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Latin America and the internationalization of the world economy

*Mikio Kuwayama**

This article questions the generally accepted theory that the international economy is being polarized into three regional nuclei: the United States, the European Economic Community, and Japan. In the light of trade and financial trends in the 1980s, it is maintained that there is no evidence of the formation of three trade blocs. Economic interdependence, as measured by the relation between intra-regional trade and the gross domestic product, shows that the EEC is the only one of the three centres which could conceivably fulfil the conditions for assuming the creation of a bloc. In global terms, the growth in trade in goods in each one of these groups during the 1980s favoured trade with the rest of the world more than intra-regional trade. In financial terms, the world economy has also been characterized by growing interdependence and internationalization, mainly involving the three centres in question.

Within the overall scheme of internationalization of the world economy, a slight process of marginalization of Latin America is to be observed. For this reason, there is increasing awareness in the region of the importance of establishing a free trade area for the whole of the Americas which could lead to creation and diversification of trade. In view of the relatively incipient stage of implementation of the Enterprise for the Americas, the Latin American countries should explore ways of strengthening their economic links with each of the centres in question. In the light of this, the article examines the relations between Latin America and those centres and proposes some lines of action.

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Introduction

There is currently a general belief that the world economy is being polarized into regional nuclei or blocs: a belief borne out by the various agreements strengthening the privileged links between States which share a given economic, geographical, historical or cultural background. Thus, the United States, the European Economic Community (EEC) and Japan are considered to form three poles, each of which tends to exercise a certain degree of domination in its own region. This article seeks to determine whether this theory of regionalization really does correctly interpret the economic events of the 1980s, in the light of the evolution of trade and financial flows.

In the period in question, the growth rate of world trade registered a notable recovery, especially in respect of trade in goods of high technological content and in the case of the countries capable of participating to an increasing extent at the world level in their production and marketing. These countries were mainly the traditionally industrialized countries, together with some Asian countries—both recently industrialized Asian countries and those belonging to the Association of South East Asian Nations (ASEAN)—whose growth model is based on the export of sophisticated manufactures¹. For the most part, the Latin American and African countries have been increasingly marginalized from this process.

In view of this situation, Latin America has been becoming increasingly aware of the importance of establishing a free trade area in the Americas in order to create and diversify mutual trade. At the same time, the United States wants to recover the economic space it has lost worldwide and to strengthen its links with Latin America, where it has more promising possibilities of progress in trade. At least during the 1980s, however, the only trade bloc which was seen to be established was that of the EEC, and the world economy became increasingly complex and interdependent. Since there are as yet no specific plans regarding the implementation of the Enterprise for the Americas, it does not seem desirable that Latin America should view this instrument as its only

¹ The recently industrialized Asian countries are Taiwan, South Korea, Hong Kong and Singapore, while ASEAN is made up of four main countries (Malaysia, Indonesia, Thailand and Philippines), plus Brunei/Darussalam and Singapore. In this article the latter two have been excluded from the group.

trade policy option. On the contrary, it would be both feasible and desirable for the region to increase its trade links with each of the three centres. With this in

mind, this article briefly analyses the relations between Latin America and those regions and proposes some policy guidelines for the future.

I

Trends in international trade

1. General remarks

Between 1983 and 1989, world trade grew relatively quickly (at an average rate of 6% per year).² This growth rate exceeded that of world production, which grew by 4% per year. Thus, trade continued to be the motive force of world growth, although not all countries benefited equally from it. The most dynamic growth of exports was concentrated in the developed countries and in a relatively small group of recently industrialized Asian countries and ASEAN nations. In the period 1983-1989, the average growth rate of exports, by main country groups, shows that both the developed countries as a whole and the developing countries increased their exports by nearly 6%. However, this overall average conceals the fact that the increase was much smaller in Latin America, Africa and the Middle East, where it only amounted to 2.4%, 2.1% and 3.2%, respectively. As noted in GATT, 1990, in the 1980s none of these less advanced regions increased their share of world exports in one or more of the six main categories of goods and services (agricultural products, mining, manufacturing, transport, travel and other services).³

An important change in the composition of international trade was the sharp drop in the relative share of primary commodities. In 1983-1989, the average annual growth rate of exports of agricultural products and of minerals and metals, including fuels,

was 7.5% and -1.5%, respectively. In contrast, there was an appreciable increase in the share of manufactures in total world exports (from 54.2% in 1980 to 70.0% in 1988). It may be noted that the exports of manufactures of the recently industrialized Asian countries and the ASEAN nations registered an average growth rate of nearly 20% per year. Thanks to this extraordinary dynamism, Asia (including Japan) was the only region which increased its share of world exports of manufactures. Over the period 1980-1988, the contribution of North America went down from 16% to 14%, and that of Western Europe from 54% to 49%, while Latin America maintained its low share of 2%.

