%*	159,875	*21.9%*	241,839	*23.8%*
To unaffiliated persons	338,995	*66.9%*	570,361	*78.1%*	773,424	*76.2%*
Local sales	313,307	*61.8%*	477,961	*65.5%*	697,711	*68.7%*
To other foreign affiliates	34,115	*6.7%*	28,127	*3.9%*	40,670	*4.0%*
To unaffiliated foreigners	279,192	*55.1%*	449,834	*61.6%*	657,041	*64.7%*
Sales to the U.S.	93,573	*18.5%*	76,780	*10.5%*	111,338	*11.0%*
To U.S. parents	84,154	*16.6%*	63,572	*8.7%*	91,831	*9.0%*
To unaffiliated U.S. persons	9,419	*1.9%*	13,208	*1.8%*	19,507	*1.9%*
Sales to other countries	100,138	*19.8%*	175,494	*24.0%*	206,214	*20.3%*
To other foreign affiliates	49,754	*9.8%*	68,176	*9.3%*	109,339	*10.8%*
To unaffiliated foreigners	50,384	*9.9%*	107,318	*14.7%*	96,876	*9.5%*

	LATIN AMERICA					
	1977		1982		1989	
Sales to all destinations	58,208	*100.0%*	103,857	*100.0%*	87,523	*100.0%*
To affiliated persons	15,929	*27.4%*	24,488	*23.6%*	24,049	*27.5%*
To unaffiliated persons	42,279	*72.6%*	78,370	*75.5%*	63,474	*72.5%*
Local sales	36,786	*63.2%*	61,919	*59.6%*	56,631	*64.7%*
To other foreign affiliates	1,707	*2.9%*	2,396	*2.3%*	2,799	*3.2%*
To unaffiliated foreigners	35,079	*60.3%*	59,523	*57.3%*	53,833	*61.5%*
Sales to the U.S.	11,091	*19.1%*	16,432	*15.8%*	18,266	*20.9%*
To U.S. parents	9,327	*16.0%*	13,212	*12.7%*	15,014	*17.2%*
To unaffiliated U.S. persons	1,765	*3.0%*	3,219	*3.1%*	3,253	*3.7%*
Sales to other countries	10,330	*17.7%*	25,507	*24.6%*	12,626	*14.4%*
To other foreign affiliates	4,895	*8.4%*	8,879	*8.5%*	6,237	*7.1%*
To unaffiliated foreigners	5,435	*9.3%*	16,628	*16.0%*	6,389	*7.3%*

	DEVELOPING ASIA					
	1977		1982		1989	
Sales to all destinations	18,720	*100.0%*	48,903	*100.0%*	65,070	*100.0%*
To affiliated persons	8,929	*47.7%*	15,307	*31.3%*	22,342	*34.3%*
To unaffiliated persons	9,797	*52.3%*	33,597	*68.7%*	42,728	*65.7%*
Local sales	7,312	*39.1%*	20,198	*41.3%*	35,072	*53.9%*
To other foreign affiliates	727	*3.9%*	2,035	*4.2%*	3,524	*5.4%*
To unaffiliated foreigners	6,585	*35.2%*	18,163	*37.1%*	31,548	*48.5%*
Sales to the U.S.	6,449	*34.4%*	11,030	*22.6%*	13,967	*21.5%*
To U.S. parents	5,969	*31.9%*	10,166	*20.8%*	12,313	*18.9%*
To unaffiliated U.S. persons	480	*2.6%*	864	*1.8%*	1,654	*2.5%*
Sales to other countries	4,960	*26.5%*	17,675	*36.1%*	16,030	*24.6%*
To other foreign affiliates	2,227	*11.9%*	3,105	*6.3%*	6,504	*10.0%*
To unaffiliated foreigners	2,733	*14.6%*	14,570	*29.8%*	9,526	*14.6%*

Source: U.S. Department of Commerce (1981, 1985 b, 1991 c).

to the local and third-country markets, and especially to unaffiliated entities, pointing to a tendency distinct from the earlier periods in which local sales and re-exports to the headquarters predominated. The figures support the view that NFI has been gaining influence even in MOFA activities.

2. Latin America and developing Asia 22/

In Latin America and the Caribbean, the United States-TNC associated exports to the region reached in 1989 US$ 26 billion, accounting for more than half of total United States merchandise exports to the region. Slightly more than 20% of total exports were undertaken under a form of intra-firm trade (Table 4). These figures are roughly comparable to those corresponding to developing Asia, though the ratio for intra-firm exports has been consistently higher, though declining, for Latin America. Neither, the share of intra-firm imports shows a significant difference between the two regions, with a result that at the end of the decade close to 20% of total merchandise imports from the respective region takes place in that form. Therefore, the great majority of TNC-associated trade in the two regions is directed to non-related parties. Even more, it is important to note that the share of intra-firm trade for both regions has declined substantially over the years. Sales destinations for the MOFAs operating in Latin America indicate an extremely large volume of sales to unaffiliated buyers, while intra-firm sales were relatively large only in the case of sales to the home country (see Table 3). It is to be noted that for United States MOFAs, third-country trade in developing Asia is, both in absolute and in relative terms, more significant than it is in Latin America. These observations, however, relate to all sectors and do not focus on manufacturing. In any case, although starting from a smaller base, for the MOFAs developing Asia is a much more dynamic partner; moreover, as mentioned earlier in regard to Japan's investment in Asia, the regional specialization process which may now be under way represents another potential advantage.

To assess the importance of TNCs' contribution to the expansion of developing countries' exports of manufactures, United States imports of manufactures shipped by manufacturing MOFAs are compared against total United States imports of manufactures from each host region and country (see Table 5). As can be seen, MOFAs in Latin America still control a large part of manufactured exports, while their role in developing Asia has declined. For Latin America as a whole, the share is close to 30%; this figure is strongly influenced by Mexico and Brazil, the largest recipients of manufacturing FDI in the region. The share of manufactured exports carried out by MOFAs for the two countries reached over 30% in 1989. For Argentina, Colombia and Venezuela, the share has been reduced significantly over the 1980s. The corresponding figure for developing Asia is only 13%, against much larger manufactured exports (US$ 76 billion), in contrast to those by Latin America (US$ 28 billion). United States imports of these products from Asia therefore rely much less on TNCs' affiliate link.

Interestingly, even higher shares than the Latin American average are noted for Malaysia and Singapore, in contrast to Korea and Taiwan which have relied little on MOFAs for exports to the United States. It is important to stress that the countries in East and Southeast Asia not only increased their share of world manufactured exports as well as those to the United States, but they did so at a much faster rate than the United States affiliates located there. This mixed behavior

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22/ Discussions in this section and the figures in the corresponding tables are based on the three Benchmark surveys on the United States direct investment abroad, for the year of 1977, 1982 and 1989 (United States Department of Commerce, 1981, 1985, and 1991 b, respectively).

TABLE 4: US TRADE ASSOCIATED WITH U.S. PARENTS AND THEIR MOFAs IN DEVELOPING REGIONS
(In millions of current US dollars)

	LATIN AMERICA			DEVELOPING ASIA		
	1977	1982	1989	1977	1982	1989
TNC-associated U.S. exports to the region (1)	13,005	20,864	25,520	7,535	18,918	31,342
Shipped to affilates, as reported on affiliates' forms (2)	4,730	7,339	12,452	1,882	4,769	8,659
To MOFAs (3)	3,700	6,479	11,095	1,528	4,494	8,110
By US parents (4)	2,908	5,120	9,322	1,289	4,073	7,510
By unaffiliated U.S. persons (5)	791	1,360	1,773	238	421	601
To other affiliates (6)	1,030	860	1,358	354	275	548
Shipped to unaffiliated foreigners by U.S. parents (7)	8,276	13,526	13,068	5,650	14,150	22,687
U.S. mercandise exports to the region (8)	14,799	33,591	49,055	10,697	27,452	57,403
Intra-firm exports (4) + (6)	3,938	5,980	10,680	1,643	4,348	8,058
Share of TNC-associated exports in total exports (1)/(8)	87.88%	62.11%	52.02%	70.44%	68.91%	54.60%
Share of intra-firm in total exports (4) + (6)/(8)	26.61%	17.80%	21.77%	15.36%	15.84%	14.04%
TNC-associated U.S. imports from the region (1)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Shipped by affiliates, as reported on affiliates' forms (2)	5,834	7,500	11,886	5,928	6,948	15,955
By MOFAs (3)	5,240	7,035	10,400	5,680	6,391	13,935
To U.S. parents (4)	4,596	6,251	9,591	5,330	6,878	12,593
To unaffiliated U.S. persons (5)	643	783	809	350	6,343	1,341
By other affiliates (6)	594	465	1,486	248	536	681
Shipped by unaffiliated foreingers to U.S. parents (7)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
U.S. merchandise imports from the region (8)	20,940	39,602	60,100	17,790	31,022	60,774
Intra-firm imports (4) + (6)	5,190	6,716	11,077	5,578	7,414	13,274
Share of intra-firm in total imports (4) + (6)/(8)	24.79%	16.96%	18.43%	31.35%	23.90%	21.84%
Balance in intra-firm trade	(1,252)	(736)	(397)	(3,935)	(3,066)	(5,216)

Source: U.S. Department of Commerce (1981, 1985 b, 1991c)

TABLE 5: SHARE OF MANUFACTUED IMPORTS SHIPPED BY MANUFACTURING MOFAs IN TOTAL U.S. MANUFACTURED IMPORTS, BY DEVELOPING AREAS

(in million of current U.S. dollars)

Country	1982			1989		
	imports by mfg. MOFAs (a)	total mfg. imports**/ (b)	(a)/(b)	imports by mfg. MOFAs (a)	total mfg. imports**/ (b)	(a)/(b)
Developing countries */	6,436	34,961	18.4%	17,674	104,253	17.8%
Latin America	2,267	8,287	27.4%	8,221	28,152	29.5%
Argentina	151	506	29.8%	93	835	12.0%
Brazil	454	1,928	23.5%	1,794	5,978	32.1%
Chile		402		73	659	10.0%
Colombia	82	174	47.1%	28	545	5.4%
Mexico	1,564	5,165	30.3%	6,211	19,590	31.7%
Venezuela	16	112	14.3%	22	545	3.1%
Developing Asia	4,169	26,674	15.6%	9,653	76,101	13.3%
Hong Kong	584	5,808	10.1%	1,421	10,081	14.8%
Indonesia		312		6	1,430	0.5%
Korea, Republic of	277	5,818	4.8%	613	20,292	3.1%
Malaysia	1,036	1,503	68.9%	1,316	4,173	32.5%
Philippines	281	1,305	21.5%	178	2,632	7.2%
Singapore	1,223	2,104	58.1%	4,032	8,833	46.7%
Taiwan	717	9,256	7.7%	1,416	25,161	5.9%
Thailand	51	568	9.0%	671	3,499	20.1%

*/ The developing countries in this case consist of the listed countries only, for which data are available or whose data are not suppressed to avoid disclosure of information of individual companies.

**/ Manufactured products include commodity sections 5-9 SITC Rev.1.

Source: U.S. Department of Commerce (1985 a, 1991c). The trade data are from UNSIS, Comtrade.

among the Asian export "successors" seems to indicate, as Blomström (1990) argues, that there are possibilities for rapid export expansion without large equity participation by foreign TNCs and that FDI is by no means necessary for successful export-oriented manufacturing.

TNCs of United States origin are known to play a more important role as exporters from developing countries in two categories of machinery (non-electrical, and electrical and electronic equipment) and transportation equipment, than they do in the other manufacturing sectors. The exports to the United States for transportation equipment in Latin America is dominated by Mexico, while the electrical and electronic sector is shared by the East and Southeast Asian countries and Mexico. These industries are characterized by labour-intensive processes with component specialization within integrated industries. The composition of United States MOFAs-associated exports from Latin America indicates clearly that within the manufacturing sector, transport equipment and electrical and electronic equipment have increased their relative importance markedly (see Table 6). Behind this, there is an appreciable surge of Mexico. This country in 1989 explained roughly 75% of United States manufactured imports from the region shipped by MOFAs. On the other hand, of total manufactured imports from Latin America shipped by MOFAs of US$ 8.5 billion, more than 70% (US$ 6.0 billion) corresponded to the above mentioned two sectors.

