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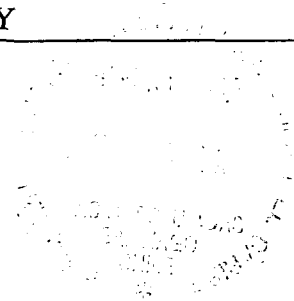
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TRADE, SPECIALIZATION AND ECONOMIC GROWTH IN LATIN AMERICA

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TRADE, SPECIALIZATION AND ECONOMIC GROWTH
IN LATIN AMERICA*

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INTRODUCTION

During the nineties Latin America showed a significant export dynamism. This was associated with a generalized process of trade reforms carried out from mid-1980s on, in a context of increased world demand. However, despite the export success, the overall economic performance was rather poor, with an annual growth rate of GDP around 3% for the region as a whole. An intriguing matter is why the high rates of export growth in the nineties, by 9% per annum, did not mean a vigorous GDP growth in Latin America as did happen, for instance, in the East-Asian Economies?

Naturally, the explanation relies on the other part of the domestic output; that is, non-export GDP, which has failed to grow at satisfactory rates. In that sense, one major cause has been the unstable regional environment, prone to crises, present in the nineties (see Ffrench-Davis and Ocampo, 2001). Nevertheless, we also find that the stile of a first round of trade reforms, characterized by across-the-board import liberalization schemes, played a negative role by exacerbating destruction among import substituting firms, with a lack of timely and adequate switching policies to reallocate resources, and a poor macroeconomic environment for productive investment. On the other hand, the technological content in Latin American exports is still low, which implies weak spillover effects from trade on the rest of the economy.

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After this first phase of unilateral trade liberalization, the region has witnessed a new trend characterized by the signature of numerous bilateral and multilateral intra-regional preferential regional trade agreements (PRAs). The new strategy –the so-called *open regionalism*– has improved the conditions of the trade openness process of Latin American nations because of its reciprocal effects in terms of wider markets for the participants. In turn, the increased regional trade has stimulated a change in the export basket, favoring a higher share for manufactured goods. However, large potential benefits from PRAs remain unexplored because the process is still incipient and vulnerable to the regional instability.

In section I we summarize the main features of the wave of trade reforms carried out in the region. In section II we discuss an analytical framework to understand the overall effect of trade liberalization reforms on growth. In section III we present the main features of the PRAs in the region and their consequences on export quality. Finally, in section IV we examine some key elements in a sound and comprehensive trade policy.

I. TRADE REFORMS

There is a broad consensus that by the seventies most Latin American economies needed economic reforms in many areas and, particularly, in trade. The basic problem with the protectionist policies during the ISI phase was that, in the final analysis, they were usually so arbitrary that policy-makers did not know what they were promoting and why (Ffrench-Davis, 2002, chap. III; Fritsch and Franco, 1993). The protectionist policies of the past, both in Latin America and in other regions, were often exploited by private concerns seeking economic rents. In many cases no social benefits were evident, and the resulting industrial structures tended not to be competitive on the international market and to continue being dependent on government protection indefinitely. It should also be recognized, however, that these schemes permitted the establishment of industrial sectors that have served as the basis for a subsequent form of development which is more strongly oriented towards international competitiveness than before (Ffrench-Davis,

Muñoz and Palma, 1994). It must be recalled that GDP growth and living standards improved quite fast in the ISI period, particularly between 1950 and 1980 (see table 1).

[Table 1]

When the ISI model became exhausted as a source of sustained development, each country had to decide the profile of the process of liberalization, what to liberalize and by how much, in what sequence, and what other policies it should adopt to ensure that its liberalization process would contribute to development. However, the pattern was rather shared by most Latin American countries. As we will see, most nations followed a trend characterized by an intense across-the-board import liberalization.

Chile's trade liberalization scheme is the oldest and the longest continuously-applied program in the region. A military coup in September 1973 was the starting point of a deep and generalized process of economic reforms (see Ffrench-Davis, 2002). Before the introduction of reforms, Chilean foreign trade was subject to a great deal of government control: nominal tariffs averaged 94% and ranged from 0% to 750%; countless non-tariff barriers were in place, including the requirement of large prior deposits for 60% of all imports, the Central Bank's discretionary authorization of exemptions to that restriction, and a complicated multiple exchange-rate system involving eight different official rates, with a 1000% difference between the lowest and the highest (ECLAC, 1998; Meller, 1994).

As part of a far-reaching scheme for handing over the vast majority of economic decisions to market forces, in 1973 trade policy reforms were launched which covered the elimination of all non-tariff trade barriers, a sharp process of reduction of tariff levels, and the establishment of a single exchange-rate. Although it was not one of the program's initial goals, by June 1979 a low, uniform tariff of 10% had also been established. At this point, however, the real exchange-rate was at almost the same level as it had been at the start of the liberalization process in 1974. Although there was a great deal of water in the average nominal tariff (94%) existing at the start of the liberalization process, the fact remains that there had been a sharp reduction in effective tariffs. In addition, the exchange rate kept appreciating in the subsequent years. As a result, export development was weakened towards 1981 and the economy was subject to a rapid de-industrialization

process, as evidenced by a five-point drop in the share of manufacturing in GDP. Many potentially strong manufacturing enterprises went bankrupt as a consequence of the particular combination of trade (abrupt liberalization), exchange-rate (sharp real appreciation) and interest-rate (extremely high rates) policies during that period.

The severe debt crisis in early 1980 represented a major turning-point for most Latin American economies and the forced end of the ISI model (Ffrench-Davis, Muñoz and Palma, 1994). By the mid-1980s, after more than half a century of protectionism, a tendency towards radical change in the development strategies and policies was becoming evident in Latin America. As early as 1983 Costa Rica set out on a gradual transition from the import-substitution model, which it had been implementing at the national and Central American levels, to a model oriented towards forging a more dynamic position in the international economy. Then, in 1985, Bolivia and Mexico started up relatively fast-paced liberalization programs.

In the eighties, once again, Chile represents a special case because of the implementation of a second trade reform. This was motivated by the strong impact of the debt crisis on the economy in 1982-83, which experienced a fall of 14% (the deepest in Latin America). In order to balance the external sector, among many other measures, Chile raised in stages the uniform tariff from 10% up to 35% (the level to which Chile had committed itself under the terms of GATT in 1979) in September 1984. Starting in March 1985, as the severe shortage of foreign exchange eased, the tariff was gradually lowered again, reaching 11% by mid-1991. However, this new liberalization was accompanied by a strong exchange-rate depreciation (of 130% between 1981 and 1988) and several export promoting instruments and anti-dumping measures (Agosin and Ffrench-Davis, 1993; ECLAC, 1998, chap. III; Ffrech-Davis, 2002, chap. III).

In the early 1990s, several other Latin American countries (LACs) joined in this movement, including Argentina, Brazil, Peru and Venezuela. Even Colombia, which had undertaken a gradual program in 1990 to open up its economy over a four-year time span, decided to step up the pace of its liberalization effort in 1991 so that it could be completed in 1992. Thus, although they were moving forward at different speeds, it was clear that the region had reached a major turning point.