Within the manufacturing sector, the most active sub-categories were those connected with various types of capital goods, office and communications equipment –especially high technology equipment such as personal computers and peripherals–, semiconductors, and electronic consumer goods. Such products not only place technological innovations within the reach of enterprises and consumers in general, but also provide support for various services sectors such as communications, insurance, banking, etc. (GATT, 1991). At present, capital goods represent around 30% of total world exports of goods.⁴

The evolution of the main trade flows (exports plus imports) during the period 1980-1989, by regions and growth rates, indicates that the most intensive trade was between North America (the United States and Canada) and Asia, followed by

² This rate was lower than that for 1960-1973 (8.7%), but higher than that for the 1970-1980 decade (5%). In 1990, world exports of goods amounted to US\$3 470 billion. In recent years, despite the slackening of trade in terms of volume, its value in dollar terms grew by 75%. This was due to the rapid increase in the value of the goods traded as a result of the depreciation of the dollar vis-à-vis the main European currencies.

³ According to preliminary figures (GATT, 1991), in 1990 the value of transactions in the field of commercial services –a category covering transport, tourism, telecommunications, insurance, banking and other professional services– came to US\$770 billion dollars, equal to approximately 22% of world exports of goods.

⁴ Despite the undoubted contribution of the United States to the expansion of trade in capital goods, the most noteworthy feature is the extraordinary performance of the Asian region as both exporter and importer of these products. Thus, exports of capital goods by six Asian developing countries (the recently industrialized countries, plus Malaysia and Thailand) amounted to US\$47 billion in 1987, equivalent to some 18% of the total corresponding exports of the developed countries. At the same time, total imports of capital goods by those six countries amounted in 1987 to US\$57 billion, that is to say, nearly half the value of imports of such goods by the United States and almost four times the total amount of such imports by Japan.

trade between Western Europe and Asia and by that within Asia itself. Although trade within North America and within Europe was significant, it did not exceed the above-mentioned flows, and neither did that between North America and Europe. GATT states that the six regional trade flows between Western Europe, North America and Asia and those inside each of these regions were the largest, and within these favourable trading results, this dynamic growth of trade in goods in the three regions during the 1980s favoured interregional (extra-regional) trade rather than intra-regional (GATT, 1990, p. 34). These data confirm beyond any doubt that in the cases of both Western Europe and North America, it was trade with the Asian region which grew most rapidly. Trade between Asia and North America increased more rapidly than that within Asia, and in terms of dollar values, trade between North America and Asia and between North America and Western Europe greatly exceeded trade within North America itself, while trade between Asia and North America exceeded that within Asia. At the same time, in each of the three centres the joint relative share of the developing countries in exports and imports went down markedly, except in the case of the Asian developing countries, where it increased (ECLAC, 1991d).

In the 1980s, each of the three regions increased its intra-regional trade more rapidly than its extra-regional transactions. GATT points out, however, that this conclusion might no longer be valid if the Middle East and Africa are excluded, since the sharp drop in the value of trade that this would cause would automatically increase the share of intra-regional trade within the overall trade of each of the three groups. In view of the foregoing, GATT has concluded that it is not correct to say that we are witnessing the formation of trade blocs, with the inward-looking connotation of the word "bloc", but rather the formation of some evolving trade centres with world trade interests.⁵

⁵ If we look at the structure of intra-regional trade by products in each of the centres during the period 1980-1987, we clearly see that in North America such trade includes a high percentage of iron and steel and motor vehicles, whereas in Western Europe a leading place is occupied by such goods as office and communications equipment, electrical machinery and apparatus, motor industry products, and textiles and clothing. In Asia, for its part, high proportions are accounted for by primary commodities, iron and steel, chemical products, other semi-manufactured goods, and textile products (GATT, 1989). If we take account of what has happened since that period—especially the increase in intra-industry trade among the developed countries, which has also been promoted by direct investments of a horizontal intra-industry nature—it may be concluded that these figures must have changed substantially in recent years.

2. Intra-industry trade

The complexity and interdependence of world trade is seen, on the one hand, in the growing intra-industry trade, and on the other, in the importance of transnational corporations in the total value of world trade in goods. The developed countries frequently export and import different varieties of a particular product (horizontal intra-industry trade), whereas the relationship established between the advanced countries and developing countries is that the former export parts and components which are assembled in the latter countries and then reexported to their countries of origin (vertical intra-industry trade). It is estimated that in 1985 the intra-industry trade of the developed countries amounted to 57% of their total trade in manufactures, while in the developing countries for which information is available, the proportion came to almost 30% (De Castro, 1989). The coefficient of intra-industry trade was particularly high in Western Europe, not only in internal trade but also in that with countries from other regions, such as the United States, Japan and some other Asian countries. This type of trade has also become increasingly important for Latin America. The Latin American region registered a higher coefficient with the United States, but in the latter country the proportion of intra-industry trade was higher with the Asian countries than with those of Latin America (Baumann, 1991).