For the region as a whole, over the years, the petroleum industry has lost its position as the predominant sector, reducing its imports not only in relative but also in absolute terms. The imports in the transportation equipment industry from Mexico, in particular, are dominated by the Three Major automakers, but as will be discussed later, MOFA-associated imports (with US$ 3.2 billion) in Mexico are generally undertaken by way of the maquilas (more specifically HTS 9802) and roughly 40% of inputs are United States origin and therefore, not dutiable on entry to the United States. Similarly, the MOFAs-associated imports from this country in the electrical and electronic industry (US$ 2.1 billion) are, though to a lesser extent, characterized by the same maquiladora scheme, and therefore the value-added in Mexico is not more than 50% of total import value. Though it is losing its relative importance in general terms, regarding manufacturing in Latin America, intra-firm trade still plays a vital role, yet different one from the previous periods.

As is well known, in the past the major motive for United States TNCs establishing subsidiaries was to serve the import-substituting industrial needs of the local market, or to lesser extent, the processed raw material needs of the United States parents. Manufactured exports did not figure as a principal feature of such operations. The characteristics of their operations generally prevented them from serving as competitive stimuli for national enterprises, especially from an export perspective. The above analysis, however, indicates some restructuring from the previously dominant intra-firm mode to a more flexible TNC participation, with a higher export propensity. Though a good portion of United States manufactured imports from Latin America still comes from MOFAs, there is a notable change in the nature of their operations. In the case of United States FDI, a substantial proportion of imports carried out by MOFAs is in parts and components of some technological complexity by way of production sharing and overseas sourcing. This constitutes a central feature of the major industries like automobiles and electronics. Intra-firm trade of this sort, though different from the traditional one, may not be as conducive as NFI in transfer of technology, know-how, and skill development, establishing better access to foreign markets, and employment creation. Given this new perspective on the horizon, more industrially developed countries in the region could consider, when feasible, to "unpackage" FDI, in order to allow for local linkage spillovers and indigenous technological and human skill development.

TABLE 6: U.S. IMPORTS FROM LATIN AMERICA SHIPPED BY MOFAs, BY INDUSTRY OF COUNTRY AFFILIATE

(In millions of current US dollars)

	all inds-tries	petro-leum	manufacturing									whole-sale trade	finance (except banking), insurance real.est.	servi-ces	other indus-tries
			total	food & kindred products	chemi-cals & allied products	primary & fabri-cated metals	machin-ery,excpt elec-rical	electric & elec-tronic equip.	trans-port equip.	other mfg.					
1977															
Latin Am.& Other West. Hemisphere	5,240	3,408	979	97	45	(D)	29	415	(D)	85		126	(*)	(D)	(D)
Argentina	12	(*)	12	(*)	2	2	3	0	1	4		0	0	(D)	0
Brazil	290	(*)	252	(D)	1	(D)	12	(D)	54	20	(D)		0	(D)	(D)
Mexico	464	(D)	454	8	(D)	(D)	13	230	(D)	36		3	0	(D)	(*)
1982															
Latin Am.& Other West. Hemisphere	6,251	3,101	2,412	(D)	242	54	99	1,185	518	(D)		(D)	0	(*)	(D)
Argentina	95	0	92	(D)	(D)	7	(D)	(D)	(D)	(D)		3	0	0	(*)
Brazil	436	(D)	413	0	23	(D)	(D)	158	100	(D)		(D)	0	0	(*)
Mexico	1,580	0	1,542	12	(D)	5	9	(D)	(D)	(D)		(D)	0	(*)	(D)
1986															
Latin Am.& Other West. Hemisphere	10,400	825	8,454	183	(D)	186	891	2,565	3,473	(D)		566	0	3	552
Argentina	134	(D)	93	(D)	7	(*)	(D)	0	(D)	(D)		(D)	0	0	0
Brazil	1,796	1	1,794	3	106	(D)	562	491	(D)	302		1	0	(*)	0
Mexico	6,461	1	6,211	82	43	43	316	2,066	3,194	487	(D)		0	2	(D)

A (D) indicates that the data have been suppressed to avoid disclosure of data of individual companies.

An astrisk (*) indicates a value less than $500,000, or fewer than 50 employees.

Source: U.S. Department of Commerce (1981, 1985 a, 1991 c).

In support of this argument, the Asian experience in the automobile industry indicates diverse corporate strategies. In the 1980s, Malaysia selected a state-foreign joint venture for its national car project under which inputs such as loan capital, parts, technology, plant construction were obtained from a Japanese automaker. Thailand and Taiwan, on the other hand, liberalized their foreign investment rules and began to approve many more joint ventures, including some with majority foreign equity participation, and several with multiple foreign partners of different nationalities. The Korean case has been based mainly on the development of indigenous technological capacity via licensing and other arrangements by a strong and progressive national capitalist class. Regarding the electronics industry, in such countries as Taiwan and Republic Korea, unlike Malaysia and Singapore, FDI has played a secondary rather than primary role, and NFI --joint ventures, technical agreements, OEM contracts, joint research projects etc.-- have been preferred (Lim and Fong, 1991). Once again, diverse performance of TNCs in the Asian countries concerning the export expansion of these industries does not suggest that high equity participation is the only or best means to achieve that goal.

B. THE UNITED STATES GSP AND THE CBI

At present 27 developed countries grant tariff advantages to eligible products imported from beneficiary developing countries. Generally, these preferences have been an important stimulus for developing countries' exports, in spite of series of problems related to the exclusion of many important products, the limited scope of such preferential treatment, the complicated nature of different rules of origin, and the inclusion of non-economic factors in its application.23/ The present US GSP in force, with its renewed period to July 1993, grants duty-free entry to about 4,300 products, for any of the 134 beneficiary countries and territories.24/ Duty free entry is granted for those products which comply with the established rules of origin requirements: namely, 35% national value-added and certification of the country of origin.

Besides the GSP, the US grants preferential tariff treatment to most Caribbean and Central American countries by means of the Caribbean Basin Initiative (CBI). The latter can be considered as a broader preferential scheme, because it does not apply the requirements of "competitive need limitations" (CNLs) 25/ or "graduation",26/ and furthermore, contains more flexible definitions

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23/ For instance, the United States GSP eligibility of Chile and Paraguay was temporarily suspended due to supposed violations of internationally recognized workers' rights. They were reinstated as GSP beneficiaries as of February 1991.

24/ The United States GSP entered into force January 1, 1976 for a period of 10 years. Later, in compliance with the Trade and Tariff Law of 1984, its duration was extended to July 4, 1993.

25/ Under "Competitive need limitations", the beneficiary country loses its eligibility for the next year, for that particular product when one of the two following takes place: if for a period of one calendar year imports of a GSP product from a beneficiary country; (i) exceed 50% of the total imports of that product, or (ii) exceed a certain established quantitative value. Such value, which varies in accordance with the increase in the United States GNP, was set at US$ 92,731,530 for 1990. The 50% limit is not applied when: (i) the affected product is not produced in the United States, or (ii) imports of the product in question are below a predetermined quantitative value ("de minimis clause"), which is adjusted annually according also to the growth of the United States GNP (in 1990, it was set at US$ 10,890,279). Under the new provisions, there are also the so-called "sufficiently competitive" limits which are applied to certain countries. They refer to: (i) a 25% limit rather than 50%, and (ii) a smaller quantitative limit, which in 1990, stood at US$ 36,205.660 (for more information, see OAS, 1991 b).

26/ The term "graduation" refers to the discretional withdrawal of a country as a GSP beneficiary with respect to a specific product, or the withdrawal of a product from the GSP list.

on rules of origin than those of the GSP. In addition, the government of the US has signed into law, in December 1991, a trade preference programme for the Andean Pact countries, similar to the CBI.27/

Within the overall United States GSP scheme, Latin America and the Caribbean accounted in 1990 for 66% of all net eligible GSP (total GSP minus CNLs) to all developing countries and 55% of the GSP actually utilized. United States imports of duty-free products from Latin America and the Caribbean under the GSP reached just over US$ 6 billion in 1990, a 5.8% increase, in comparison with the preceding year at US$ 5.7 billion. Against the total United States imports from Latin America and the Caribbean of roughly US$ 60 billion, it can be concluded that 10% of such imports entered under the GSP. In that year, about US$ 11 billion in imports from the region was potentially eligible for GSP duty-free entry into the United States market, compared with US$ 9.1 billion the year before. The GSP utilization for the region, defined as the ratio between imports that enter the United States duty-free under the GSP and the total amount of potentially eligible for duty-free treatment,28/ has been declining in recent years, falling from 70% in 1987 and 1988 to 63% in 1989 and to only 54% in 1990. The 54% utilization ratio for the region in 1990 was also considerably lower than the average of 65% registered by all GSP beneficiary countries. The forgoing relatively low figures may come as a surprise, when taken into consideration the graduation since January of 1988 of the principal Asian beneficiary countries (Republic of Korea, Singapore and Taiwan). Such exclusion should have led to a substantial increase in the preferential benefits for Latin America and the Caribbean.

The low level of GSP utilization in recent years by the countries in the region in the late 1980s was related to several factors, namely: (i) the temporary exclusion of Chile, Nicaragua, Panama and Paraguay; (ii) no compliance with the 35% national value-added requirement; and (iii) the scarce number of exportable products, especially of small countries, very few of which meet the value-added requirement. Furthermore, throughout the 1980s, there was a net reduction of GSP benefits due to CNLs. Imports eligible for duty-free GSP benefits were reduced appreciably, as the amount of CNLs affecting Western Hemisphere grew markedly, from US$ 2 billion in 1980 to US$ 7.4 billion in 1990.

27/ The Andean Trade Preference Act (ATPA), signed by President Bush, authorizes trade preferences for the Andean countries similar to those provided for in the CBI. As in the CBI, some products, including textiles and apparel subject to textile agreements, footwear, canned tuna, certain watches, certain leather products, sugar subject to over-quota tariffs, and rum are excluded from duty-free treatment. The immediate impact of the act could be substantial, due to the fact that about US$ 324 million, or 6% of total imports from the Andean countries would be newly eligible for duty-free treatment. Total United States imports from the four Andean countries (Bolivia, Ecuador, Colombia, and Peru) in 1990 were US$ 5.4 billion, of which about US$ 2.3 billion or 48% are currently duty-free, either under the MFN treatment or under the GSP (OAS, 1991 c). Moreover, at the beginning of the following year, the United States announced that it would expand the list of products that were eligible for duty-free treatment in the United States market. These trade concessions will be extended to approximately US$ 290 million worth of merchandize that do not already enjoy duty-free treatment under the ATPA (OAS 1992). In addition to the foregoing, legislation has been introduced in the United States Congress to provide the four Andean countries access to so-called Section 936 that are currently available to the CBI beneficiary countries. These are dollar-denominated funds deposited in banks of Puerto Rico by United States corporations which under Section 936 of the United States Internal Revenue Code do not pay corporate income taxes on the profits generated by their manufacturing operations in Puerto Rico. Existing legislation stipulates that US$ 100 million in Section 936 funds be made available annually for investment in development projects in CBI countries. Up to now, 12 Caribbean and Central American countries have resorted to that source, which had led to 92 projects and generated an additional employment of more than 20,000.

28/ Products temporarily excluded from the GSP due to "competitive need" limits or by "graduation" from the program are not calculated as part of the potential usable GSP coverage.

Mexico and Brazil have been the most affected by such measures.29/ Regarding the absolute dollar amount utilized, Mexico and Brazil have been the largest beneficiaries among the countries in the region: Mexican exports under the GSP in 1990 reached US$ 2.7 billion, with an utilization rate of 40%, whereas Brazil exported US$ 1.2 billion with a rate of 76% (OAS, 1991 a, b). The GSP actually utilized by these two countries accounted for 63% of all GSP utilized by the countries in Latin America and the Caribbean.

It is important to note that in many instances, "GSP-eligible" imports enter the United States market, not under GSP, but under HTS 9802.00.60 and 9802.00.80 (previously TSUS 806.30 and 807.00) system, as "maquiladora operations". If that portion of GSP-eligible products that enter under these two tariff provisions is added to the normal GSP, this modified utilization rate will be much higher for countries that maintain maquila operations, particularly in the case of Barbados, Bolivia, Costa Rica, El Salvador, Grenada, Haiti, Honduras, Mexico, Dominican Republic, St. Kitts and Nevis, Santa Lucia, and St. Vincent and the Grenadines. For Mexico, GSP-eligible imports that entered, not under GSP, but under the tariff provisions reached in 1990 almost US$ 3.0 billion, exceeding the amount of GSP actually utilized of US$ 2.7 billion (OAS, 1991a). The major reason to resort to these provisions rather than to use the GSP is to avoid payment of the Customs user fee imposed beginning in December 1986 (for information, see Section 4). Many importers who chose to declare eligibility under HTS 9802 did not have an incentive to use this clause prior to its imposition because their articles entered duty-free, either under the most favored nation (MFN) treatment or other bilateral arrangements.