In all cases, albeit to varying extents, and setbacks in late 1990s and more recently in Argentina, quantitative restrictions have been dismantled and tariffs have been lowered significantly. Generally speaking, the amount of tariff protection provided differs considerably from its pre-reform levels, and the spread of rates of effective protection has diminished substantially. No country has yet adopted a tariff rate of zero, however. Most countries have a number of different tariff rates with ceilings ranging from 10% to 35% and average rates of between 7% and 18%. As we will see below, these regional trends in trade policy have been complemented by bilateral or multilateral free trade agreements covering a wide spectrum of items.¹

An interesting fact is that in a number of countries, trade liberalization measures have been accompanied by the liberalization of the capital account. Chile was faced with this problem in the seventies, in a context of heavy capital inflows. Since the start of the 1990s, international capital markets began to take a positive view of LACs once again, which meant a new capital surge. As a result, the liberalization of the capital account prompted considerable exchange-rate appreciation in both cases just when trade reforms urgently required a depreciation. Figure 1 shows this trend from the late eighties for Latin America as a whole.

[figure 1]

In the nineties some countries (Chile and Colombia) were more successful than others in countering this pressure on their currencies; in order to do so they did implement a comprehensive policy-mix based on active exchange rate and monetary policies accompanied by prudential regulations on the capital account, including an unremunerated reserve requirement to short-term capital inflows (see Agosin and Ffrench-Davis, 2001; Ffrench-Davis, 2000, chap. V; Ocampo and Tovar, 1998).

¹ Up until June 1990, the mainstream opinion was that integration accords should be of a partial, very limited scope, along the lines of the LAIA agreement in force at the time. The predominant view was that trade blocs were inefficient and hindered world trade. It is interesting that President Bush's Initiative for the Americas changed that view, and, subsequently, concerns about trade diversion appeared to have been

II. THE EFFECT OF LATIN AMERICAN TRADE REFORMS ON GROWTH

1) The analytical framework

Trade reforms are usually undertaken as part of a broad-ranging process of change, in which international competitiveness and exports play a leading role. The main instrument of reform has been an indiscriminate and rapid liberalization of imports. The aim is to expose producers of importables, which often received a high level of protection, to outside competition. It is expected that this would result in higher productivity, with the absorption of new technologies and increased specialization. Producers that do not adapt to outside competition will be crowded out of the market, and the resources freed up will be swiftly absorbed by other activities, primarily in the production of exportables.

Exports are encouraged, indirectly, by the reduced cost and wider range of importable inputs, which thus become available, and by the exchange-rate depreciation that the liberalization of imports would supposedly tend to prompt in the foreign exchange market. The reaction of import-substituting activities will depend on how much relative prices change, how swift the change is, and how well the relevant producers are able to adjust. It is more effective if producers can be given the time they need to restructure, but no more than is strictly necessary, so that they will actually be prodded to change. For example, if a tariff is redundant, all the water can be eliminated abruptly but the reduction of utilized effective protection should be paced to allow producers to introduce innovations, increase their level of specialization and reallocate their resources. The pace of the adjustment will depend on the credibility of the timetable for change and on the access producers have to the set of factors they will need in order to restructure. This will determine whether exposure to competition will be a creative or destructive process.

The reaction of exports will depend on how much use they make of importables and on how such goods were dealt with in the pre-reform trade system. Often, imports of

inputs and capital goods by exporters have benefited from tariff exemptions, but in several cases exports have been discouraged by arbitrary trade restrictions.

The real exchange-rate will be a decisive factor in determining the response of output (both of exportables and importables). In order for a reform to be successful, the net effect of the changes it makes in incentives must be to boost the net production of tradables. The ability to restructure will also depend on the overall dynamism of investment and technological innovation, the supply of trained manpower, the features of the domestic capital market, the existing infrastructure and the extent of access to external markets (see ECLAC, 1998, chaps. IV, VII and VIII).

The combination of changes in relative prices, in their credibility and graduality, and in the macro- and meso-economic context in which reforms are implemented, will determine whether their effects on resource allocation will be predominantly positive or negative.

There are two broad competing alternatives for the path of reform: the restructuring process can start out with an expansion of the production frontier -as has occurred in the newly industrializing economies (NICs) of Asia- or it can begin with a drop in economic activity and form part of an adjustment process that takes place below the production frontier. Both are depicted in figure 2.

[Figure 2]

In figure 2, the X axis represents the value added in the production of exportables and the R axis represents the rest of the GDP (the sum of importables and non-tradables). R_0X_0 is the initial frontier and P_0 is the starting point of actual production, below the frontier, which entails a low export coefficient and some degree of inefficiency in resource allocation. Within the framework of a dynamic expansion of the production frontier, the reforms should bring effective production closer to that frontier and should shift the output mix towards a larger share of exportables.

In an export-led strategy, in which the liberalization of imports plays a secondary supporting role (as in the case of the dynamic economies of East Asia, see Amsden, 1993; Sachs, 1987; World Bank, 1993), the adjustment process will tend to follow a path such as that described by the curve P_0P_e . This curve denotes a more than proportional

increase in X together with a moderate growth rate for R , within the context of an expanding production frontier and a gradual increase in the efficiency of existing firms. Thus the economy is positioned on, or near, a steadily expanding production frontier.

The curve P_0P_i denotes a different strategy, similar to that used in Latin America; this approach is led by import liberalization and involves the bankruptcy of a significant portion of import-substituting firms, together with a gradual increase in exports. These "desubstitution" pressures dominate adjustment during the early stages of the process, and the economy will therefore be positioned below the production frontier. This fact tends to discourage investment, which will, moreover, force the frontier to remain stationary during the initial years of the reform.

With this second strategy, it is probable that the firms who survive will tend to be, on average, stronger and more dynamic than in the first case. During the early years of the adjustment, however, the volume of productive resources available and their rate of use will be lower in this alternative, owing to the higher rate of bankruptcies and downscaling of activity; the underutilization of resources will thus be greater, and the stimulus for total investment will be weaker. Therefore, a higher degree of microeconomic efficiency will tend to be combined with a lower degree of macroeconomic efficiency. The *hysteresis* of the process dictates its end result, since what happens during the transition will have a determinant effect upon the level of wellbeing, and on the production structure, that emerges when the adjustment process is completed.

Of course, there is room for a large number of variations in these two options in the process of changing production patterns. Even within each product category, different intertemporal trends will probably be observed. There will also be crossovers between categories: import-substituting enterprises may be converted, in part or in whole, into importers, or -in response to reforms- may become exporters (Katz, 1993). For the sake of this discussion, however, we have focused on two sharply differentiated alternatives in an effort to characterize two opposing styles of internationalization.

The paths and end points of these two alternative strategies are represented by the points of production P_i^2 and P_e^2 in figure 2. Both exhibit vigorous increases in X but very

different results for R. The point P_e^2 is associated with economies such as those of Japan, Korea and Taiwan, whose GDP has shown strong growth over an extended period of time, with an X-led economic growth, but significant rises in R as well. During the 1960s and 1970s, Brazil's growth curve was characterized by a more even rate of expansion in X and R (in the vicinity of the prolongation of OP_0). Chile's situation, on the other hand, is depicted more accurately by P_i^2 , with a steep increase in X but the stagnation of R as compared to output in P_0 ; between 1981 and 1989, X rose substantially (a 51% increase in real exports of goods and services per capita) whereas R climbed slowly, in absolute terms, and actually decreased in per capita terms (the production of importables rose while the production of non-tradables fell). Towards the end of the process, however, rapid growth emerges in R as well (as it happened between the late 1980s and 1997).