Likewise, it has been calculated that the transnational corporations accounted for between 30% and 40% of the trade of the developed countries (CTC, 1989, chapter VI). It is considered that the advantages derived from internationalization through intra-enterprise trade are particularly significant in industries with intensive research and development activities and a highly skilled labour force (Siddharthan and Kumar, 1990). It has also been shown not only that transnational corporations have played an increasingly important role in leading the developing countries to international markets for manufactures, but also that even enterprises in which there is no equity participation by transnational corporations have high possibilities of expanding their exports, for example through the practice of subcontracting local enterprises (Blamström, Kraviz and Lipsey, 1990; CTC, 1989).

The foregoing means that trade policies aimed at those sectors which have a high coefficient of intra-industry trade must be different from those aimed at sectors where inter-industry trade predominates

(semiconductors, for example). Trade in capital and intermediate goods incorporating advanced technology is generally not subject to significant protectionist measures. Such trade is usually of an intra-industry nature and has a high component of intra-firm trade (De Castro, 1989). Likewise, a substantial part of textile production for export is subcontracted by big firms in the importing countries, which use developing countries for the final assembly operations; such trade is usually subject to fewer non-tariff restrictions than trade between totally independent parties.

3. *Economic integration and the degree of openness*

The economic interdependence of markets is reflected mainly in an increase in trade in line with the level of production of the participating countries. This would mean that, if there were a growing tendency towards trade specialization and integration, trade should grow more than the gross domestic product (GDP). If we assume that trade flows tend to react more markedly to variations in relative prices in integrated markets, as a result of the single price law, it may be inferred that the positive relationship between the degree of integration and interdependence would be manifested in an increase in the price elasticity of trade. Likewise, the integration process should lead to an increase in the income elasticity of trade as a result of greater specialization in production by the participants (ECLAC, 1991a). Finally, at the national level the degree of interdependence of a country is measured by the ratio of the value of its intra-regional trade to its GDP, or at the regional level, by the ratio of total intra-regional trade to the total GDP of the participating countries.

In this article, two types of GDP have been used, one denominated in current dollars and another adjusted by the purchasing power parity (PPP). Because of the difference in price levels, when the figures for expenditure or production of countries are converted into a common currency, such as the United States dollar, at the official exchange rate, it is possible that the disparities will reflect both differences of price and differences of amount. The values of GDP converted in this way will not measure real differences, so that it is preferable to use prices adjusted according to the PPP in calculating constant prices for comparing the levels of productivity and standards of

living of countries.⁶ The price series used in this article are based on those from *The Penn World Table* (Summers and Heston, 1991), and the period analysed extends from 1965 to 1988.

a) *United States, Canada and Mexico*

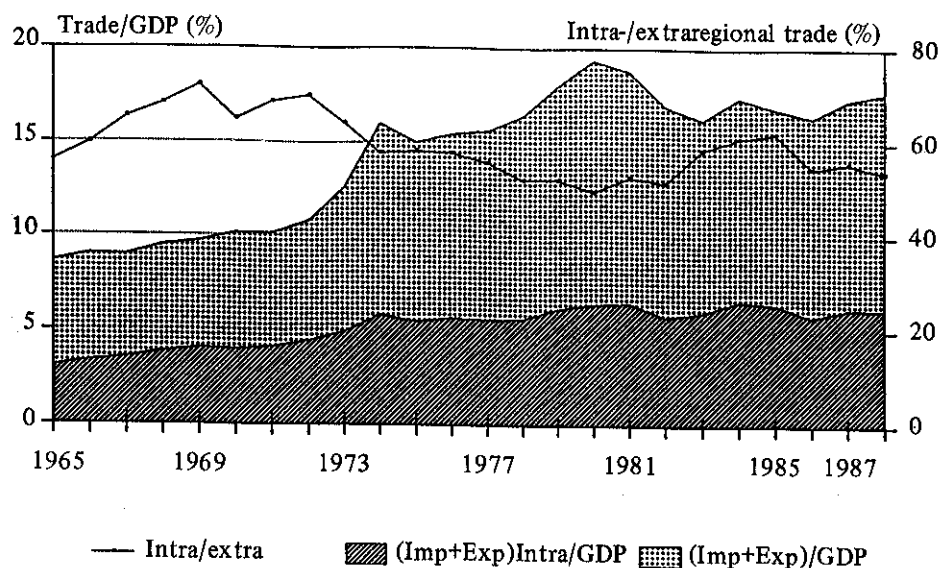
As may be seen from figures 1-A and 1-B, in the hypothetical bloc made up of the United States, Canada and Mexico, the ratio of intra-regional trade to the combined GDP has not risen, whereas the share of trade in the GDP has increased substantially. As a result, the ratio of intra-regional to extra-regional trade has gone down considerably since the early 1970s. The importance of intra-regional trade has gone down, regardless of whether petroleum is included in it or not. This overall performance is considerably influenced by the decreasing share corresponding to intra-regional transactions in the trade of the United States, whose trade with countries from outside the region is constantly growing. For this country, the share of intra-regional trade in its GDP is only between 3% and 4% (ECLAC, 1991d).