The United States Caribbean Basin Economic Recovery Act (CBERA) of 1985 established a programme of trade and fiscal advantages and assistance to industries in the form of new investments to diversify the exports of beneficiary countries.30/ Later, the President of the United States signed the Caribbean Basin Recovery Expansion Act of 1990, under which legislation, the original termination date of September 30, 1995 was deleted and CBI was designated as a permanent programme. As indicated earlier, the CBI offers broader preferences, and less restrictive rules, but its benefits are limited to 24 Central American and Caribbean countries. Since CBI beneficiary countries are also beneficiaries of the GSP and they can choose to export a duty-free product either under CBI or GSP, there is substantial overlap in the number of products eligible for duty-free entry.

Total duty-free imports under the CBI amounted to US$ 577 million in 1984 and grew on average 11% per year to reach US$ 906 million in 1989. These totals can be subdivided into two parts: (i) the real benefit from the CBI programme ("CBI-pure" products not eligible for duty-free entry under the GSP, about 60 items in all); and (ii) the remainder, which were duty-free under the CBI but could have also qualified under the GSP. The relative importance of all CBI duty-free

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29/ On the positive side, however, one can mention the cases of Barbados and Grenada; in Grenada, the utilization rate, which was only 2% for the three years previous to 1990, increased to 75% that year, while that for Barbados jumped from 12% in 1986 to 78% in 1990. As a contrasting case, the corresponding figure for Bolivia decreased from 93% to 14% over the past two year period, while Jamaica saw its rate drop from 72% to 36% in that last three years.

30/ However, a look at the overall economic picture for the CBI countries since the enactment of CBERA has not been very promising. In 1983, the countries enjoyed a US$ 3.7 billion trade surplus with the United States. But during 1983-1989, the United States exports to the countries increased by more than 70%, while CBI exports to the United States declined substantially, with a resulting deficit for the CBI countries. The main reason for such a turnabout was the drastic decrease in the value of CBI petroleum exports.

imports together, both pure and overlap, as a percentage of total United States imports from CBI countries, doubled from 7% in 1984 to nearly 14% in 1989. However, taking into consideration only CBI-pure imports, this segment remained practically stagnant, whose relative importance grew only marginally, from 4% in 1984 to 5% in 1989. Furthermore, utilization of the programme has been concentrated in a few countries: namely, the Dominican Republic and Costa Rica accounting for nearly 50% of CBI duty-free imports, followed by Honduras, Guatemala, Haiti, and Jamaica, which together account for about 30% of such imports (ECLAC, 1991 b, pp. 17-18).

The type of trade which takes place under these preferential schemes is by no means restricted to transactions between independent, non-related entities. The parties involved in NFI take advantage of these also. Especially important are those operations based on overseas sourcing or production sharing, and the less rigid application of rules of origin is designed precisely to enhance corporate strategy of this sort. In this sense, companies trying to use Latin America and the Caribbean as a base for production sharing or export operations can benefit not merely from internationally competitive wages and other diverse local incentives but from favorable terms of preferential trade schemes. This advantage might become more important as global trade grows more competitive, and as protectionist pressures in world trade are not to subdue in the coming years. Those countries that qualify for various United States trade programmes and are able to produce efficiently will be better placed to attract at least some of the investment previously bound to developing Asia. Existing United States preferences should be interpreted as additional incentives to establish an efficient export manufacturing base for the world market, not as "the purpose" for exports to the United States.

C. TARIFF PROVISION OF 9802.00.80 31/

1. Overview

Special tariff treatment has long been accorded to particular United States goods returning from other countries.32/ This treatment was first set forth in items 806.30 and 807.00 of the former Tariff Schedules of the United States (TSUS), which was later converted, with some changes in terminology but not in duty rates applied, into subheadings 9802.00.60 and 9802.00.80 of the Harmonized Tariff Schedules (HTS), which entered into effect on January 1, 1989. The first provision sets forth tariff treatment for articles of metal (except precious metal) of the United States origin processed abroad then returned to the same country for further processing. Duty is applied on the value added by foreign processing. Under the second, imported articles that were assembled abroad using fabricated, United States manufactured components are upon entry subject to duty at their full book value minus the value of the identifiable United States-origin components contained

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31/ The data and information contained in this section are derived from the United States International Trade Commission (1988, 1991 a, 1991 b, and 1991 c).

32/ The predecessor of Provision 9802.00.60 was initiated in 1953 in the House of Representatives to provide tariff relief to manufacturers in the State of Michigan to use metal processing facilities in Ontario, Canada. The Senate Finance Committee expanded this eligibility to all other countries in the following year. Customs practice of not applying duty on the value of United States-made components, subheading 9802.00.80, has its origin in 1954 Customs Court decision. The language of the current provision was adopted as part of the tariff schedules in 1963.

therein. No further processing in the United States is required under the second provision. Unlike the GSP and CBERA, the provisions do not carry local content or "substantial transformation" requirements.33/ The factors in general underpin United States maquiladora operations. It is noteworthy that this type of special tariff provision is not unique to the United States: the EEC countries 34/ and seemingly Japan 35/ also offer something similar. It is also known that the role of these provisions in the expansion of United States manufactures imports from the developing countries has been substantial (Helleiner, 1973; Grunwald and Flamm, 1985).

Trade which takes place under the two subheadings significantly influences the overall commercial flows of the United States and determines in part their nature and characteristics. As can be seen below, it reflects corporate strategies for trade globalization, especially on production sharing. As shown in Table 7, the imports entering under the two schemes have surged during the 1980's not only in absolute terms but also in relation to total United States imports. This remarkable increase made these imports, consisting overwhelmingly of manufactures, responsible in 1990 for roughly 15% of total United States merchandise imports and more than 20% of total manufactured imports. A spectacular jump in the utilization of the schemes was registered in 1987, when the Customs user fee was implemented.36/ From the point of view of developing countries, the imports under the two items have been equally important: these countries accounted for 30% of total 9802.00.60 and 9802.00. 80 imports in 1990, despite its lower level compared to that the beginning of the 1980's. During the decade, the imports under the two items occupied between a 15 to 20% of the manufactured products from developing regions. Given the nature of trade, where imports

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33/ Under the GSP, goods must be imported directly from beneficiaries and a minimum 35% of appraised value must be local, from a single beneficiary, and no provision for United States content is provided. In the case of the CBI, its eligibility requires that goods must be imported directly from beneficiaries, with a minimum of 35% of local content, from one or more beneficiaries. In the case of CBI, beneficiaries are allowed to use United States-made local content for up to 15% of the 35% minimum local content requirement. Materials from Puerto Rico and the United States Virgin Islands may count as beneficiary country inputs (ECLAC, 1991 b, p.16).

34/ EC customs laws contain production sharing provisions similar to those provided in HTS 9802.00.08, known as "outward processing relief arrangements". They allow EC goods to be temporarily exported from the customs territories of the EC for additional processing or assembly. In 1988 EC imports under this provision reached US$ 5.3 billion, a little over 7% of the level corresponding United States scheme. West Germany and France were the principal users and production sharing was concentrated in Yugoslavia and other Eastern European countries. The most important product group was textiles, apparel and footwear, followed by semiconductors and office machines (for further details, see United States ITC, 1991 b).

35/ This country is said to provide reduced rates of duty for goods undergoing offshore processing and reimportation. Customs officials may exempt up to 100% of the Japanese-source components (Business International Corporation 1989 a; United States ITC, 1988).

36/ Until recently, importers of products which entered free of duty under various provisions, such as the GSP, CBERA, the Automotive Products Trade Act of 1965 (APTA), Agreement on Civil Aircraft, and United States-Israel Free Trade Agreement, or that had an unconditional MFN duty rate of "free", had no incentive to enter goods under the two subheadings. However, since December 1986, many importers of duty-free articles, except those entered under the GSP and CBERA, have been entering these goods under the subheadings to avoid paying a user fee. This fee, --expressed in the ad valorem, and is adjusted by the Treasury authority to an amount not greater than 0.19% nor less than 0.15% (at present 0.17%)-- is to be used to offset customs appropriations for salaries and expenses incurred in conducting commercial operations. The United States-content of such imports entering under subheadings in chapter 98 of the HTS is exempt from this charge.

exceed exports by the valued added abroad, it contributes to the trade deficit of the United States. As seen in the table, between the two subheadings, the largest part of trade under the two items corresponds to that under 9802.00.80. For this reason, this section concentrates on this category rather than treating both in detail.37/

The total import value of 9802.00.60 and 9802.00.80 can be broken down into the "duty-free" portion (United States content), a measure of the extent to which United States components are used in foreign processing/assembly and the "dutiable" portion on foreign value added (see Table 7). The "duty-free" ratio for the world falls in a range of 28% while the remainder is accounted for by the dutiable. For developing countries as a whole, the duty-free value is much higher, reaching a 45% range. As the table illustrates, the dutiable portion in the total 9802.00.80 imports from developing countries has increased more rapidly than the duty-free portion.

In fact, overall duty savings resulting from the use of these provisions are small compared to the amount of trade which takes place under such provisions. Simple estimates for the last years of the 1980's, by applying the nominal rate of duty multiplied by duty-free 9802.00.80 imports, suggest that no more than US$ 500 million a year were accruable as duty benefits (see Table 8A). By different commodity groups, however, the apparel industry has by far the greatest incentive to use the tariff advantages due to the high United States tariffs on imported apparel and the high proportion of the United States-made content. The high United States content, combined with substantially higher duties (in 1989, the nominal rate was 15.2%), therefore, made this industry be responsible in 1989 of 51% of total duty savings, despite supplying only 4% of total imports under the provision 9802.00.80(see Tables 8B, 8C and 8D). In contrast, transportation equipment and electronic technology equipment accounted for 72% and 15% respectively of total 9802.00.80 imports, but only 36% (US$ 164.8 million) and 15% (US$ 68.9 million) respectively of the duty savings. As said earlier, those sectors of a relatively high incidence of intra-industry trade and of production sharing face generally low tariff barriers to enter the United States market.

In many cases, the two tariff provisions are incidental rather than determining factors in United States firms' decision to use foreign assembly operations. From their point of view, they would continue to do business in a developing country even without the duty saving benefits provided by the schemes. Rather, the remarkable increase reflects a better utilization of other economic incentives provided by them, among other considerations: (i) to improve the price competitiveness of products by shifting labour-intensive assembly operations to low-wage countries; (ii) to reduce the cost of cross-border transfers of both in-process materials and final goods; (iii) to allow foreign firms to rationalize production involving establishments in the United States and abroad; (iv) to escape stringent environmental regulations; (v) to allow foreign firms that use United States-made components to reduce the price of their goods in the United States market; (vi) to penetrate foreign markets; and

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37/ Imports under HTS 9802.00.60 increased from US$ 450 million in 1985 to US$ 1.38 billion in 1990. Despite the increased use , the ratio of the value of 9802.00.60 imports to that of total United States imports was less than 0.5% in each year during 1985-1990. Canada has been the most significant single importer under this provision. Canada was the principal supplier of 9802.00.60 imports in terms of both total value and the value of United States-origin content. The majority of United States origin content entering Canada consists of wrought aluminum sheet for cans, parts of aircraft and spacecraft, and printed circuit boards, in that order. Mexico, which supplied 13% of total value of 9802.00.60 imports but 17% of United States content in 1990, was involved mainly in iron and steel sheets and strips, bodies and chassis for motor and generators. The most important item for Japan, the third biggest supplier, was wrought aluminum sheet for making cans.