2) Some empirical facts

Experience has demonstrated that it is more efficient to make deep import liberalization (the stage beyond eliminating water in protection) only once a sustained increase in exports and a dynamic transformation of production have been achieved. The cases of the East Asian countries bear witness to this fact (Sachs, 1987). This is the first of the options set forth in the analytical scheme presented above (figure 2). Although this course of action is no longer a feasible option for many LACs after the Uruguay Round, the Asian experiences demonstrate the need to take direct steps to boost exports rather than waiting for import liberalization alone to indirectly have the desired effect on export performance.

In the majority of the liberalization programs being pursued in Latin America, the option of promoting exports first and liberalizing imports later was ruled out; a liberalization program has already been carried out, and it was done in a context where the creation of productive capacity in these countries was far from being dynamic. Imports have been liberalized without providing any significant incentives for exports other than reducing restrictions on imported inputs and the assumption of spontaneous depreciation of the currency (this assumption tended to oppose the reality in Chile during

the 1979-82 period, in Mexico starting in 1988 and in countries liberalizing in the 1990s and up to 1997). Moreover, all the countries that have undertaken sweeping reforms have proceeded to dismantle or cut back export promotion schemes, whether they had been successful or not in the past. This suggests that negative pulls will have been stronger than positive pulls; hence, the costs of these liberalization programs in terms of growth will be high while the transition is being made towards a new equilibrium.

III. OPEN REGIONALISM IN THE NINETIES

In the nineties, trade reforms based on across-the-board import liberalization began to be complemented by a drive towards implementing bilateral or multilateral free trade agreements, covering a wide spectrum of items. The fact that tariffs are different from zero but with notably moderate levels, leave space for reciprocal tariff preferences but with more limited trade diversion than in earlier trade integration programs: an average external tariff of about 13% in the nineties vis-à-vis 45% by the mid-1980s. This process, where open economies try to expand their markets and achieve a growing interdependence at the regional level, promoted essentially by preferential integration agreements, was known as *open regionalism* (ECLAC, 1994)

1) Benefits from a more intense intra-regional trade

The conventional literature on the benefits and costs of economic integration focuses on tariff preferences in a framework of optimal competitive equilibrium. This equilibrium is assumed to be disturbed only by the existence of import restrictions. In this framework, integration is beneficial only if it implies a move toward free trade. That is, if the effects of trade creation (shift toward cheaper sources of supply) are larger than those of trade diversion (shift toward more costly sources of supply). The crucial issue, however, is how costs are measured; in the standard approach it is at actual market prices net of tariffs, assuming away transitional costs and incomplete markets, as well as

acquirable competitiveness. The assumptions lead to the obvious conclusion that overall unilateral liberalization is the optimal national policy and better than PRAs.

Why, then, so many nations want to be involved in integration processes, even in these times of fashionable free trade? Regional integration builds on strategic considerations arising from imperfect and incomplete markets at home and abroad, which handicap the spread of efficiency gains in certain sectors and the development of new productive patterns with progressively higher degrees of value added. The five issues that follow are related to trade in goods and services, and provide analytical bases to support regional integration arrangements with preferential import regimes. One crucial assumption we adopt is that regional integration takes place in a framework of open regionalism, with "moderate" external tariffs.

First, world markets are not widely open and stable. Nonetheless, they are broad, grew 50% faster than GDP in the last half century, and have reached one-fifth of world GDP. However, LACs exports are concentrated in natural resource-based primary and semi-manufactured commodities. Thus, with or without participation in PRAs, world markets have been and will continue to be crucial for traditional exports of LACs; instability actually prevails in those markets, but it refers more to prices rather than to access (or volume). However, for many non-traditional products (including non-traditional natural resources), access to markets is more limited and unstable. It is for these type of products that PRAs become relevant to foster a diversifying growth of exports.

Second, given those distortions in world markets, economies of scale and specialization are more difficult to secure for an emerging country. To lock in improved access to regional foreign markets helps to make use of those economies, and in fact this achievement has been a leading target of policy-makers and a force encouraging regional integration. As a consequence, in face of economies of scale, what otherwise would be a costly trade diversion can become a cost-reducing and welfare-enhancing trade diversion (Corden, 1972; French-Davis, 1980).

Third, domestic factors markets are incomplete or distorted. Labor training, technology and long-term capital are scarce, with non-existent or infant markets in LACs.

These market failures are more significant for nontraditional exports of differentiated products, whether of natural resources, manufactures or exportable services. If access to external markets is improved for these exportables, it can strengthen the effectiveness of efforts to complete markets and dilute segmentation.

Fourth, infrastructure, trade financing and knowledge of markets (marketing channels, organized transportation, standards, etc.) are often biased against intra-regional trade in LACs. All these special "factors" of trade have been traditionally more developed for deals with the "center" while they are non-existent or more rudimentary for trade among LACs neighbors. This is a significant variable explaining why intra-regional trade has been lower among LACs than what the gravity of geography suggests.

Fifth, in economies reforming trade policies, sliding away from excessive and arbitrary protection for import substitutes and inputs of exportables, there tends to emerge significant transitional costs. These are enhanced if the exchange-rate happens to appreciate, as it has been the case in most LACs in the 1990s.

East Asian nations minimized transitional costs in the 1960s and 1970s with an export-led strategy for opening to the world economy (see Amsden, 1993; French-Davis, 2000; chapter III; World Bank, 1993). That is, in their opening processes, nations like Japan, Korean Republic and Taiwan put stronger emphasis in export promotion than import liberalization; thus, in the transition period they provided a net positive balance of pulls for the domestic output of tradables (encouraging use of capacity and investment to increase that capacity). Given the LACs option for an import-led reform (see sections I and II), a parallel process of regional PRAs becomes more attractive, in order to increase the efficiency of the productive transformation (ECLAC, 1998). In fact, PRAs add a compensatory ingredient to unilateral import liberalization (and more so if the exchange-rate had appreciated in the process), fostering reciprocal exports in tandem with reciprocal imports. Hence, the doses of positive and negative pulls (impulses) to economic activity and investment are more balanced with PRAs, than is the case in pure unilateral import liberalization.

All these are serious restrictions on the expansion of production and trade in goods and services relatively intensive in knowledge and longer learning curves,

elements which are now recognized as key components of the growth process. Regional integration can be a strategic tool to partially overcome these obstacles (Devlin and Ffrench-Davis, 1998) by:

- expanding market size to facilitate greater specialization and industrialization through economies of scale and possibilities to exploit economies associated with the agglomeration of production activity.

- enhancing the forces of competition, enlarging a market with guaranteed reciprocal access, and intensifying the specificity of information flows, all of which in turn should induce new domestic investment and permit better conditions to attract efficient FDI.

- creating the security of subregional market access, and exploiting the familiarity of neighborhoods, which combine to accelerate the emergence of new producers and traders of non-traditional exports. In effect, the learning curve associated with subregional export experience can serve as a platform for new international exports. This is important, since history has shown that developing countries can achieve new dynamic comparative advantage on the road of their long term convergence with industrialized countries. The expected enhanced international competitiveness brought about by regional integration should build confidence and prepare countries for globalization and further advances in multilateral liberalization.

To appreciate the strategic dimension of integration, it is necessary to examine the profile of intra-regional exports. Intra and extra-regional exports from Latin America display marked differences in terms of their product structure and technological content, with manufactures accounting for a much larger share of intra-regional commerce, as discussed below.