In contrast, the contribution of intra-regional trade to the GDP of Canada has risen over the last three decades, reaching a level of nearly 30%, although there has been a slight decline in recent years. The ratio of intra-regional to extra-regional trade comes to over 250%. If we use the GDP adjusted according to the PPP, Canada's degree of openness increases slightly because domestic prices in the country are relatively high compared with those of its neighbour (figures 2-A and 2-B). At all events, its degree of openness already stands at a very high level (40% to 50%) and is still rising.

With regard to Mexico, over the last 25 years it has increased its trade openness: the ratios of both total trade and intra-regional trade to GDP show a clear upward trend over this period. At the same time, the variations registered by the values of intra-regional and extra-regional trade have remained in

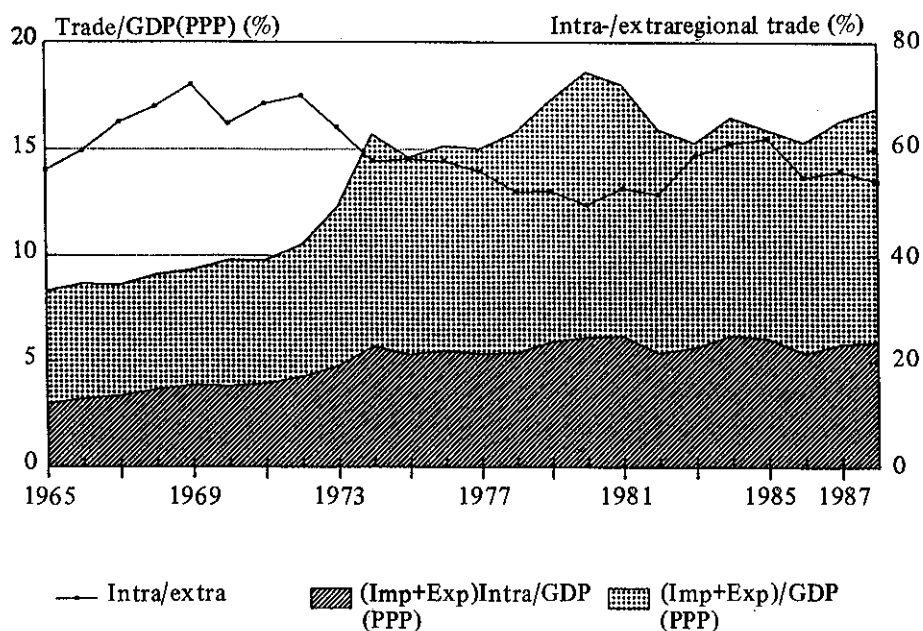
⁶ In other words, the PPP is the conversion rate which eliminates the differences in price levels: a given sum, converted into different currencies in line with this rate, purchases the same amount of goods and services in all countries. The PPP is expressed in national currency units, generally United States dollars. It should be noted that a PPP of over 100 (taking the United States as base 100) means that the purchasing power of the GDP in the domestic market of the country is less than it would be outside it, while the opposite situation occurs when this index is below 100. Thus, the degree of trade openness of a country increases with a rise in the PPP and goes down with a fall in it.

Figure 1-A
UNITED STATES, CANADA AND MEXICO:
TRADE AS A PERCENTAGE OF GDP



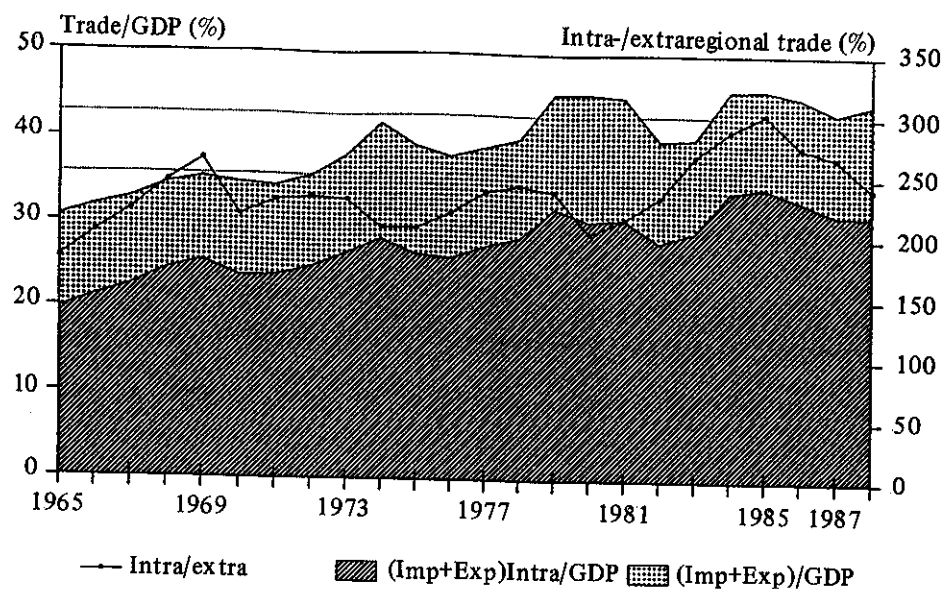
Source: International Commodity Trade Data Base (COMTRADE), New York, 1991;
Summers and Heston, 1991.