TABLE 7

U.S. IMPORTS: SUMMARY DATA ON HTS HEADINGS 9802.00.60 AND 9802.00.80

(In millions of current US dollars)

	1970	1980	1982	1984	1986	1987	1988	1989	1990
(a) U.S. Imports: Basic data on two items									
1. Total two items' imports	2,211	14,017	18,309	28,573	36,497	68,549	73,733	74,173	76,488
Total U.S. mercandise imports	39,952	250,280	253,033	338,189	381,362	422,407	458,682	491,512	515,635
Total U.S. manufactured imports	24,252	125,113	146,080	224,538	286,464	317,476	351,819	368,045	376,455
% of total U.S. imports	5.5	5.6	7.2	8.4	9.6	16.2	16.1	15.1	14.8
% of total U.S. manufactured imports	9.1	11.2	12.5	12.7	12.7	21.6	21.0	20.2	20.3
2. Total two items'imports from LDCs	539	6,339	7,884	12,445	10,314	18,251	21,906	21,744	22,944
Total U.S. manufactured imports from LDCs	3,275	33,778	40,734	67,212	82,200	102,392	118,567	126,679	131,622
% of total two items' imports	24.4	45.2	43.1	43.6	28.3	26.6	29.7	29.3	30.0
% of total U.S. manufactured imports from LDCs	16.5	18.8	19.4	18.5	12.5	17.8	18.5	17.2	17.4
3. Duty-free value in total two items' imports	539	3,755	4,720	7,211	6,281	12,943	16,824	19,618	21,627
% of these imports' value	24.4	26.8	25.8	25.2	17.2	18.9	22.8	26.4	28.3
4. Dutiable value (i.e., value-added abroad) in two items' imports	1,672	10,262	13,589	21,362	30,216	55,606	56,909	54,555	54,861
% of these imports' value	75.6	73.2	74.2	74.8	82.8	81.1	77.2	73.6	71.7
(b) U.S. imports: Basic data on item 9802.00.80									
1. 9802.00.80 total imports	2,007	13,762	17,951	28,122	36,032	67,595	72,804	73,032	75,108
These imports from LDCs	500	6,230	7,814	12,075	10,219	18,122	21,770	21,529	22,722
Imports from LDCs as % of total 9800.00.80	24.9	45.3	43.5	42.9	28.4	26.8	29.9	29.5	30.3
2. Duty-free value in LDC 9802.00.80 imports	275	3,092	3,860	5,815	4,578	7,516	8,930	9,551	10,073
% of LDC 9802.00.80 imports	55.0	49.6	49.4	48.2	44.8	41.5	41.0	44.4	44.3
% of total 9802.00.80 duty-free value	63.1	84.2	84.3	82.7	75.1	60.0	54.6	50.5	48.4
3. Dutiable value in LDC imports	225	3,138	3,954	6,260	5,641	10,605	12,841	11,978	12,649
% of these imports' value	45.0	50.4	50.6	51.8	55.2	58.5	59.0	55.6	55.7
% of total 9802.00.80 dutiable value	14.3	30.3	28.9	29.0	18.2	19.3	22.8	22.1	23.3

Figures on total merchandise imports and manufactured imports are taken from UNSIS, Comtrade. For this reason, the manufactured imports figures are slightly different from those in Table 1, due to the distinct sources.

Source: The figures on the 9802 subheadings are taken from U.S. ITC (1988, 1991 a, 1991 b, 1991 c).

TABLE 8 A
US IMPORTS: TOTAL AND UNDER 9802.00.80, DUTY RATES AND SAVINGS: 1986-89
(In millions of current U.S. dollars)

Year	Total imports (a)	9802.00.80 imports (b)	(b)/(a)	Duty-free 9802.00.80 imports (c)	Duty-free 9802.00.80 to total 9802.00.80 (c)/(b)	Rate of duty Nominal (d)	Rate of duty Effective (e)	Total duty savings (d)*(c)/100
1986	381,362	36,031	9.4%	5,972	16.6%	4.3	3.6	256.8
1987	422,407	67,595	16.0%	12,527	18.5%	2.6	2.1	325.7
1988	458,682	72,803	15.9%	16,354	22.5%	2.5	1.9	408.9
1989	491,512	73,032	14.9%	18,921	25.9%	2.4	1.8	454.1

Source: U.S. ITC (1988, 1991 b).

TABLE 8 B
TRANSPORTATION EQUIPMENT: TOTAL AND UNDER 9802.00.80, 1986-89
(In millions of current U.S. dollars)

Year	Total imports (a)	9802.00.80 imports (b)	(b)/(a)	Duty-free 9802.00.80 imports (c)	Duty-free 9802.00.80 to total 9802.00.80 (c)/(b)	Rate of duty Nominal (d)	Rate of duty Effective (e)	Total duty savings (d)*(c)/100
1986	85,130	26,006	30.5%	1,593	6.1%	3.2	3.0	51.0
1987	89,407	50,688	56.7%	5,206	10.3%	1.9	1.7	98.9
1988	92,446	53,061	57.4%	7,831	14.8%	1.7	1.4	133.1
1989	92,575	52,416	56.6%	9,695	18.5%	1.7	1.7	164.8

TABLE 8 C
ELECTRONIC TECHNOLOGY EQUIPMENT: TOTAL AND UNDER 9802.00.80, 1986-89
(In millions of current U.S. dollars)

Year	Total imports (a)	9802.00.80 imports (b)	(b)/(a)	Duty-free 9802.00.80 imports (c)	Duty-free 9802.00.80 to total 9802.00.80 (c)/(b)	Rate of duty Nominal (d)	Rate of duty Effective (e)	Total duty savings (d)*(c)/100
1986	47,701	4,349	9.1%	1,647	37.9%	4.2	2.6	69.2
1987	54,816	9,647	17.6%	3,938	40.8%	1.2	0.7	47.3
1988	64,988	11,221	17.3%	4,472	39.9%	1.3	0.8	58.1
1989	69,677	11,018	15.8%	4,590	41.7%	1.5	0.9	68.9

TABLE 8 D
TEXTILES, APPAREL, AND FOOTWEAR: TOTAL AND UNDER 9802.00.80, 1986-89
(In millions of current U.S. dollars)

Year	Total imports (a)	9802.00.80 imports (b)	(b)/(a)	Duty-free 9802.00.80 imports (c)	Duty-free 9802.00.80 to total 9802.00.80 (c)/(b)	Rate of duty Nominal (d)	Rate of duty Effective (e)	Total duty savings (d)*(c)/100
1986	29,976	1,434	4.8%	906	63.2%	19.9	7.3	180.3
1987	34,778	1,841	5.3%	1,065	57.8%	19.8	8.3	210.9
1988	36,595	2,382	6.5%	1,312	55.1%	19.2	8.6	251.9
1989	39,635	2,757	7.0%	1,511	54.8%	15.2	6.9	229.7

(vii) to avoid the Customs user fee, mentioned earlier. Therefore, the use of these tariff provisions is an integrated part of activities of companies involved in production sharing and thus is not the main goal.

The beneficiary countries of these schemes are rather limited: in 1990, top ten beneficiaries explained more than 90% of all, only three countries (Canada, Japan and Mexico) being responsible for 71.8% of the total 9802.00.80 import value (Table 9). In this year, more than a quarter of Canadian exports to the United States utilized the provision. During the 1980's Canada and Mexico have increasingly resorted to this programme. For the developed countries as a whole, the imports under this subheading accounted for 17.2% of the total United States imports from these countries. The corresponding ratio for developing countries is lower, reaching a little over 10%, though there is a clear upward tendency in its utilization during the decade. In the case of Germany and Japan, the participation of the 9802.00.80 imports in total imports is high, but the duty-free portion is extremely low. The Canadian case shows a more equilibrated ratio between the duty-free and the dutiable portions. Among the developing countries, Mexico is by far the greatest beneficiary of the programme, whose 9802.00.80 imports were responsible in 1990 41.6% of total United States imports from this neighboring country, with a quite balanced ratio between the duty-free and the dutiable. Malaysia also shows a high dependence, allowing close to 25% of their total exports to the United States to enter under the scheme. It is interesting to observe that the duty-free value corresponding to the developed countries has tended to increase during the 1980's while that for developing regions have declined remarkably.

The developing country beneficiaries in isolation show that the countries in the Latin American and the Caribbean region at present resort more to the provisions than the Asian counterparts, the 9802.00.80 total of Latin America and the Caribbean doubling that of the Asian counterparts (see Table 10). This can be contrasted to the beginning of the decade when the Asian countries played a more predominant role in totals as well as the duty-free and the dutiable amounts. In relation to the total United States imports from the beneficiary countries, the 9802.00.80 imports are much more important for Latin America and the Caribbean than for the Asian countries. Apart from Mexico, a relatively high participation of the 9802.00.80 imports in total imports is observed for Haiti, Dominican Republic, Costa Rica, and Jamaica. In contrast, Brazil and Colombia register a very low utilization level of the provision. Taking into consideration total United States imports and manufactures imports respectively in 1990 from Latin America and the Caribbean of US$ 64 billion and US$ 34 billion, the imports under the provision 9802.00.80 of more than US$ 15 billion are significant: they accounted for 44% of total manufactured United States imports from the region.

The Asian countries resort relatively little to the programme and this is true for the four NICs (Taiwan, Republic of Korea, Hong Kong, and Singapore) and the ASEAN countries, except the case of Malaysia. At present, the Asian countries tend to aggregate more value added to the components imported than the Latin American beneficiaries. The Asian NICs show a high dutiable ratio, indicating probably their more sophisticated export-mix, with less reliance on simple assembly operations. In Latin America, the case applies to Brazil, who adds 90% of the total value. In contrast, the Central American countries are more dependent on the United States-made components, probably reflecting their heavy concentration in the textiles and apparel sector. It might be said that the Asian NICs are "graduating" also from this tariff provision, as in the case of the GSP. The Latin American countries now enjoy a competitive advantage in this sense, something which can be utilized to attract NFI which upgrades local manufacturing enterprises.

TABLE 9

U.S. IMPORTS UNDER HTS 9802.00.80, BY PRINCIPAL COUNTRIES

	Total US imports (a)	total value (b)	% total US imports (b)/(a)	% of total (c)	duty-free value (d)	% of total (e)	% of duty -free (d)/(b)
1980							
Top 10 countries	120,278	12,067	10.0%	87.7%	2,912	81.3%	24.1%
Japan	32,973	3,281	10.0%	23.8%	44	1.2%	1.3%
Mexico	12,835	2,276	17.7%	16.5%	1,141	31.8%	50.1%
West Germany	12,257	2,167	17.7%	15.7%	35	1.0%	1.6%
Canada	41,999	1,162	2.8%	8.4%	345	9.6%	29.7%
Malaysia	2,688	795	29.6%	5.8%	465	13.0%	58.5%
Singapore	1,985	760	38.3%	5.5%	402	11.2%	52.9%
Taiwan	6,894	474	6.9%	3.4%	107	3.0%	22.6%
Philippines	1,913	410	21.4%	3.0%	251	7.0%	61.2%
Hong Kong	5,029	408	8.1%	3.0%	114	3.2%	27.9%
Sweden	1,705	334	19.6%	2.4%	8	0.2%	2.4%
All other	130,002	1,694	1.3%	12.3%	672	18.8%	39.7%
Grand total	250,280	13,761	5.5%	100.0%	3,584	100.0%	26.0%
Total, developed countries	124,858	7,530	6.0%	54.7%	492	13.7%	6.5%
Total, LDCs	125,422	6,230	5.0%	45.3%	3,092	86.3%	49.6%
1986							
Top 10 countries	269,689	33,563	12.4%	93.1%	4,941	82.7%	14.7%
Japan	85,457	13,469	15.8%	37.4%	175	2.9%	1.3%
Mexico	17,558	6,367	36.3%	17.7%	3,332	55.8%	52.3%
West Germany	26,128	6,255	23.9%	17.4%	108	1.8%	1.7%
Canada	68,662	2,924	4.3%	8.1%	853	14.3%	29.2%
Sweden	4,637	1,181	25.5%	3.3%	36	0.6%	3.0%
Korea	13,497	950	7.0%	2.6%	66	1.1%	6.9%
United Kingdom	16,033	923	5.8%	2.6%	63	1.1%	6.8%
France	10,586	576	5.4%	1.6%	71	1.2%	12.3%
Taiwan	19,791	519	2.6%	1.4%	91	1.5%	17.5%
Brazil	7,340	399	5.4%	1.1%	146	2.4%	36.6%
All other	111,673	2,469	2.2%	6.9%	1,031	17.3%	41.8%
Grand total	381,362	36,032	9.4%	100.0%	5,972	100.0%	16.6%
Total, developed countries	246,918	25,813	10.5%	71.6%	1,395	23.4%	5.4%
Total, LDCs	134,444	10,219	7.6%	28.4%	4,578	76.7%	44.8%
1990							
Top 10 countries	310,863	68,535	22.0%	91.2%	18,461	69.7%	26.9%
Canada	93,780	23,958	25.5%	31.9%	9,538	45.9%	39.8%
Japan	93,070	17,107	18.4%	22.8%	582	2.8%	3.4%
Mexico	30,797	12,811	41.6%	17.1%	6,387	30.7%	49.9%
Germany	18,699	5,771	30.9%	7.7%	95	0.5%	1.6%
Korea	19,287	2,182	11.3%	2.9%	602	2.9%	27.6%
Sweden	5,112	1,610	31.5%	2.1%	49	0.2%	3.0%
United Kingdom	20,932	1,435	6.9%	1.9%	167	0.8%	11.6%
Malaysia	5,496	1,351	24.6%	1.8%	578	2.8%	42.8%
Singapore	10,096	1,334	13.2%	1.8%	353	1.7%	26.5%
France	13,594	976	7.2%	1.3%	110	0.5%	11.3%
All other	204,772	6,573	3.2%	8.8%	2,347	11.3%	35.7%
Grand total	515,635	75,108	14.6%	100.0%	20,808	100.0%	27.7%
Total, developed countries	304,395	52,386	17.2%	69.7%	10,736	51.6%	20.5%
Total, LDCs	211,240	22,722	10.8%	30.3%	10,073	48.4%	44.3%

Source: U.S. ITC (1988, 1991 b, 1991 c).
UNSIS, Comtrade.