2) Geographical pattern of trade and specialization

The new wave of regional trade integration developed at a fast pace. Table 2 shows the evolution of total and intra-regional exports during the nineties. Total intra-regional exports tripled between 1990 and 1997. Initially it was principally a recovery from the

sharp drop of the 1980s. However, given a notably rapid growth, shortly the prior peaks were reached. The annual growth rate of interregional export value climbed to 20% in 1991-94. Subsequently, the Tequila crisis reduced the share of intra-regional exports, particularly those to Argentinean and Mexican markets. Nonetheless, MERCOSUR shows a persistently rising share of reciprocal trade among partner countries; it jumped from 9% in 1990 to 24% in 1997.

[table 2]

It is interesting to compare GDP growth, total exports and intra-regional exports (all in real terms). GDP of Latin America grew 39% between 1990 and 1997, while total exports rose 79%. Within these, intra-regional exports expanded 210%, while to extra-regional markets they rose 58%, that is as faster as world trade. These data supports the hypothesis of open regionalism, with trade growing fast with all markets, but with a rising share to partner's destinations.

From 1998 on, however, the regional trade integration has experienced a severe reversal. First, the Asian crisis, and then the Argentinean crisis have hit most economies in the region, which had to adjust their imports and depreciate their national currencies to face balance of payments problems. As a result, intra-regional exports decreased by 1% a year in 1998-2000. Both in MERCOSUR and in the Andean Community the contraction was particularly intense with annual reductions of 5% and 3%, respectively.

a) *The sources of intra-regional trade expansion*

Some factors influencing current trends are the geography, the relaxation of a binding external restriction, a real exchange-rate appreciation and the implementation of PRAs.

Geography. Areas dense in capital and population often tend to naturally interact and trade relatively more intensively with increasing specialization. Among the economic factors behind this are the positive externalities of location and agglomeration. The tendency can be further enhanced when income levels, cultures, tastes and languages are similar, as they are in Latin America, and when differentials exist in transport costs

between contiguous and non-contiguous countries. On these criteria, large natural geographic areas of economic integration would appear to exist in Latin America in its Southern Cone, Venezuela-Colombia-Ecuador, Central America and North America for Mexico. In fact, the boom in intra-regional trade has largely been among neighboring countries in the region (Devlin and Ffrench-Davis, 1998). Geography still matters a lot.

Relaxation of the external restriction. The decline of world interest rates, debt relief and a return of external capital flows in the 1990s (see Ffrench-Davis, 2000, chapter V; and ECLAC, 1998, chapter III) has dramatically increased import capacity in the region with consequent reactivation of economic activity. Since intra-regional imports equal intra-regional exports, the generalized import boom has been reflected in the marked growth on intra-regional exports.

As mentioned, in the late nineties, however, Latin America began to face the recessive part of the cycle with a new shortage of foreign financing and a depressed domestic demand. Thus, in order to strengthen the regional integration process is critical to deal with the external vulnerability problem (see Ffrench-Davis and Ocampo, 2001).

Real exchange-rate appreciation. The region's external trade performance has also been influenced by the exchange-rate behavior of Latin American and Caribbean countries. The simultaneous liberalization of the capital account in many countries, coupled with a surge in supply of foreign capital and the use of exchange-rate anchors in support of stabilization programs, contributed to real currency appreciations in an important number of countries (just when the opposite, a real depreciation, was needed to facilitate export-led growth). However, since real appreciation of exchange-rates with respect to the rest of the world has been simultaneous among a significant number of neighboring countries in Latin America in the 1990s, the dampening effects on exports have been relatively stronger in the extra-regional market, encouraging exporters to redirect their sales toward regional markets.

Subregional Trade Agreements. The explosion of subregional and bilateral trade agreements in the 1990s has stimulated intra-regional trade through many mutually reinforcing effects. On the one hand, trade preferences are an integral part of the regional integration agreements and provide incentives for intra-regional trade. The absolute level

of the preference over time will depend on the evolution of external tariff rates. Nevertheless, it is important to point out that many of the preferences of the older trade agreements in the region have been progressively eroded by the unilateral liberalization of trade in the late 1980s and early 1990s.

Additionally, increased flow of information and public attention on opportunities in an adjacent market (“agreement-led” growth in trade). Nonetheless, unilateral trade liberalization in particular has been a key factor in exposing natural market opportunities for exports to neighboring countries that heretofore were hidden behind high national protection.

In contrast to unilateral opening, the free trade arrangements have given the private sector reciprocal and legally binding market access which has reduced the risks of trade and investment barriers emerging in the affected market.

Also, a preferential agreement can signal the continuing commitment of public authorities to trade expansion; in agreements such as MERCOSUR, subregional trade liberalization is accompanied by an additional commitment involving a broad political message, pursued at the highest official level, to promote deep economic integration and political cooperation among member countries. This in turn increases private sector confidence that can lead to concrete irreversible investment expenses.

b) The composition of reciprocal trade and technological intensity

The profile of intra-regional trade contributes to a drastic change in the composition of LACs exports: the predominance of primary exports was partially replaced by manufactures, which now account for one-half of intra-trade. This notable increase in manufactured exports corresponds especially to new industries, including both labor-intensive and capital-intensive activities.

The Latin American economies provide very important, and dynamic markets for the sales of manufactures for several LACs (ECLAC, 1998, chapter III). For Chile, Colombia and Ecuador this is by far the biggest market, be it for traditional industries, basic inputs or new industries. This concentration is not so marked in the cases of

Argentina, Paraguay and Uruguay. They have a considerable diversification of markets for their traditional industries and, in Argentina, also for the basic-input industry. However, Latin America continues to be the almost exclusive destination for exports from the new industries of these countries. The same is true of their subregional market as regards the new industries of Costa Rica and Guatemala. Brazil has channelled its export manufactures to different markets. The United States continues to be the main buyer of traditional products, followed by Europe; as for basic inputs, other developing regions have displaced Latin America as the main destination, but in the case of new industries, the region is the most important market for Brazil. An exception is the case of Mexico, where the regional market holds a notably lower share than the United States. It is highly relevant to notice that border trade (with neighbor countries) represents the bulk of intra-regional trade, a new proof that geography matters.

Development based on a growing and sustained international competitiveness is boosted by the dynamic effects derived from technological apprenticeship. The strategies to improve international linkages, based on productive development, emphasize the role played by trade in the process of stimulating the development of activities which make intensive use of knowledge and technology, and generate externalities.

In this sense, it is a common belief that trade among LDCs is characterized by goods that are more technology-intensive than exports to industrial countries. Data for LACs confirms the validity of that assumption, as shown by table 3.

[table 3]

Studies based on foreign trade data confirm this argument. Table 3 shows how intra-regional exports are more intensive in technology, particularly advancing from low to medium technological content, more suited to the semi-industrialized stage of Latin America.

The same conclusion is also corroborated in an ECLAC study (1994, ch. II.2) which combines data on foreign trade and on production. The figures show that products which encounter a relatively high share of their demand in the regional market exhibit more advanced technological characteristics than exports channelled towards extra-

regional or domestic markets. Thus they can contribute with larger externalities to the domestic economies.