Figure 1-B
UNITED STATES, CANADA AND MEXICO:
TRADE AS A PERCENTAGE OF GDP ADJUSTED
ACCORDING TO PURCHASING POWER PARITY (PPP)



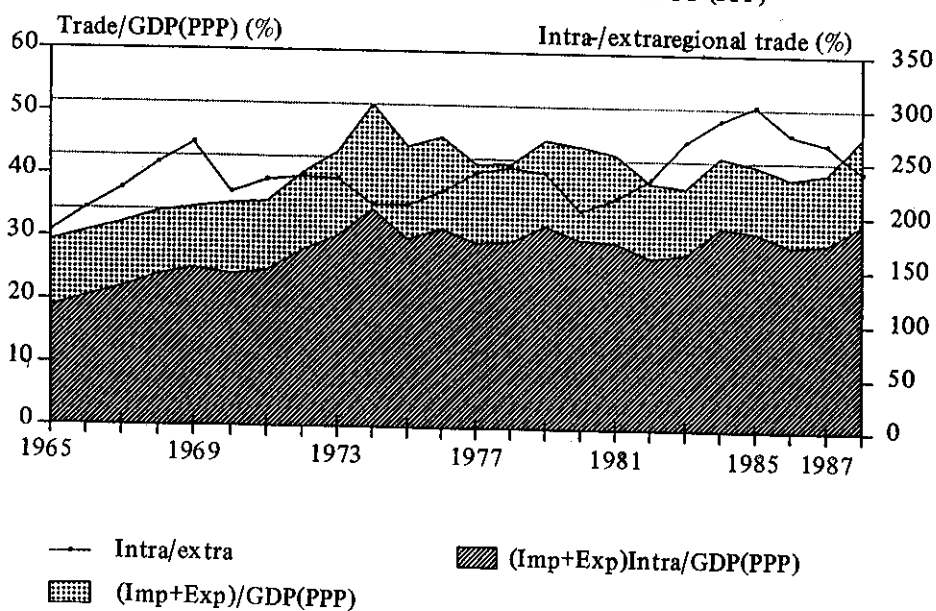
Source: COMTRADE; Summers and Heston, 1991.

Figure 2-A
CANADA: TRADE AS A PERCENTAGE OF GDP



Source: COMTRADE; Summers and Heston, 1991.

Figure 2-B
CANADA: TRADE AS A PERCENTAGE OF GDP ADJUSTED
ACCORDING TO PURCHASING POWER PARITY (PPP)



Source: COMTRADE; Summers and Heston, 1991.

the same proportions, so that the ratio between them has remained relatively stable. Because of the weight of the United States market, the importance of intra-regional trade in GDP has increased in spite of the fluctuations, although it still does not amount to 15%. If we use the PPP, however, Mexico's degree of openness goes down markedly, because of its low domestic prices (figures 3-A and 3-B). The foregoing gives rise to doubts about the theory that a real trade bloc is being formed in North America, for except in the case of Canada, there is no clear evidence of much trade interdependence. The Enterprise for the Americas aims to strengthen the situation which already exists in the case of Canada and to reverse the current process with regard to the United States and, to a lesser extent, Mexico.

If we extend the foregoing to the Latin American Integration Association (ALADI), we see that in the case of this association there have not been substantial changes in the ratio of intra-regional to extra-regional trade or in the degree of openness. The ratio of intra-regional trade to the combined GDP stands at a very low level (2% to 3%). Moreover, if the GDP is calculated using the PPP, this causes the degree of openness to go down during the 1980s (ECLAC, 1991d). The Latin American case will be considered in detail later in this article.

b) *Asia and Oceania*⁷

The Asian countries and Oceania show a slight increase in the relative importance of intra-regional trade, but in terms of volume it is still only equal to 60% of extra-regional trade. The share of intra-regional trade in the combined GDP does not exceed 10% and does not show any clear upward trend, although its contribution is higher than in North America. If we use the PPP to calculate GDP, the degree of openness goes down markedly, reflecting the low domestic prices of most of the countries making up this group (figures 4-A and 4-B).