TABLE 10

U.S. IMPORTS UNDER 9802.00.80: VALUE AND SHARE OF TOTAL, BY DEVELOPING COUNTRY

(in millions of current U.S. dollars)

Country	Total US imports (a)	Total 9802.00.80 (b)	% (b)/(a)	Duty-free (c)	Dutiable (d)	% (c)/(b)	% (d)/(b)
1980							
Mexico	12,835	2,276	17.7	1,141	1,135	50.1	49.9
Brazil	4,000	111	2.8	16	95	14.0	86.0
Haiti	264	154	58.3	105	49	68.5	31.5
Dominican Rep.	828	98	11.8	66	32	67.7	32.3
El Salvador	444	83	18.6	87	15	81.6	18.4
Barbados	99	47	47.9	24	24	50.4	49.6
Costa Rica	405	45	11.2	30	15	66.2	33.8
Sub-total	*18,875*	*2,813*	*14.9*	*1,449*	*1,364*	*51.5*	*48.5*
Malaysia	2,688	795	29.6	465	330	58.5	41.5
Singapore	1,985	760	38.3	402	358	52.9	47.1
Taiwan	575	474	82.4	107	367	22.6	77.4
Philippines	1,913	410	21.4	251	159	61.3	38.7
Hong Kong	5,029	408	8.1	114	294	27.9	72.1
South Korea	4,433	311	7.0	167	145	53.5	46.5
Thailand	866	83	9.5	67	15	81.6	18.4
Indonesia	5,539	50	0.9	19	31	37.3	62.7
Sub-total	*23,026*	*3,290*	*14.3*	*1,592*	*1,699*	*48.4*	*51.6*
All other	83,519	120	0.1	67	53	56.0	44.0
Total LDCs	*125,422*	*6,224*	*5.0*	*3,108*	*3,115*	*49.9*	*50.1*
1986							
Mexico	17,556	6,367	36.3	3,332	3,035	52.3	47.7
Brazil	7,340	399	5.4	146	252	36.7	63.3
Haiti	391	206	52.8	142	65	68.7	31.3
Dominican Rep.	1,139	329	28.9	236	93	71.7	28.3
Costa Rica	720	133	18.5	92	41	69.0	31.0
Jamaica	322	70	21.8	51	19	72.5	27.5
Colombia	2,039	40	2.0	26	14	64.5	35.5
Honduras	487	33	6.7	23	10	69.8	30.2
Sub-total	*29,996*	*7,577*	*25.3*	*4,047*	*3,530*	*53.4*	*46.6*
Malaysia	2,534	203	8.0	65	118	41.9	58.1
Singapore	4,884	365	7.5	72	294	19.6	80.4
Taiwan	21,251	519	2.4	91	428	17.6	82.4
Philippines	2,150	168	7.8	66	103	39.1	60.9
Hong Kong	9,474	206	2.2	46	160	22.4	77.6
South Korea	13,497	950	7.0	66	883	7.0	93.0
Thailand	1,873	30	1.6	9	21	28.9	71.1
Sub-total	*55,663*	*2,440*	*4.4*	*434*	*2,006*	*17.8*	*82.2*
All other	48,785	202	0.4	96	106	47.5	52.5
Total LDCs	*134,444*	*10,219*	*7.6*	*4,578*	*5,641*	*44.8*	*55.2*
1990							
Mexico	30,797	12,811	41.6	6,387	6,424	49.9	50.1
Brazil	8,586	656	7.6	66	590	10.0	90.0
Haiti	356	188	52.7	133	55	70.9	29.1
Dominican Rep.	1,627	697	38.1	483	214	69.3	30.7
Costa Rica	1,105	308	27.9	213	96	69.0	31.0
Jamaica	811	161	26.4	120	41	74.5	25.5
Colombia	3,409	116	3.4	63	53	54.1	45.9
Guatemala	873	118	13.5	59	59	49.9	50.1
Sub-total	*47,564*	*15,055*	*31.7*	*7,524*	*7,532*	*50.0*	*50.0*
Malaysia	5,496	1,351	24.6	578	773	42.8	57.2
Singapore	10,096	1,334	13.2	353	982	26.4	73.6
Taiwan	23,917	957	4.0	235	722	24.6	75.4
Philippines	3,623	596	16.4	259	336	43.5	56.5
Hong Kong	9,951	306	3.1	97	209	31.8	68.2
South Korea	19,267	2,182	11.3	602	1,580	27.6	72.4
Thailand	5,589	481	8.6	197	284	40.9	59.1
Sub-total	*77,959*	*7,208*	*9.2*	*2,322*	*4,886*	*32.2*	*67.8*
All other	85,717	458	0.5	227	231	49.6	50.4
Total LDCs	*211,240*	*22,722*	*10.8*	*10,073*	*12,649*	*44.3*	*55.7*

Source: U.S. ITC (1988, 1991 b, 1991 c).
UNSIS, Comtrade.

2. By sector

By commodity groups, manufacturing, especially machines and equipment, has been the dominant sector, but the agricultural, forestry, and mineral and metal sectors, though a very insignificant amount, also utilize the provision. Among the variety of manufactured products entering the United States market under 9802.00.80 in 1990, motor vehicles were the most important item, accounting for 60% of the US$ 75 billion total, followed by internal combustion engines and other motor vehicle parts and semiconductors (see Table 11). For the sector of transportation equipment as a whole, it must be stressed that in 1989 close to 57% of total United States imports (US$ 92.6 billion dollars) of this category of products entered under Chapter 98. For the electronic technology sector, against total United States imports of US$ 70.0 billion, the share was 16% (US$ 11.0 billion). In terms of the United States-made components contained in these imports, motor vehicles were also the most important, incorporating 40.0% of the US$ 20.8 billion total for all 9802 items; semiconductors, 13.2% (US$ 2.7 billion); textiles, apparel and footwear, 8.5% (US$ 1.6 billion); articles for making and electrical circuits breakers, 6.6% (US$ 1.4 billion); and motor vehicle parts, 5.0% (US$ 1.0 billion). The experience of recent years show that the industries producing apparel and electronic components used a higher percentage of United States-made components in their foreign assembly facilities than other industries. Though motor vehicles under 9802.00.80 comprised the largest share of such imports, they had relatively low proportion of United States content. Apart from traditional products such as textiles and apparel, radio and television receivers, most products are from high-tech industries. A bird-eye view below on the use of the tariff provision by commodity sectors confirms the growing importance of production sharing, which in turn reflects the increasing division of labour along the line of the new industrial order.

Speaking strictly of motor vehicles and parts, the principal sources of imports in this sector have been Canada, Mexico and Japan, accounting in 1989 for 97% of the United States-content and 82% of the total value (including foreign value added) of motor vehicles entering under 9802.00.80. The value of the United States-origin content in 9802.00.80 imports of motor vehicles from Canada rose dramatically, due principally to the importers' decision to avoid paying a portion of the Customs user fee by declaring eligibility for entry under 9802.00.80, which otherwise enter the United States free of duty under the APTA 38/ (for the Canadian commodity composition and share of duty-free, see Table 12). In turn, "the greater rate of increase in the United States-made components portion is a result of the improved competitive position of United States-made auto parts relative to that of auto parts made in Canada", attributed mainly to labour cost differentials (United States ITC, 1991 c, p.2). Mexico was responsible for only 4% of total imports under the provision in the same year while only 9% of the United States content (for the commodity composition of Mexico, see Table 13). It is important to note that United States-made parts accounted for 40% of the value of auto imports under the provision from Canada in 1990 and 41% from Mexico, but only 2% of such imports from Japan, and 0.9% from Germany (for the details of these two countries, see Tables 1A and 2A in the annex). As is well known, imports from Canada and Mexico are from subsidiaries of the "Big Three" United States automakers, whereas most imports from Asia and Europe are from their competitors. The above figures, therefore, highlight the very high degree of production integration of the automobile industry via production sharing in the American Continent, even before the envisaged creation of the North American Free Trade Area (NAFTA). A point to be emphasized is that in conformity with the earlier findings, United States MOFAs have been the main beneficiaries of the tariff provision.

38/ Products in this group are also eligible for duty-free entry under the APTA, GSP, and CBERA.

TABLE 11: U.S. IMPORTS UNDER 9802.00.80, BY COMMODITY GROUPS, 1990
(In thousands of dollars)

Commodity group	Total value (a)	% of total (b)	Duty-free value (c)	% of total duty-free (d)	Dutiable value (a)-(c)	% of total dutiable (e)	% of dutiable (a)-(c)/(a)
Agricultural products:	7,685	0.0%	979	0.0%	6,705	0.0%	87.2%
Forest products:	69,345	0.1%	35,604	0.2%	33,740	0.1%	48.7%
Textiles, apparel, and footwear:	3,524,058	4.7%	1,759,183	8.5%	1,764,875	3.3%	50.1%
Chemicals, coal, petroleum, natural gas, and related products:	108,579	0.1%	58,749	0.3%	49,830	0.1%	45.9%
Minerals and metal:	408,421	0.5%	193,384	0.9%	225,037	0.4%	55.1%
Machinery and equipment:	68,985,084	91.8%	17,940,943	86.2%	51,044,141	94.0%	74.0%
Motor vehicles	45,184,703	60.2%	8,317,895	40.0%	36,866,808	67.9%	81.6%
Semiconductors	4,961,283	6.6%	2,745,050	13.2%	2,216,232	4.1%	44.7%
Motor vihicle parts	2,923,616	3.9%	1,047,801	5.0%	1,875,815	3.5%	64.2%
Office machines and parts	2,104,447	2.8%	543,859	2.6%	1,560,588	2.9%	74.2%
Internal combustion engines	2,047,544	2.7%	247,251	1.2%	1,800,293	3.3%	87.9%
Non-military airplanes	1,799,671	2.4%	595,397	2.9%	1,204,274	2.2%	66.9%
Articles for making and breaking electrical circuits	1,772,618	2.4%	1,370,009	6.6%	402,609	0.7%	22.7%
Television receivers	1,480,667	2.0%	323,155	1.6%	1,157,512		
Motors and generators	495,207	0.7%	258,994	1.2%	236,213	0.4%	47.7%
Radio receivers and transceivers	481,700	0.6%	73,639	0.4%	408,060	0.8%	84.7%
Mechanical shovels, excavators, bulldozers, etc.	343,319	0.5%	91,573	0.4%	251,745	0.5%	73.3%
Electric household appliances	286,330	0.4%	132,162	0.6%	154,168	0.3%	53.8%
Miscellaneous manufactures	2,005,019	2.7%	829,793	4.0%	1,175,226	2.2%	58.6%
Furniture, mattresses, and similar furnishings	574,432	0.8%	209,176	1.0%	365,257	0.7%	63.6%
Surgical and medical instruments	385,638	0.5%	198,250	1.0%	187,388	0.3%	48.6%
Scientific instruments	370,684	0.5%	146,034	0.7%	224,651	0.4%	60.6%
Photografic equip. and supplies	161,058	0.2%	73,855	0.4%	87,203	0.2%	54.1%
Grand total	75,108,190	100.0%	20,808,635	100.0%	54,299,555	100.0%	72.3%

Source: U.S. ITC (1991 c).