From research carried out for ECLAC (1994), three main conclusions emerge:

i) The production of goods which depend to a greater extent on intra-regional trade has more sophisticated technological features. Such goods are to be found mainly in the chemical sector, non-electrical machinery and transport equipment. They are also sectors in which international demand tends to be more dynamic. Their price trends are more stable and evolve more positively over the long term than prices of traditional exports.

ii) The sectors which exhibit a strong export drive toward the region also tend to show (sometimes with a lag) a drive towards extra-regional markets, which suggests that the promotion of intra-regional trade complements the promotion of extra-regional exports.

iii) These same sectors are those in which the region has a high dependency as regards extra-regional intermediate imports, and therefore intra-regional trade benefits from having access to inputs and equipment which may be imported from third countries. Thus, relaxation of excessive import restrictions has contributed to foster and upgrade exports.

To sum up, intra-regional trade, because of its characteristics, associated with vicinity and similarity of development levels, complement the LACs linkages with the global economy and provide a dynamic context of technological apprenticeship, leading to greater international competitiveness and a more diversified, balanced pattern of specialization. Additionally, given the macroeconomic conjuncture by the early 1990s, reciprocal trade also made a rather neo-keynesian contribution to the LACs economies.

The encouragement to intra-regional exports has increased the demand for domestic resources and for investment; this is positive for growth and efficiency in a framework of economies operating below the production frontier and conducting import liberalization. Tariff preferences, removal of reciprocal import restrictions and creation of additional outlets for domestic output (harmonization of standards, transportation, improved infrastructure, marketing channels, reciprocal investment, etc.) have

contributed to increase the rate of use of resources and to encourage some productive investment.

IV. TOWARDS A COMPREHENSIVE APPROACH IN TRADE POLICY

One of the key conditions to enhance export development is the existence of a comprehensive and consistent development friendly approach (Rodrik, 2001). A first dimension to be considered has to do with the transitional effects. Several varieties of reforms or trade policies might work in the sense of generating growth and welfare increase after the adjustment process is finished; but the particular features of the transition to new equilibria make a crucial difference, and naive reforms may have an extremely long and costly adjustment period, given the presence of imperfect and incomplete markets. What happens during the process (*hysteresis* effects on the flows of human and physical capital), together with the time involved, can have significant implications for the well-being of people, being this welfare the ultimate objective of economics. The market record can be improved significantly by reforming the reforms and introducing more pragmatism and consistency in economic policies (Ffrench-Davis, 2000).

A second point that should be kept in mind is that GDP growth is the result of dynamism of both exported GDP and non-exported GDP. There is a wide consensus about the importance of exports in a sound and sustained economic development. In fact, a repeated feature for Latin America is the positive relationship between GDP growth and export dynamism (see the annex). Either in presence of a dynamic productive environment, as during the ISI experiment, or in a context of generalized recession in the eighties, or in the instability of the nineties, what holds is that, in the average, countries with a higher export growth also have recorded a higher GDP growth. However, since exports represent a small part of the economy (see table 1), domestic markets are still the main determining variable in overall performance. Consequently, any development

policy must maintain a balanced approach between both components in order to achieve high and sustained growth.

In a similar way, both macroeconomic and microeconomic trade-related policies must be coherent and economically efficient.

1) Macroeconomic policies

a) *Gradualism in economic reforms*

The experiences of the East Asian economies as well as of Colombia between the mid-1960s and 1989 (Ocampo and Villar, 1992) and of Costa Rica between 1983 and 1990 (Herrera, 1992) appear to suggest the advisability of a gradual approach that permits the reconversion of existing industries rather than destroying a large percentage of a country's installed capacity, as inevitably occurs during a rapidly-applied import liberalization, particularly if the exchange-rate appreciates.

In Colombia, the transition made in the mid-1960s from an import-substitution model to a pragmatic model that placed priority on both import substitution and export promotion, has played a pivotal role in steering the manufacturing sector towards an increasingly external orientation, while avoiding the trauma associated with drastic liberalization drives such as that of Chile in the 1970s. In Costa Rica, tariff reduction was a gradual process and was coupled with export incentives and drawback mechanisms; Chile has moved in this direction only since 1985. The expansion of non-traditional exports -the most salient feature of Costa Rican development in the 1980s- was in large part generated by firms established during the earlier import-substitution phase. In addition, a deliberate effort was made to promote foreign investment in the production of exportable textiles and electronics.

The adoption of a gradual approach does not mean that all reforms need to be gradual, however. The elimination of water in tariffs, the conversion of quantitative restrictions into tariffs (tariffization) and expected exchange-rate adjustments can all be done at a single blow. Subsequent tariff reductions should, however, be phased in

gradually so as to keep pace with producers' ability to adapt their production structures to increased competition.

b) The exchange-rate and the capital account

The way in which the exchange-rate is managed will undoubtedly play a decisive role in determining the outcome of any trade policy because of its huge effect on competitiveness of exportables and importables. Nowadays, after worldwide trade openness and the rule of the WTO, the real exchange rate can vary much more than any tariff. Similarly, productivity gains achieved after several years can disappear or be heavily reinforced with movements in the RER.

Exporters need constant price incentives in order to develop, since investment resources must be reallocated. Thus, a “competitive” and stable RER is input for a sound trade development. Studies by Caballero and Corbo (1990) and more recently ECLAC (1998, ch. IV) have proved the validity of this principle. Furthermore, variations in the real exchange rate have differentiated effects, depending on the type of good exported²; that is, a persistent real depreciation (appreciation) tends to have a positive (negative) impact on the volume and the diversification toward intensity in value-added.

As a result, averting an (outlier) exchange-rate appreciation would seem to be essential to the success of any trade reform whatsoever. As shown above, the Chilean experiment of 1976-81 (as well as the experiences of other Southern Cone countries during the 1970s) document just how harmful the combined impact of a real appreciation and a drastic import liberalization program can be. In contrast, the new adjustment undertaken by Chile between 1983 and 1991 was more successful and sustainable than the program implemented in the 1970s, because a moderate tariff change was coupled with a steep real devaluation and direct incentives to exports.

Most liberalization programs in Latin America in the nineties, particularly the most abrupt ones, such as in Argentina and Peru, were being implemented in the presence

² Econometric estimates by Moguillansky and Titelman (1993) of the price elasticity of export supply of Chilean exports with respect to the real exchange rate across industries supports this hypothesis.

of sharp real appreciation. The experiences of diverse LACs demonstrate that except in the short term, when it is used as a means of changing expectations, the exchange-rate anchor for domestic prices has proven to be extremely flimsy, particularly in high-inflation countries (see Ffrench-Davis, 2000; chapter VI). Evidently a policy tool is lost, the exchange-rate being a crucial policy tool for changing production patterns while maintaining an external equilibrium. This is one of the messages of the East Asian success experiences until the mid-1990s.

However, countries are not free to appreciate the real exchange-rate in all conjunctures. In the 1950s and 1960s appreciation became feasible because it was compensated for by increased import restrictions. In the 1990s, in the face of import liberalization, appreciation can be feasible given the terms of trade only under two situations: with fast rising exports, in response to high productivity gains; it is a case of sustainable productivity-led appreciation. But, in general, trade reforms in the 1990s resulted in imports rising faster than exports, which proves that appreciation was stronger than the productivity change. Then, appreciation becomes feasible only because of capital inflows, while confidence of creditors/investors remains alive.

The simultaneous liberalization of domestic and external financial dealings poses serious problems for economic policy management. Domestic liberalization usually leads to steep increases in interest rates (both nominal and real) and to wide swings in those rates over a protracted period of time; when a gap opens up between domestic and international interest rates and it does not appear that it is going to be closed by a currency depreciation, then destabilizing capital flows can reach considerable proportions.