In the case of Japan, although the share of intra-regional trade is increasing, more than half its trade is still carried on with countries outside the region. Over the last 15 years, the share of intra-regional trade in GDP has not changed, remaining at its low

value of around 5%. The ratio between trade and current GDP has increased its gap with the ratio between trade and adjusted GDP, because of the marked increase in domestic prices during the period. In the 1980s, there was a slight reduction in openness in terms of current GDP, whereas the opposite occurred in the case of GDP calculated on the basis of PPP. There was also a decline in the share of trade in GDP in recent years, because of economic expansion based on the domestic market (ECLAC, 1991d).⁸

It may be noted that in 1989 Japan's imports from the recently industrialized Asian countries and the ASEAN countries were equivalent to only 36% of the combined imports of the EEC and the United States from those countries.⁹ This means that it is still premature to assume the existence of an autonomous trade bloc in that region. In its analysis of the changes in the share of those countries in external trade with the EEC and the United States together, UNCTAD (1990) noted that the trade performance of the Asian countries seems to be very similar in the main markets of the advanced countries, bearing in mind that the export penetration of those countries in the Japanese market reflects their growing specialization in manufactures with high technological content and their level of competitiveness, rather than any special bias towards the Japanese market.

c) *Western Europe*

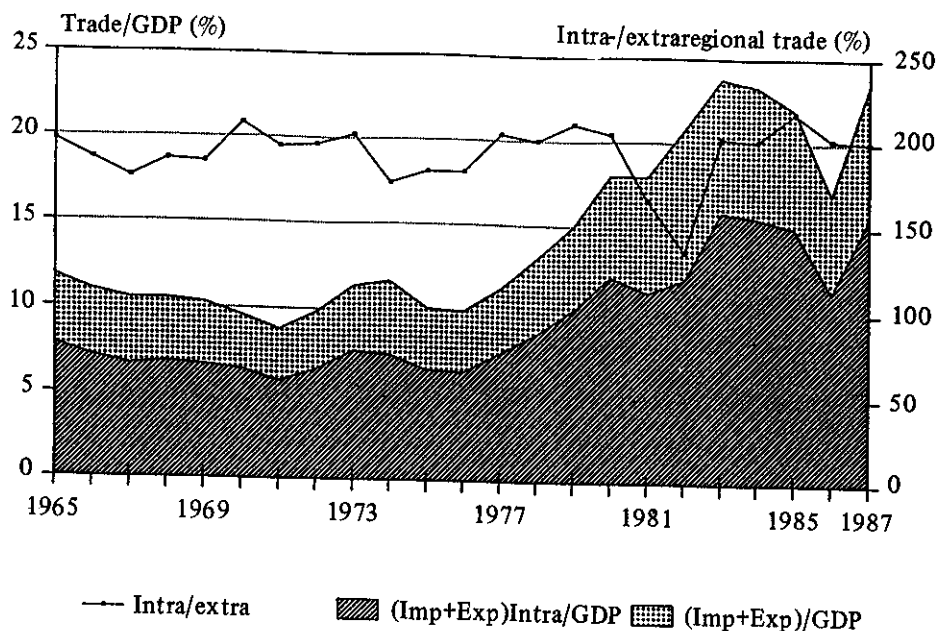
Although intra-regional trade has had a high share ever since the 1960s, it has increased still further, especially in the 1980s. Thus, in 1988 intra-regional trade was equivalent to 140% of extra-regional trade. Since this is a region which is a net importer of petroleum, the share of intra-regional trade is even greater if this commodity is not included in the figures. At the same time, the EEC has tended towards a gradual increase in the share of total trade and intra-regional trade in GDP, with the

⁸ With regard to Asia, other economies which are important in world trade, such as South Korea and Taiwan, do not seem to be inclined to form an economic bloc in the region either. On the contrary, in line with the general trend up to the mid-1980s, in both countries intra-regional trade rose less than extra-regional trade, and the respective ratios of intra-regional trade to GDP appear to be stagnating. A similar situation exists in Thailand, which is one of the most dynamic exporters in the world, but where the ratio between intra-regional and extra-regional trade has remained unchanged, at least during the 1980s.

⁹ In that year, the United States imported US\$74 billion of goods from the first-named and US\$15 billion from the latter, while the EEC imported US\$34 billion and US\$11 billion respectively. These values were well above those of Japan (US\$31 billion and US\$18 billion, respectively).

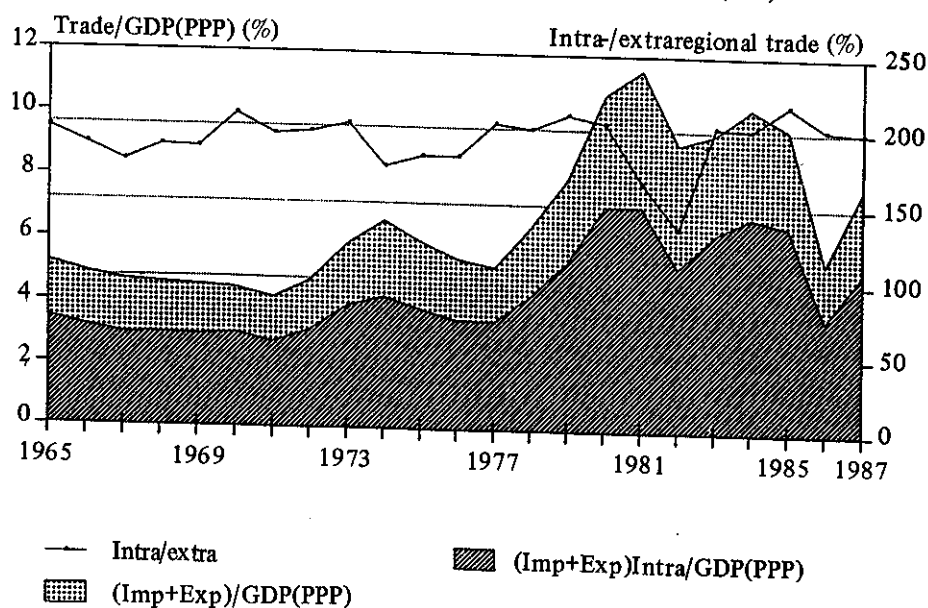
⁷ For the purposes of this article, this region is taken to comprise the recently industrialized Asian countries, the four major member countries of ASEAN, Australia, New Zealand and Japan. China is not taken into account because of the lack of sufficient information.