TABLE 12
U.S. IMPORTS FROM CANADA UNDER 9802.00.80, BY COMMODITY GROUPS, 1990
(In thousands of dollars)

Commodity group	Total value (a)	% of total (b)	Duty-free value (c)	% of total duty-free (d)	Dutiable value (a)-(c)	% of total dutiable (e)	% of dutiable (a)-(c)/(a)
Agricultural products:	356	0.0%	150	0.0%	206	0.0%	57.9%
Forest products:	18,081	0.1%	4,173	0.0%	13,907	0.1%	76.9%
Textiles, apparel, and footwear:	28,541	0.1%	13,911	0.1%	14,630	0.1%	51.3%
Chemicals, coal, petroleum, natural gas, and related products:	36,577	0.2%	7,703	0.1%	28,875	0.2%	78.9%
Minerals and metal:	121,864	0.5%	11,039	0.1%	110,825	0.8%	90.9%
Machinery and equipment:	23,395,885	97.7%	9,359,653	98.1%	14,036,233	97.3%	60.0%
Motor vehicles	17,275,016	72.1%	6,739,643	70.7%	10,535,374	73.1%	61.0%
Motor vehicle parts	1,270,130	5.3%	330,826	3.5%	939,304	6.5%	74.0%
Internal combustion engines	1,247,120	5.2%	134,424	1.4%	1,112,696	7.7%	89.2%
Articles for making and breaking electrical circuits	902,782	3.8%	806,378	8.5%	96,404	0.7%	10.7%
Semiconductors	769,912	3.2%	629,872	6.6%	140,041	1.0%	18.2%
Non-military airplanes	537,592	2.2%	265,889	2.8%	271,703	1.9%	50.5%
Office Machines and parts	151,759	0.6%	30,450	0.3%	121,309	0.8%	79.9%
Miscellaneous manufactures	356,429	1.5%	141,589	1.5%	214,840	1.5%	60.3%
Furniture, mattresses, and similar furnishings	254,942	1.1%	126,153	1.3%	128,789	0.9%	50.5%
Scientific instruments	68,253	0.3%	7,972	0.1%	60,281	0.4%	88.3%
Grand total	23,957,735	100.0%	9,538,218	100.0%	14,419,516	100.0%	60.2%

Source U.S. ITC (1991 c).

TABLE 13
U.S. IMPORTS FROM MEXICO UNDER 9802.00.80, BY COMMODITY GROUPS, 1990
(In thousands of dollars)

Commodity group	Total value (a)	% of total (b)	Duty-free value (c)	% of total duty-free (d)	Dutiable value (a)-(c)	% of total dutiable (e)	% of dutiable (a)-(c)/(a)
Agricultural products:	490	0.0%	303	0.0%	187	0.0%	38.2%
Forest products:	50,794	0.4%	31,254	0.5%	19,540	0.3%	38.5%
Textiles, apparel, and footwear:	830,141	6.5%	593,488	9.3%	236,654	3.7%	28.5%
Chemicals, coal, petroleum, natural gas, and related products:	60,418	0.5%	42,209	0.7%	18,208	0.3%	30.1%
Minerals and metal:	212,865	1.7%	145,092	2.3%	67,773	1.1%	31.8%
Machinery and equipment:	10,548,359	82.3%	5,063,599	79.3%	5,484,760	85.4%	52.0%
Motor vehicles	2,602,160	20.3%	1,061,650	16.6%	1,540,510	24.0%	59.2%
Television receivers	1,368,125	10.7%	312,069	4.9%	1,056,055	16.4%	77.2%
Electrical conductors	1,302,259	10.2%	780,839	12.2%	521,420	8.1%	40.0%
Motor vehicle parts	1,049,637	8.2%	677,692	10.6%	371,946	5.8%	35.4%
Articles for making and breaking electrical circuits	760,577	5.9%	505,686	7.9%	254,891	4.0%	33.5%
Motors and generators	440,384	3.4%	249,302	3.9%	191,082	3.0%	43.4%
Office machines and parts	337,792	2.6%	157,654	2.5%	180,138	2.8%	53.3%
Semiconductors	297,259	2.3%	182,250	2.9%	115,175	1.8%	38.7%
Internal combustion engines	310,652	2.4%	125,245	2.0%	185,406	2.9%	59.7%
Radio receivers and transceivers	260,816	2.0%	58,220	0.9%	202,596	3.2%	77.7%
Miscellaneous manufactures	1,107,920	8.6%	511,401	8.0%	596,519	9.3%	53.8%
Furniture, mattresses, and similar furnishings	319,269	2.5%	82,986	1.3%	236,284	3.7%	74.0%
Surgical and medical instruments	245,614	1.9%	164,306	2.6%	81,308	1.3%	33.1%
Scientific instruments	230,210	1.8%	126,847	2.0%	103,363	1.6%	44.9%
Grand total	12,810,987	100.0%	6,387,346	100.0%	6,423,642	100.0%	50.1%

Source: U.S. ITC (1991 c).

Within electronic technology and equipment, another important sector of production sharing, unfinished parts 39/ are shipped principally to developing countries for labour-intensive assembly operations. For this reason, Mexico has been the largest source of imports of these products entered under 9802.00.80, supplying an average of 80% of the total corresponding to this sub-sector in recent years. The next three largest suppliers, the Dominican Republic, Canada and Haiti, were responsible for a combined share of roughly 11%. In office machines and parts, another important sub-sector, the provision is used mainly by producers in their efforts to rationalize production. Most large American producers have foreign subsidiaries with whom they exchange semifinished products; these products are then completed to meet the specific technical specifications of individual markets. United States producers also use labour-intensive operations performed by relatively low-wage assemblers in countries like Mexico, Singapore and Hong Kong to reduce costs. A surge of Mexico as the leading source of imports under 9802.00.80 reflects the rapid development of maquiladora plants in the Mexican border zone (see Table 13).

Within the same sector, Mexico has been the principal source of television receiver imports under 9802.00.80, followed by Canada and Taiwan. In 1989, for instance, Mexico contributed 90% of imports under the scheme and 95% of duty-free content. United States companies, including United States subsidiaries of Japanese, French and Dutch producers, have established plants in this country to perform basically labour-intensive assembly operations, such as printed circuit board assembly and yoke windings. It is noteworthy that much of the 74% increase in imports of television receivers from Mexico in 1989 over 1988 can be attributed to Japanese manufacturers' decision to supply the United States market from these plant sites in Mexico rather than to export them directly from Japan.

In response to the imposition of the Custom user fee, imports of semiconductors entering under 9802.00.80 surged from US$ 545 million in 1986 to almost US$ 5 billion in 1990. With the fast increase in the application of 9802.00.80, the ratio of imports entered under the scheme to total imports jumped from 9% in 1986 to 39% in 1989. Articles with an MFN "free" rate of duty accounted for almost all imports of semiconductors under 9802.00.80 in 1989 (ITC, 1991 b, 4-4), signifying that this item faces an extremely low tariff barrier. This group of products include integrated circuits,transistors, diodes, rectifiers, etc., and are produced as chips and dice that are wire bounded into packages, encapsulated, and tested. Wire bonding and encapsulation are labour-intensive operations. United States producers of semiconductors shift these operations to low-wage countries to reduce production costs. With the exception of Mexico, almost all major sources of this product are Asian countries. Malaysia has been the largest source of duty-free content, followed by Canada and Korea. Meanwhile Japan, the largest source of total imports of this product, has resorted little to the provision (for the information on Malaysia and Korea, see Tables 3A and 4A in the annex). With correct policy implementation and sufficient infrastructure stalled, Latin American and Caribbean countries could also aspire to compete with the Asian counterparts in the future.

The sector of textiles, apparel, and footwear has been an important constituent of the imports under the provision (4.7% in 1990) and accounts for a significant share of the total duty-free content of those imports (8.5%). Due to large total imports of these products by the United States (US$ 40.0 billion), however, the ratio between the 9802.00 imports to total imports reached only 7% in 1989

39/ Articles for making and breaking electrical circuits include principally circuit breakers, electrical switches, connectors, printed circuit boards, industrial controls, and other electronic and electric devices.

(see Table 8 D). Among these sub-categories, textiles and apparel accounted for the majority, with only 25% for footwear. Unlike most other products entering under the provision, the duty-free content of this product group exceeds the dutiable portion of such imports. Nearly three-fourths of the sector's imports under the provision, in terms of duty-free content, are concentrated in five product groups: trousers, slacks, and shorts; body-supporting garments,; shirts and blouses; footwear; and coats and jackets. This is a critical sector for the CBI countries, because roughly 80% of their exports of textiles and garments to the United States is through the assembly and re-export programme (Journal of Commerce, 1991 c).40/

The major incentive for production sharing in these products is the cost savings derived from labour-intensive assembly operations in low-labour-cost countries. Most of foreign sewing operations are located in Mexico and the Caribbean countries, whose geographical proximity to the United States at the same time allows United States firms to have greater control over production and shorter delivery lead times, in comparison with the Asian assemblers. In the Caribbean, four countries (the Dominican Republic, Costa Rica, Haiti, and Jamaica) have served as focused investment areas as a re-export platform for United States producers as well as for those of Hong Kong, Korea and Taiwan. United States investment has been concentrated mainly in 9802.00.80 production, while Asian production in the CBI countries tends to focus on cut, make and trim (CMT) production working with Asian fabrics.41/ Due to this, it is reported that East Asian operations are of higher value-added projects, involving a higher level of investment, more labour of skilled staff than the alternative of 9802.00.80 sewing operations.42/

Imports of most textiles and apparel, including those entered under 9802.00.80, are subject to quantitative restraints under the Multifibre Agreement (MFA). MFA-covered products and most footwear are not eligible for duty-free treatment under the GSP, nor the original MFA products and most footwear eligible for such treatment under the CBERA. Relatively low income countries being main beneficiaries of the 9802 provision, it is desirable that the non-tariff measures affecting the sector be reduced or eliminated.

In short, the data on the tariff provision of 9802 demonstrate that the extent of production sharing is the greatest in two categories of machinery (electrical and electronic technology and

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40/ The United States government plans to amend rules under which garments are assembled in the CBI region from fabric made and cut in the United States. The proposal provides that the fabric be cut in the CBI, and that no duty be paid on the value added when finished garment is re-exported to the United States (Journal of Commerce 1992 b).

41/ The Caribbean countries compete in attracting potential investors through a variety of incentives, including tax breaks, duty exemptions and free zones. Another incentive is that Section 936 of the Internal Revenue Code provides a tax break to United States companies operating "twin" or complementary plants in Puerto Rico and CBERA beneficiaries.

42/ In 1986, the United States government announced a special textile program (known as "Super 807" or "807a") for authorized beneficiaries of the CBERA, which went beyond normal 9802.00.80 tariff benefits. It established guaranteed access levels (GALs) for products assembled in signatory states when these products are derived from goods cut in the United States or from United States-made fabric. The GALs for goods made of such fabric are separate from, and usually higher than, quotas on nonqualifying products. This program permits virtually unlimited market access for qualifying goods because GALs are established on the basis of the theoretical production capacity of each country and these estimated capacity levels can be adjusted by request of the beneficiary country. Mexico receives a similar treatment, in which products of both United States and foreign fabrics are combined under the same quota, but a major portion of the quota is set aside for goods of United States-made and U.S.-cut fabric.

equipment and transportation). Furthermore, in congruity with the findings of the foregoing sections, regarding Latin American exports to the United States, transport and, though to a lesser degree, electrical and electronic equipment are the ones which face an increasing influence of MOFAs as producers and marketing agents. Recognizing that technology transfer by the wholly- or majority-owned affiliates of TNCs per se does not necessarily contribute to the development of indigenous technological capabilities, and also taking into consideration the publicized low value-added of maquiladora operations in Latin America and the Caribbean, it is worthwhile to reconsider what the most efficient modalities of production sharing or overseas sourcing operations would be from the point of view of industrialization.

D. IMPLICATIONS ON THE ENTERPRISE FOR THE AMERICAS INITIATIVE

Though this study does not address the issue on the implications of the existing and coming free trade agreements (FTAs) for Latin America-the United States trade, several observations should be made. As well known, net static welfare gains for countries entering into a FTA are larger: (i) seemingly paradoxical, the more competitive are the economies entering into the agreement; (ii) seemingly contradictory to the foregoing, the more the prospective members are "natural" trading partners, that is to say, the more they traded before the agreement; (iii) the higher are the pre-existing barriers to bilateral trade; and (iv) the lower are trade barriers against third countries (Wonnacott and Lutz, 1989; Bouzas, 1991).