Under conditions such as those prevailing during the second half of the 1970s or the early 1990s, external financial liberalization makes the management of the real exchange-rate more difficult (Williamson, 1993). Short-term capital flows generated by the expectation of turning a speculative profit from the differential between international and domestic interest rates may cause the real exchange-rate to become highly unstable, and may thus hinder the management of this variable, which is an economic policy tool of crucial importance in any attempt to change production patterns. Moreover, instability

in exchange and interest rates tends to stimulate a rent-seeking (capital gains) attitude, which predominates over productivity-led profits, and tends to provide confusing signals to resource allocators.

In a number of LACs, trade liberalization efforts have been accompanied by rather ambitious financial liberalization coupled with heavy capital inflows that have tended to outstrip the monetary authorities' ability to sterilize those flows. In these countries, the move to dismantle management of capital flows and the authorities' inability or unwillingness to implement active comprehensive policies has hindered the efficiency of opening up productive activities to trade.

Hence, as regards the capital account, the problem being faced by the region is how to link domestic capital markets up with external capital markets, in a way that will minimize unnecessary inefficiencies (currency appreciations that tend to push the markets away from equilibrium) and the destabilizing effects of short-term capital flows.

2) Export promotion policies

Past experience seems to demonstrate that, together with a rationalization of trade incentives, some degree of selectivity must be exercised with respect to productive development policy. This is what has been done in the fastest-growing economies of East Asia. Experience also teaches that incentives to domestic output and exports must be moderate, have definite time limits, and departures from neutrality must be few and carefully chosen. It also seems to be more efficient to provide incentives for broad categories of activities: those which have the greatest chance of providing dynamic benefits that will not be internalized by the market.

The promotion of non-traditional exports appears to be a particularly appropriate sphere for selective trade policies. The main reasons for implementing such measures are the need to offset the anti-export bias inherent in tariffs; the shortcomings in capital markets for financing exports; and the economies of scale and positive externalities associated with learning opportunities that exporting provides. Without an active export-promotion policy, exports will tend to be concentrated in a few enterprises and on

products for which demand is less dynamic and which are more vulnerable in global markets.

One basic prerequisite for promoting the competitiveness of export firms is to guarantee them access to inputs on competitive terms. These firms should have access to flexible mechanisms for importing inputs on a temporary basis to produce exportables. Other alternatives are tariff exemptions or drawbacks, with a minimum of red tape. Such mechanisms could also be applied to indirect exporters (domestic producers of inputs for exporters).

Pioneer export firms could be supported by providing incentives for exports of new products or for new markets. One mechanism is a simplified drawback for products whose export level is below a given amount for a specific period. These incentives should be moderate (helping to place competitive or near-competitive products in foreign markets), limited in time, and subject to precise performance results in terms of new products or markets.

The public sector can help improve performance in foreign markets by providing institutional support for export activity, especially in the areas of information, financing and export insurance; management training to encourage businesses to focus on exporting; negotiations to improve access to external markets; and promotion for the exportable supply abroad. Pioneering efforts must also be made in such areas as investing abroad to support export activities, marketing chains, and joint-ventures with firms in target markets.

The domestic development of the exportable supply should also be actively supported, in order to adapt it to the demands of foreign markets. Timely, up-to-date information on the requirements of export markets in terms of quality, environmental regulations, standardization, deadlines and volumes would facilitate this task.

Past export-promotion policies often neglected sectors based on natural resources. Recent technological advances in microelectronics, data processing, telecommunications and satellite technologies considerably augment the supply of information on the quality and volume of economically available natural resources. This is one more reason for

acquiring and strengthening comparative advantages in non-traditional natural resources with significant economic rents.

To be effective, an export-promotion system must be selective. It is impossible to promote everything indiscriminately. The selection of sectors, and export-promotion decisions in general, should be made in close, systematic cooperation between the public and private sectors. Exporters' association should therefore be strengthened.

Other aspects of selectivity mentioned in this chapter which have not been accorded due attention in recent reform efforts have to do with what the state does to correct market failures that hamper investment changing production patterns. Such state action includes policies for supplementing the long-term segments of capital markets, attracting foreign investment to new sectors able to build competitive advantage and upgrading physical and social infrastructure, along with the application of effective labor training and technology-enhancing programs.

In order to open up the production sector in a way that will further a country's development, pragmatic corrections ought to be made in the extreme forms of liberalization advocated and implemented in recent years. Trade policy reforms should also be accompanied by a greater role for the exchange-rates in bringing about changes in production patterns. It appears to be impossible to steer the private sector's production activities firmly in the direction of tradables unless a more competitive and stable exchange-rate (i.e., one that withstands the influence of temporary swings in capital flows and terms of trade) is maintained. The authorities of the region need to devote greater attention to the economic policies required to achieve this objective, one of which will surely be the regulation of short-term capital flows.

One essential condition for a successful liberalization effort is a supportive international environment. Unless protectionism is watered down in the central countries, the active linking with the world economy will be weakened as a policy option for the wide range of countries that are currently pursuing export-led development (ECLAC, 1998, chap. II).

ANNEX : TRENDS IN OUTPUT GROWTH AND EXPORT GROWTH

Figure A1 shows the relationship between GDP growth and export growth over the 50 years-period 1950-2000 for 19 Latin American countries. Panel 1 (1950-2000) evidences a strong positive relationship between export dynamism and growth in the long term. Notwithstanding, it is clear that this average disguise different realities, which are separately shown in panels 2 (the ISI-period), 3 (the eighties³) and 4 (the nineties). As predicted by theory, the evolution of this relationship is very complex. For instance, the combination of Panel 3 and Panel 4 could lead us to conclude that the higher GDP growth in the nineties is explained by a higher export dynamism, compared to the situation in the eighties. But, on the other hand, if we compare Panel 2 and Panel 4, that kind of conclusion appear seriously challenged, because in the nineties Latin America experienced a lower growth both in exports and GDP, compared to the period 1950-80. These examples reveal the need of a careful analysis.

[figure A1]

An interesting fact is that the period with a higher correlation between output growth and export dynamism corresponds to the ISI model (panel 2), characterized by relatively close economies. In fact, exports of goods and services represented only 11.8% of the GDP in 1950-80 (see table 1), far below the shares in the subsequent periods. It is difficult to think that such a small part of the economy could affect so spectacularly the rest of the productive sectors. Furthermore, in most countries exports grew less than total GDP (see countries over the 45° line).

Then, the reason seems to be that the dominant causality was, rather, from GDP growth to export growth. For instance, countries like Brazil and Mexico, the most dynamic economies of the period with average rates of GDP growth around 7%, were also good exporters according to the regional standards. Moreover, the export dynamism in those countries intensified in the seventies, which probably indicates an evolution of

³ Here, our definition of the so-called lost decade is 1981-89. We chose 1980 and 1989 as pivot years because both 1981 and 1990 were recessive years for the region.

the model towards the search for external markets after a first period of consolidation of productive activities in protected and large domestic markets.

On the other corner, the Southern Cone performed poorly while exports also showed low dynamism. However, here the story was different: the size of the market seems to have challenged the success of the ISI experiment, and therefore, the lack of trade worked as a binding constraint for economic growth (Ffrench-Davis, Muñoz and Palma, 1994). Furthermore, the region was progressively dependent of imported intermediate and capital goods, which generated a growing demand for foreign currency and pressures on the balance of payments from mid-sixties. In the seventies, the international capital markets could remove this constraint but at the expense of a great external imbalance. Undoubtedly, a higher export development would have had positive effects on growth by relaxing both market and foreign currency constraints in a sustainable way.