Figure 3-A
MEXICO: TRADE AS A PERCENTAGE OF GDP



Source: COMTRADE; Summers and Heston, 1991.

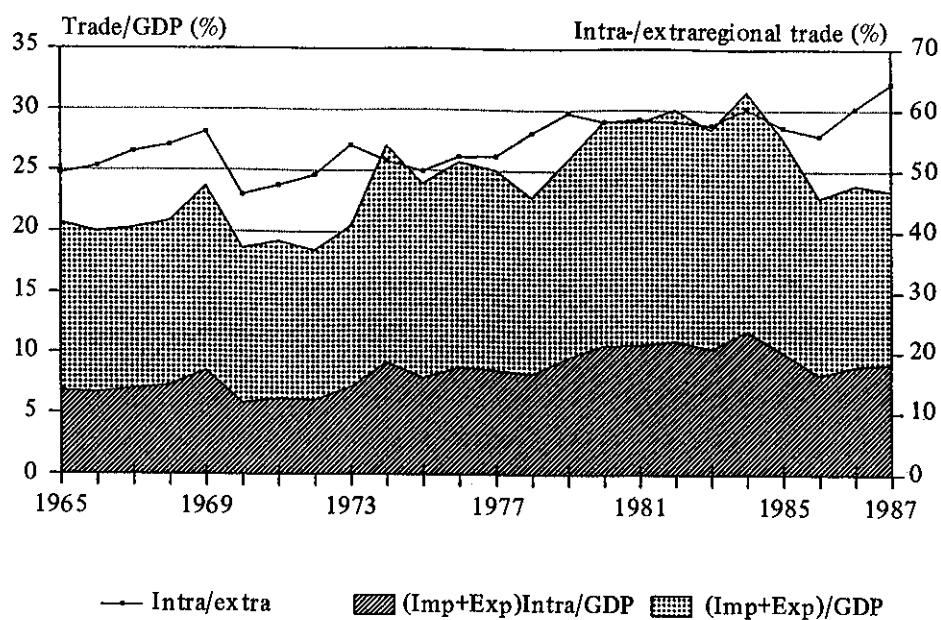
Figure 3-B
MEXICO: TRADE AS A PERCENTAGE OF GDP ADJUSTED
ACCORDING TO PURCHASING POWER PARITY (PPP)



Source: COMTRADE; Summers and Heston, 1991.

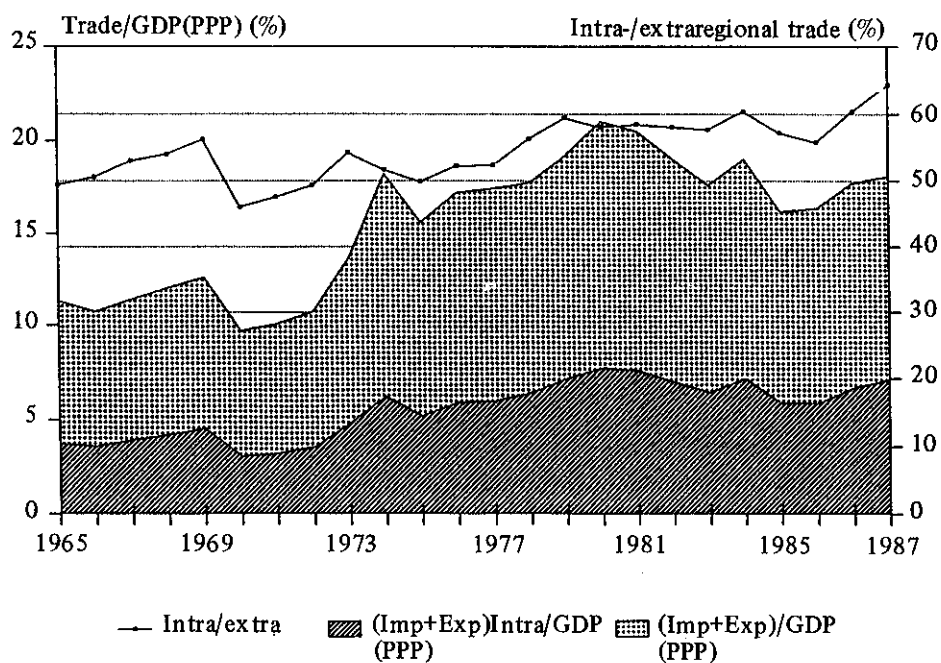
Figure 4-A

ASIA AND OCEANIA: TRADE AS A PERCENTAGE OF GDP



Source: COMTRADE; Summers and Heston, 1991.