Regarding (i), it is generally recognized that trade structure of United States-Latin America is of complementarity in which the United States exports technology and capital intensive goods, while Latin America exports natural resources and labour-intensive products. This, therefore, constitutes an element for trade diversion. By comparison, the substantial increase in manufactures exports and especially of horizontal intra-industry trade nature between the two regions, as demonstrated in this study, might be reversing this traditionally conceived concept of complementarity. It could be inferred that the scope for trade creation is largest, and so is the scope for an improved allocation of resources and an increase in welfare, when a new perception of complementarity arising from more widespread intra-industry trade in which production sharing and other forms of overseas sourcing play an important part. The experience of the EEC countries, as being horizontally integrated industrial nations within their union, might be indicative of possible trade creation through intra-industry trade.

With respect to (ii), considering the relatively highly diversified exports markets of the majority of the countries in the region, the scope for trade diversion could be large. As shown in this study, while there is a strong case for Canada and Mexico as "natural" partners, this is not necessarily the case for the other countries. Mexico, whose two-thirds of trade is concentrated in the United States, and who has applied rapid trade liberalization in recent years, might benefit from export expansion, without suffering important trade diversion and associated welfare costs. Southern Cone countries including Brazil, on the other hand, might find that an FTA with the United States could have large costs from trade diversion because of their more diversified trade pattern. At least for some countries with a high, but falling, protection, a FTA with the United States would be tantamount to unilateral liberalization, with potentially high costs of trade diversion (Bouzas, 1991, 1992).

Concerning (iii), as shown by this study, not only that United States tariff rates facing Latin American products are in general low, but also that roughly half of Latin American trade with the United States is realized under preferential schemes, so that the prospects for a substantial export expansion from the countries in South America to the United States might be limited and benefits are to be geographically concentrated. A recent study (Erzan and Yeats, 1992) suggests that the FTAs not only could benefit Brazil and Mexico disproportionately, their accounting for almost 90% of the projected trade growth, but that could actually erode the United States share of other Latin American countries.43/ A series of FTAs could provide United States with preferences that convey a major competitive advantage over other countries in the region and they might result in intra-regional export displacements of such countries as Brazil and Argentina. For the Caribbean, Central American, and Andean countries, the incentives to enter into FTAs with the United States will have to be assessed against the fact that they already enjoy more-generous-than GSP duty-free access to the United States market. Also, those countries already enjoying privileged market access to the United States market, for example through the GSP and CBI, can even be prejudiced against, should these privileges are generalized at the regional level by a creation of the Western Hemisphere Free Trade Area (WHFTA).

Given the generally low tariff rates, the effective impact on market access of a FTA with the United States will be dependent on the treatment on non-tariff barriers (NTBs), which still restrict the entry of goods entering under the GSP or Chapter 98. Trade gains for many countries would be limited if NTBs were not relaxed. For instance, if textile quotas for other countries continue under the Multifibre Arrangement, and they are lifted for Latin American countries under FTAs, there is a large potential for Latin America to replace other exporters to the United States. Nonetheless, it is difficult for the United States to resolve bilaterally some problems related to market access, especially of NTBs, without having a much wider multilateral arrangement like that of the Uruguay Round. For example, it is improbable that the quota system applied to sugar, textiles and apparel, iron and steel, dairy products, cotton, etc. be eliminated for some countries in the region, without having successful negotiations on these products in the Round. In any case, the reduction of NTBs and existing tariffs and their "escalating" structure and a wider product coverage for the GSP and the CBERA and ATPA beneficiary countries, based on non-reciprocity criteria, would be desirable.

Regarding (iv), the negotiations on a series of FTAs must be conducted in such a way that regional liberalization will promote globally freer trade by setting precedents which can be later serve as "building blocs" for a more liberal, open, and multilateral agreements. To avoid great trade diversion, the prospective members of FTAs should make efforts to see that the lowest tariff and NTBs among the regional partners be applied to the outside world, insisting also on a progressive flexibilization in rules of origin and local content regulations.

The dynamic gains are likely to be more relevant than the static ones. Those benefits of economic efficiency can arise from scale economies, effects upon investment flows, enhanced competition, and reduced uncertainty (Wonnacott and Lutz, 1989). Because of the enormous United States market, benefits from scale economies could be substantial. Improved access to that large

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43/ The report, which analyzes the 11 members of LAIA (Latin American Integration Association) concludes that an exclusive FTA between Mexico and the United States would cause Mexico's exports to increase by US$ 1.6 billion a year, while this would displace US$ 28 million in exports from other Latin American countries and a total of US$ 440 million worldwide.

market should contribute to inducing direct investment inflows, and in fact these investment-trade linkages, rather than purely trade issues, have been emphasized as the most important medium and long-term benefits. Also, a FTA with the United States is thought to improve the general business climate and create additional stimuli to keep macroeconomic balances in check. Signing a FTA should halt the spread of new trade restrictions against the countries in the region. However, it might be argued that effects in scale economies might be limited, in view of the already sufficiently large NAFTA market to allow for the full operation of expected effects in some industries. For Latin America, some industries being highly export-oriented, benefits of economies of scale are already reaped. Moreover, as demonstrated in this study, the concept of economies of scale based on the traditional Fordism type may not be appropriate. Even in industries predominantly labour-intensive, scale economies are achieved through corporate strategy of global production.

United States TNCs are restructuring some of their once-sheltered subsidiaries for global competition as trade barriers come down and are linking operations across national borders to take advantage of lowered trade barriers, in some cases joining forces with in strategic alliances with local companies. In fact, a likely result of Latin America-United States FTAs in the medium term is the fall in intraregional trade barriers, which would facilitate cross-border sourcing within Latin America and the Caribbean. United States firms could implement this strategy, for example, by setting up plants in each of the existing subregional trading blocs, including the Mercosur countries or those of the Andean Pact, coordinating their operations at the regional level. Recent evidence suggests that to some degree this is already taking place (Business Week, 1992).

It is also likely that the potential benefits of FTAs with the United States will be reaped by the countries first to conclude an agreement, especially if they already enjoy other advantages, for example, geographical proximity, as in the case of Mexico, leaving the problems of "latecomers" unsolved (Bouzas 1991, 1992). To avoid distortions of this kind, in the case of the establishment of a WHFTA, it would be convenient for the countries in the region to enter the scheme in a coordinated manner. Otherwise, there will be "incentive-giving" wars among the countries.

The major potential disadvantage in the dynamic context will be a possible "storming" of local industries, weakening or impeding the formation of productive capacity in those sectors where the initial costs are high but comparative advantage in the medium and long-term exist. In this view, new investment flows, encouraged by FTAs, must allow indigenous industrial capacities to grow, enabling technologically sophisticated manufactures exports and at the same time establishing necessary local linkages to increase the value added and to contribute to the overall development process. From this perspective, primary considerations should be given to the issues related to local-content requirements, export and local sale performance, and foreign exchange generation capacity of these operations. In order to augment the value added and not to divert trade as well as to upgrade technological capabilities in the long-term perspective, in some cases, flexible "rules of origin", instead, for example, of the rigid application of a minimum regional value-of-content criteria, should be applied. In that way, cheap, yet good-quality inputs coming from non-United States sources are not prejudiced against. Strict adherence to the "buy North American" policy might undermine the technological transfer process, which is one of the essential ingredients of production sharing from the point of view of developing countries.

IV. CONCLUSIONS AND RECOMMENDATIONS

A striking phenomenon in the evolution of Latin American trade has been a rapid increase in the manufactured exports to the United States. The share of these products in total exports from the region to that market reached in 1990 more than 50%, in contrast to Japan and the EEC where Latin American export basket is dominated by primary products. The drive of manufactured exports has been restricted to a limited number of countries, especially Mexico. The export surge made Mexico responsible in 1990 for 47% and 63% of total United States imports and manufactured imports respectively from Latin America and the Caribbean. The corresponding share for South America, including Brazil, has been stagnant. More surprisingly, in the same year, 51% of Mexico's exports to the United States entered under special preference regimes, via HTS 9802 variants of production sharing plants or maquiladoras, or the GSP. At the regional level, a quarter of total United States imports from the region utilized the HTS 9802, while 10% of total regional exports to the United States entered under the GSP. For Canada also, the tariff provision has been increasingly important, executing more than 25% of their exports to the United States under the programme. Under the tariff provision of 9802 articles assembled abroad with United States components and then imported into the United States are subject to duty only on their value added. These figures at large reflect the degree of productive integration specially in the NAFTA and CBI countries and corporate strategic response of the United States TNCs to the new industrial economic order.

United States imports entering under the tariff provisions of 9802 have surged during the 1980s not only in absolute terms but in relation to total United States imports, accounting in 1990 for roughly 15% of total imports. These imports consist almost entirely of manufactures, and have been responsible for over 20% of total manufactured imports of the United States. The provisions are important for developing countries as well: during the 1980s, their exports under these schemes occupied between a 15 to 20% of their total manufactured exports to the United States. The imports under the provisions are much more important for Latin America and the Caribbean than for the East and Southeast Asian counterparts. Surely from the regional perspective, the US$ 15 billion worth of HTS 9802 in 1990 was considerable, when they accounted for 45% of total manufactured imports from the region. Among the developing countries, Mexico, is by far the greatest beneficiary of the programme, whose 9802 imports reached in 1990, 42% of total United States imports from the country. Beside Mexico, Haiti, Dominican Republic, Costa Rica and Jamaica have been relatively important beneficiaries from the region.

At the global level, the "duty-free" portion is in the range of 28%, while the rest is accounted for by the "dutiable". Even though the duty-free portion is much higher for developing countries as a whole than for developed countries, the dutiable portion for developing countries is increasing. The beneficiary countries of East and Southeast Asia show in general a higher dutiable portion than the Latin American countries, which seems to reflect their more sophisticated product mix, with less emphasis on simple assembly operations, in comparison to Latin America and the Caribbean. One of the important future tasks for these countries is to transform simple assembly-type or maquiladora operations to a more fully integrated ones geared to the general industrialization process, by taking full advantage of the competitive edge provided by these preferential treatments

Overall duty savings from the use of these provisions are small, compared to the magnitude of trade which takes place under them. An estimate suggests savings of no more than US$ 500 million a year as duty benefits. The overall nominal rates of duty is less than 2.5%, and except the textile,

apparel and footwear sector, which faces a high rate (15.2%), duty savings which might accrue from resorting to the tariff provisions are insignificant. The reasons for the high utilization of these programmes must be looked for somewhere else: (i) the price competitiveness of products by shifting labour-intensive processes to low-wage countries; (ii) the rationalization of domestic and foreign production at the world level; (iii) the penetration of foreign markets; and (iv) the avoidance of the Customs user fee. The majority of enterprises that use the tariff provisions would continue to do business in a developing country even without the duty saving benefits provided. In this sense, the provisions are incidental rather than determining factors in their decision to use foreign assembly or component operations. Assembly-type production has been most important in products that are under pressure from foreign competition. Regardless of whether the special provisions of Chapter 98 are maintained in or disappear from the forthcoming trade agreement, other incentives now in place will keep the maquiladora operations intact and probably growing.44/

Trade generated by FDI or NFI tends to increase intra-industry flows among and within various regions. Trade flows between the United States and Latin America and the Caribbean will increasingly assume these characteristics. But it can be inferred from the present analysis that trade policies directed to those sectors with a high coefficient of intra-industry trade should be distinct from those which point to the sectors generally characterized by inter-industry relations. The trade involving capital goods and inputs and components which incorporate advanced technologies is in general not subject to significant protectionist measures. Except for some cases where there are still high trade barriers, policies to promote trade through FDI or NFI must entail incentives to improve the infrastructure and other supporting mechanisms.

While under HTS 9802 provisions, imported articles do not have to meet local content requirements, the GSP call for the compliance with several restrictions such as the 35% national value-added, the "competitive need limitations" (CNLs) and other requirements. These restrictive features have led to the situation in which the GSP utilization, defined as the ratio between imports that enter duty-free under the system and the total amount of potentially eligible for duty-free treatment, for the countries in the region has been declining to reach in 1990, 54%. In many instances, "GSP-eligible" imports enter the United States, not under the GSP, but under HTS 9802, as maquiladora operations. Preferential treatments under the CBI and the ACI as well as the tariff provision 9802, which contain less rigid application of rules of origin and local content, are designed to promote production sharing. In this sense, existing United States preferential schemes (Chapter 98 and the GSP) should be viewed not as the rationale but as "additional" incentives to establish efficient industries to export and compete worldwide. However, it is important for those countries, which already enjoy more-generous-than GSP market access to the United States market, not to be prejudiced against, should these privileges are generalized at the regional level.