In the 1980s, Latin America experienced the worst economic crisis since the worldwide depression of the 1930s. The excessive indebtedness in the seventies, and then the abrupt cut-off in bank financing to Latin America, plunged the region into a serious crisis that spread all over the region and lasted an entire decade. In a context of depressed domestic demand, great underutilization of productive resources and a depreciated RER, exports arose as the main *engine of recovery*, in spite of poor trade dynamism in international markets. However, since exports represent only a small part of the economy (13%), total GDP grew only around 1% per year, which means an absolute reduction in per capita terms. This situation, characterized by high export growth in some LACs in combination with low GDP growth, is shown in panel 3.

Towards the nineties, the binding external constraint began to relax. Debt conditions progressively softened and since 1991 the region faced the beginning of a new capital surge. Furthermore, a broad process of economic reforms carried-out since the mid-eighties, which included deep trade reforms (see section I), began to show quite encouraging results: one-digit inflation, controlled fiscal budgets, renewed access to international capital markets and a strong export dynamism, expressed in exports growing

by 9% per annum. Notwithstanding, the overall performance was disappointing, with an average GDP growth rate by 3% for the entire decade.

The low GDP growth in the nineties is a concerning issue related with the effectiveness of the reform process, whose principal objective was to promote high and sustained growth. In Ffrench-Davis (2000), we provide a detailed policy-oriented analysis to understand what went wrong. Here, we try to focus on the dimension of trade and, particularly, in why the high export growth was unable to induce a higher economic growth (see panel 4).

The main cause is related with the high vulnerability to external shocks of Latin American economies during the nineties. The Tequila crisis in 1995 and then the Asian and Argentinean crises have had deep negative effects on non-exported GDP⁴, whose intensity and persistence have been minimized by standard analysis focused on financial indicators. This volatility in real variables has a long-lasting negative effect on investment and, subsequently, on GDP growth (Ffrench-Davis and Ocampo, 2001).

Furthermore, we have to recall that the capacity of exports to affect total GDP, both directly and indirectly, depends on their quantitative importance in the economy and their qualitative features to generate spillover effects⁵. The export ratio (exports as a percentage of GDP) has grown significantly during eighties and nineties, from 15% in 1990 to over 20% in 2000, but it is still low in comparative terms. In fact, the export ratio in Korea is 34%. In Chile, the most dynamic economy in region in the nineties, exports represented 30% of GDP⁶.

Additionally, exported GDP has not been as dynamic as total exports⁷. The explanation is that the imported content in exports also has grown at significant rates as a result of trade reforms. This means that the direct impact of exports on GDP remains low, although towards the late nineties this ratio experienced a significant rise.

Finally, most trade reforms in Latin America have been excessively biased against import substituting firms. Trade reforms are, on the other hand, a key analytical piece to

⁴ There was also a negative effect on intra-regional exports. See section III.

⁵ In section III we analyze the effects of intra-regional trade on the quality of exports.

⁶ Averages for the period 1990-2000, measured in current prices.

⁷ It should be remembered that total exports are equivalent to exported GDP plus imported content in

understand why, in the eighties and nineties, exports could grow in absence of a dynamic domestic environment and high investment rates, which seemed to be important during the ISI-period.

exports. In other words, the exported GDP represents the exported value-added.

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Table1
Latin America: Trade and economic growth indicators, 1950-1999

	50s	60s	70s	80s	90s
Latin America (19)					
GDP growth	4.9	5.7	5.7	1.8	2.8
Export growth ^a	4.2	4.5	2.4	4.8	8.1
Import growth ^b	3.2	3.5	7.6	-0.1	10.6
Exports of goods and services/GDP ^c	12.4	12.1	10.8	14.9	15.7
Imports of goods and services/GDP ^c	12.0	11.6	11.7	13.1	16.6
Latin America (18, Venezuela excluded)					
GDP growth	4.7	5.7	6.0	2.0	2.8
Export growth ^a	3.5	4.9	5.5	5.6	8.4
Import growth ^b	2.0	5.0	7.2	0.6	11.0
Memo: WORLD					
GDP growth	4.4	5.5	4.2	3.0	2.1
Export growth ^d	7.1	9.0	5.9	3.7	6.3

Sources: ECLAC and WTO.

^a exports of goods and services, according to national accounts data.

^b Imports of goods and services, according to national accounts data.

^c Based on data from Balance of payments in Current US dollars. For 1950-79, fourth manual; for 1980-2000, fifth manual.

^d Exports of goods.

Table 2
Latin America and the Caribbean: Intra-regional and total exports, 1990-2000
(US\$ million and percentages)

	1990	1994	1997	2000
Andean Community (5)				
1 Total exports (world)	31 751	33 706	47 933	57 599
Annual growth rate (a)		1.5	12.5	6.3
2 Intra-regional exports	1 324	3 472	5 621	5 166
Annual growth rate (a)		27.3	17.4	-2.8
3 Andean Community/World (2:1) (%)	4.2	10.3	11.7	9.0
MERCOSUR (4)				
1 Total exports (world)	46 403	61 890	82 596	86 372
Annual growth rate (a)		7.5	10.1	1.5
2 Intra-regional exports	4 127	12 048	20 478	17 711
Annual growth rate (a)		30.7	19.3	-4.7
3 MERCOSUR/World (2:1) (%)	8.9	19.5	24.8	20.5
1 CACM (b)				
Total exports (world)	4 435	7 310	11 729	14 679
2 Annual growth rate (a)		13.3	17.1	7.8
Intra-regional exports	624	1 228	1 863	2 537
3 Annual growth rate (a)		18.4	14.9	11
CACM/World (2:1) (%)	14.1	16.8	15.9	17.3
1 CARICOM (c)				
Total exports (world)	3 634	4 113	4 687	6 132
2 Annual growth rate (a)		3.1	4.5	9.4
Intra-regional exports	469	521	785	1 087
3 Annual growth rate (a)		2.7	14.6	11.4
CARICOM/World (2:1) (%)	12.9	12.7	16.7	17.7
1 Latin America and the Caribbean (d)				
Total exports (world)	120 572	151 067	227 964	273 213
2 Annual growth rate (a)		5.8	14.7	6.2
Intra-regional exports	16 802	35 065	54 756	52 606
3 Annual growth rate (a)		20.2	16.0	-1.3
Latin America and the Caribbean/World (2:1) (%)	13.9	23.2	24.0	19.3

Source: ECLAC, based on official figures.

Note: exports of goods in current prices, excluding Mexican maquila.

(a) for periods 1991-94, 1995-97 y 1998-2000, respectively

(b) Includes Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

(c) Includes Barbados, Guyana, Jamaica, and Trinidad and Tabago.

(d) Includes LAIA, CACM, CARICOM, Haiti, Panama, and Dominican Republic.