TNCs have intensified their efforts to globalize their production. As a result, at the end of the 1980s exports associated with United States TNCs accounted for more than half of total United States exports to Latin America and the Caribbean. Roughly 20% of total exports from the United States were undertaken under a form of intra-firm. The affiliates of TNCs have also played an

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44/ In Mexico, two features that were once exclusive to maquiladoras --100% foreign ownership and concessions for the temporary, tax-free imports of materials and equipment-- now applies to most sectors of the economy. With zero tariff treatment expected for most Mexican product under an FTA, along with further loosening of investment rules, the maquiladora system might become obsolete. However, the basic concept will not change, with Mexico continuing to offer the same incentives in an export-processing structure.

important role in expanding manufactured exports of developing countries. On the import side, close to 20% of total imports from the region assumed a form of intra-firm. Though TNCs are involved in one way or another, a great majority of the transactions by TNC affiliates in the region go to unrelated parties. Nonetheless, looking at the manufactured imports shipped by majority owned manufacturing foreign affiliates, one can conclude that intra-firm trade is relatively concentrated in the automobile and some subsections of machinery (non-electrical and electrical and electronic equipment). More importantly, the present analysis shows that in these very industries a high degree of production sharing or overseas sourcing is observed. These findings contrast from the traditional image of large-scale United States TNC operations in Latin America and the Caribbean of a high local market orientation. In fact, a common feature among regional exports to the United States entering via FDI, NFI, and preferential schemes is production sharing and overseas sourcing.

Nevertheless, it is important to recognize that for the majority of production sharing operations involving Latin American and Caribbean countries, the "duty-free" portion (United States content) is substantially high, and that these activities have not increased their use of locally-produced materials, parts and components, not successfully integrating themselves with local markets. Maquiladora activities in the two subsections of manufactures are not exceptions to this rule. Given the diverse experiences regarding the TNCs' contribution to the expansion of manufactured exports, especially in the same sectors of the Asian NICs and the ASEAN, it can be argued that there are possibilities without large equity participation by foreign TNCs, and that traditional kind of FDI is by no means a necessary condition or the best means for successful export-oriented manufacturing. In some instances, by restricting FDI and relying on NFI to acquire technology (e.g., licensing) and market access (subcontracting), developing countries can sustain a strong export drive in manufactures and the same time build up national technological base. Various options available under NFI which seem to prepare better these countries for exports, should be considered, depending on the development stage of each country and benefits and costs entailed in each option.

There are numerous TNC-associated arrangements which entail no or little equity participation whose importance in manufactured exports from developing countries has increased dramatically in recent years. These include production sharing and other types of subcontracting, export trade zones, and original equipment manufacturing. Trading companies and large retail chains are also known to exercise an influential role in establishing access to markets and technology. Benefits accruing from these arrangements and their selectivity depend on the degree of commitment the company is prepared to make and the degree of management, product, technology control it wishes to exercise, and therefore, must be carefully assessed in advance. In any case, these new forms of "flexible specialization" offer opportunities for Latin American and Caribbean countries to attract foreign investment in smaller scale and locally specialized production. A country like Mexico, with a relatively developed manufacturing sector, should consider, when felt convenient, to follow the example of the Asian NICs, by "unpackaging" the traditional FDI asset mix. Meanwhile, the rest of the Latin American and Caribbean countries might be encouraged to follow the Mexican example, through which quick access not only to the United States but to other major markets, and a jump in technological absorption capacity might be achieved. That way, the means of incorporation into international system would provide a more self-sustaining basis to local industrialization, promoting technical skills and industrial entrepreneurial capacity to absorb foreign technology within indigenous enterprises.

The differentiated performance in manufactured exports to the United States is obviously in part a result of domestic policy changes in a more market-oriented direction, including trade

liberalization and more flexible investment regimes. But these efforts probably facilitated, rather than motivated, the surge of manufactured exports from developing countries. Rather, the spurt mostly reflected the initiatives of local and foreign enterprises to take advantage of and adjust to new opportunities emerging in the world economy and at the same time to face international competition. In view of the above, host government policies should seek to enhance their competitiveness and attractiveness, not only by a liberal trade regime and financial stability but also by investments in infrastructure and in education to upgrade human capital. For instance, if it wishes to transplant export-oriented industries, it should not overvalue its currency, allowing at the same time free trade in order to secure cheap imported inputs. In this context, ongoing trade liberalization efforts in Latin America should encourage the countries to upgrade quality with competitive prices, and to develop a system for timely delivery of parts and components. If it wishes to promote more skill-intensive investment, it should increase public investment in education and skills training. Furthermore, if it wishes to improve local content, it might assist to develop competitive local suppliers, including the provision of fiscal incentives, rather than merely imposing unrealistic local content requirements which deter foreign investors. For these reasons, the role of government is crucial for the creation of a host environment which maximizes the benefits from foreign investment.

Japan's foreign investment in East and Southeast Asia of recent years has shown that it is possible to promote the spatial restructuring of production in a region, which stimulates two-way or triangle trade flows among the home and various recipient countries. One policy implication is that a developing country hoping to attract foreign investment should seek to exploit regional rather than national factors in its investment promotion. For the decision-making process of foreign investors, geographical proximity will be increasingly important: neighboring economies can benefit from potential complementarities of resources and production as well as from an enlarged market. Given the growing preference for locations closer to consumers and sources of supply, it also offers opportunities for a regional division of labour which both exploits individual countries' comparative advantages and allows for strategic penetration of third-country markets. Japanese affiliates operating there export and import parts and components from one another, assigning each a specific role within the strategic plan according to its wage and skill level, cost of transportation, the conditions of infrastructure, the degree of political stability and others. Regarding Latin America and the Caribbean, a likely result of the free trade agreements with the United States that reduces intraregional trade barriers, could facilitate cross-border sourcing within South America by United States firms and their competitors in the region.

The increasingly regional character of many foreign investments means little duplication of production facilities among different host countries in a region. As a result, one investor looks to one host country for simple labour-intensive assembly and to another for capital-intensive operations (inputs production, their design and other services) requiring skilled labour. In this case, the interests of the less advanced country to increase local content and skills must be safeguarded, and attempts should be made to strengthen internal linkages with other industrial activities. The reduced rate of integration with local producers, as observed in Mexico's maquiladoras, could be overcome by efforts on part of both the government and the private sector to deliberately integrate maquiladora-type operations into the whole economy, encouraging, when feasible, various NFI like subcontracting.

For Latin America and the Caribbean, new opportunities arise basically from a new restructuring of manufacturing production at the world level, foreseeable free trade agreements (FTAs), and other regional preferential arrangements. Given the generally low tariff rates and the present situation in which a high proportion of Latin American exports already enter the United

States market under preferential treatments, the benefits from FTAs with the United States will depend largely on the dynamic gains than the static ones. The latter involve efficiency gains accruing from scale economies, induced investment flows, enhanced competition, and improved business climate and reduced uncertainty for trade and investment. Notwithstanding, it is necessary to assure that the potential benefits of FTAs be distributed equitably to all countries, in order that gains are not concentrated to a limited number of countries who conclude first an agreement and/or who already enjoy other advantages, for example, geographical proximity. It will be, therefore, desirable for the countries in the region to enter FTAs in a coordinated manner in order to avoid unnecessary "incentive-giving" wars among them and a undesirable "storming" of local industries by large United States TNCs.

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ANNEX

TABLE 1 A

U.S. IMPORTS FROM GERMANY UNDER 9802.00.80, BY COMMODITY GROUPS, 1990

(In thousands of dollars)

Commodity group	Total value (a)	% of total (b)	Duty-free value (c)	% of total duty-free (d)	Dutiable value (a)-(c)	% of total dutiable (e)	% of dutiable (a)-(c)/(a)
Agricultural products:	10	0.0%	5	0.0%	5	0.0%	50.0%
Textiles, apparel, and footwear:	61	0.0%	9	0.0%	51	0.0%	83.6%
Minerals and metals:	4933	0.1%	584	0.6%	4348	0.1%	88.1%
Machinery and equipment:	5,742,987	99.5%	91,814	97.0%	5,651,173	99.6%	98.4%
Motor vehicles	5,086,768	88.1%	45,020	47.6%	5,041,748	88.8%	99.1%
Internal combustion engines	532,278	9.2%	31,988	33.8%	500,290	8.8%	94.0%
Miscellaneous manufactures	22,972	0.4%	2,229	2.4%	20,743	0.4%	90.3%
Grand total	5,770,962	100.0%	94,642	100.0%	5,676,320	100.0%	98.4%

Source: U.S. ITC (1991 c).

TABLE 2 A

U.S. IMPORTS FROM JAPAN UNDER 9802.00.80, BY COMMODITY GROUPS, 1990

(In thousands of dollars)

Commodity group	Total value (a)	% of total (b)	Duty-free value (c)	% of total duty-free (d)	Dutiable value (a)-(c)	% of total dutiable (e)	% of dutiable (a)-(c)/(a)
Textiles, apparel, and footwear:	153	0.0%	33	0.0%	120	0.0%	78.4%
Chemicals, coal, petroleum, natural gas, and related products:	7	0.0%	2	0.0%	6	0.0%	85.7%
Minerals and metal:	2	0.0%	1	0.0%	2	0.0%	100.0%
Machinery and equipment:	17,041,200	99.6%	573,543	98.5%	16,467,658	99.7%	96.6%
Motor vehicles	15,844,911	92.6%	312,261	53.6%	15,532,650	94.0%	98.0%
Office machines and parts	578,105	3.4%	174,143	29.9%	403,962	2.4%	69.9%
Motor vehicle parts	126578	0.7%	2349	0.4%	124229	0.8%	98.1%
Mechanical shovels, excavators, bulldozers, etc.	121,856	0.7%	21,755	3.7%	100,101	0.6%	82.1%
Miscellaneous manufactures	65,449	0.4%	8,802	1.5%	56,647	0.3%	86.6%
Grand total	17,106,813	100.0%	582,381	100.0%	16,524,432	100.0%	96.6%

Source: U.S. ITC (1991 c).

TABLE 3 A

U.S. IMPORTS FROM MALAYSIA UNDER 9802.00.80BY COMMODITY GROUPS, 1990

(In thousands of dollars)

Commodity group	Total value (a)	% of total (b)	Duty-free value (c)	% of total duty-free (d)	Dutiable value (a)-(c)	% of total dutiable (e)	% of dutiable (a)-(c)/(a)
Textiles, apparel, and footwear:	2,613	*0.2%*	425	*0.1%*	2,188	*0.3%*	*83.7%*
Chemicals, coal, petroleum, natural gas, and related products:	95	*0.0%*	63	*0.0%*	32	*0.0%*	*33.7%*
Machinery and equipment:	1,338,804	*99.1%*	576,765	*99.8%*	762,039	*98.6%*	*56.9%*
Semiconductors	1,300,804	*96.3%*	564,558	*97.7%*	735,941	*95.2%*	*56.6%*
Miscellaneous manufactures	9,695	*0.7%*	811	*0.1%*	8,884	*1.1%*	*91.6%*
Grand total	1,351,207	*100.0%*	578,085	*100.0%*	773,142	*100.0%*	*57.2%*

Source: U.S. ITC (1991 c).

TABLE 4 A

U.S. IMPORTS FROM KOREA UNDER 9802.00.80BY COMMODITY GROUPS, 1990

(In thousands of dollars)

Commodity group	Total value (a)	% of total (b)	Duty-free value (c)	% of total duty-free (d)	Dutiable value (a)-(c)	% of total dutiable (e)	% of dutiable (a)-(c)/(a)
Textiles, apparel, and footwear:	581,018	*26.6%*	25,533	*4.2%*	555,465	*35.2%*	*95.6%*
Footwear	547,330	*25.1%*	22,440	*3.7%*	524,890	*33.2%*	*95.9%*
Chemicals, coal, petroleum, natural gas, and related products:	195	*0.0%*	84	*0.0%*	110	*0.0%*	*56.4%*
Minerals and metals:	142	*0.0%*	89	*0.0%*	53	*0.0%*	*37.3%*
Machinery and equipment:	1,591,284	*72.9%*	575,029	*95.5%*	1,016,254	*64.3%*	*63.9%*
Motor vehicles	687,380	*31.5%*	44,541	*7.4%*	642,840	*40.7%*	*93.5%*
Semiconductors	806,930	*37.0%*	491,676	*81.7%*	315,154	*19.9%*	*39.1%*
Miscellaneous manufactures	2,005,019	*91.9%*	829,793	*137.8%*	1,175,226	*74.4%*	*58.6%*
Grand total	2,182,288	*100.0%*	602,084	*100.0%*	1,580,205	*100.0%*	*72.4%*

Source: U.S. ITC (1991 c).