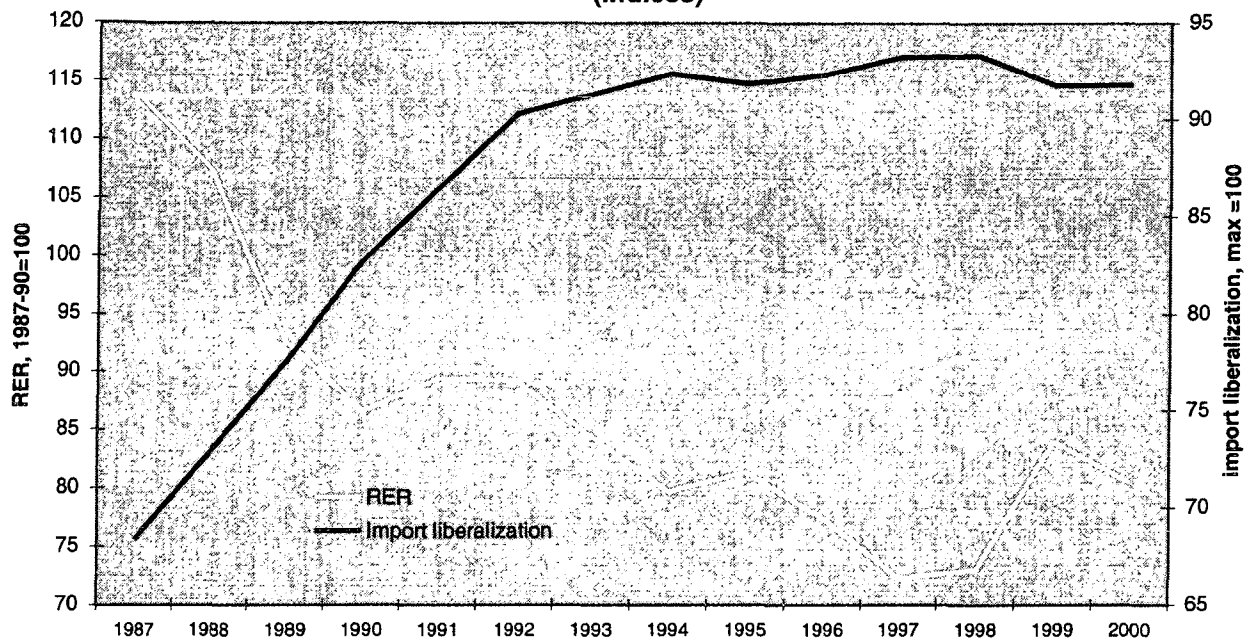
Table 3
Latin America (14 countries)^a: Composition of exports by destination, 1970-74 and 1995
(In percentages)

	Intra Latin America		World	
	1970-74	1995	1970-74	1995
A. Primary commodities	51.0	19.7	53.6	32.2
1. Agricultural products	11.7	10.3	29.9	16.0
2. Mining products	1.0	2.4	6.2	4.0
3. Energy products	38.3	7.0	17.6	12.2
B. Industrialized products	48.8	79.7	46.0	65.6
1. Semi-manufactures	23.3	29.9	33.6	30.5
1.1 Based on agriculture and labour-intensive	7.5	10.3	9.5	11.9
1.2 Based on agriculture and capital-intensive	3.1	4.8	6.0	5.2
1.3 Based on minerals	6.4	8.4	9.2	9.1
1.4 Based on energy	6.2	6.5	8.9	4.4
2. Manufactured goods	25.5	49.8	12.4	35.1
2.1 Traditional industries	7.2	12.4	5.2	8.4
2.2 Basic-input industries	4.8	10.2	1.9	7.2
2.3 New labour-intensive	7.0	10.7	3.0	8.3
a) Medium technological content	4.1	6.3	1.6	4.5
b) High technological content	3.0	4.4	1.4	3.8
2.4 New capital-intensive	6.5	16.6	2.3	11.2
a) Medium technological content	5.0	14.7	1.7	10.1
b) High technological content	1.5	2.0	0.6	1.2
C. Other	0.2	0.5	0.4	2.2
Total	100	100	100	100

Source: ECLAC (1998), table III.9, on the basis of official data.

^a Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Mexico (excluding maquila), Paraguay, Peru, Uruguay and Venezuela. Exports with low technological content are summed-up with traditional industries.

Figure 1
Latin America: Import liberalization and real exchange rate, 1987-2000
(indices)



Source: Authors' calculations for 16 countries, based on French-Davis (2000, table 10.5), Machado, Morley and Pettinato (1999), and database of Economic Development Division, ECLAC.
 In both indices, countries were weighted according to GDP in constant 1990 US\$.

Figure 2
Two different trade reform strategies

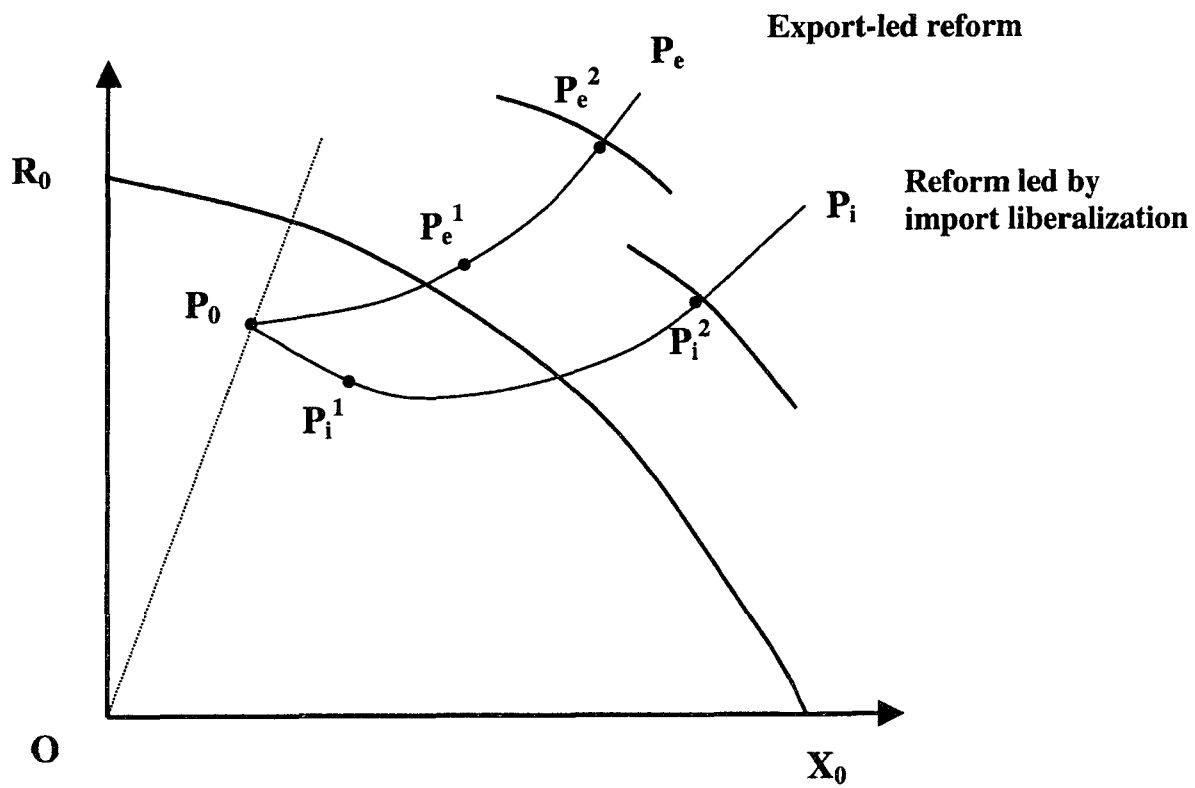


Figure A.1
Latin America: GDP growth and export dynamism, 1950-2000