Figure 4-B

ASIA AND OCEANIA: TRADE AS A PERCENTAGE OF GDP ADJUSTED
ACCORDING TO PURCHASING POWER PARITY (PPP)

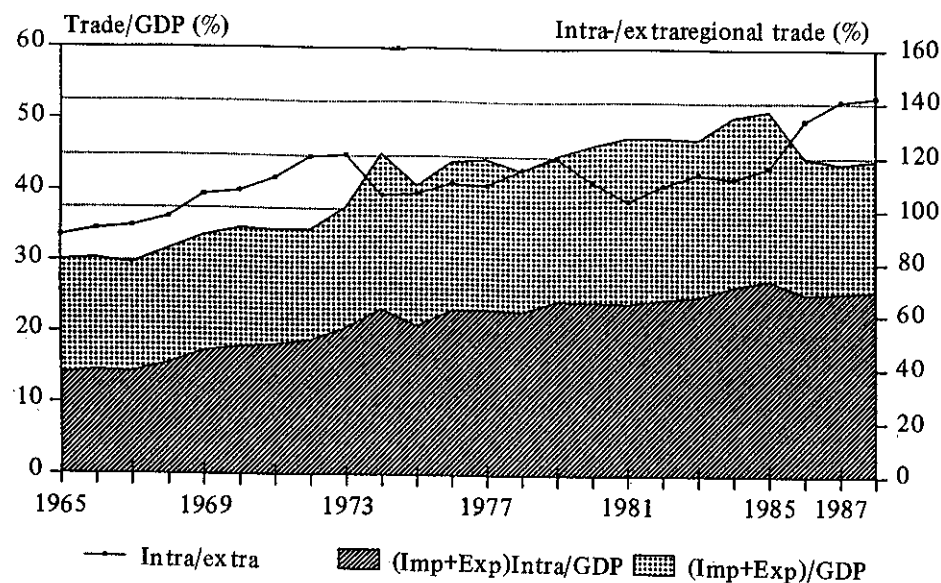
Source: COMTRADE; Summers and Heston, 1991.

figures already standing at 44% and 26%, respectively. When GDP is calculated on the basis of the PPP, the share of intra-regional trade rises, reflecting the

effects of oil prices in 1973 and 1980, on the one hand, and a significant increase in the ratio of trade to GDP in recent years on the other (figures 5-A and 5-B).

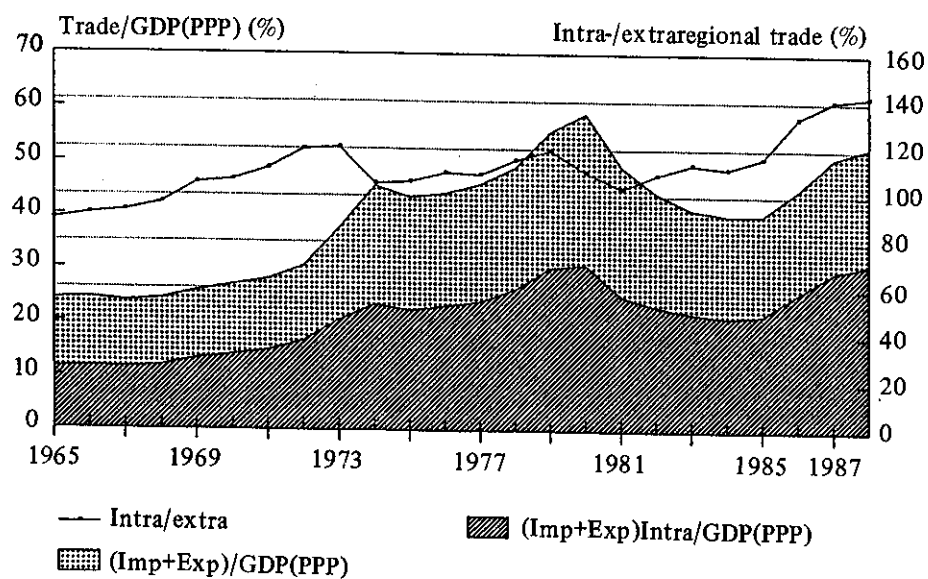
Figure 5-A

EEC: TRADE AS A PERCENTAGE OF GDP



Source: COMTRADE; Summers and Heston, 1991.

Figure 5-B

EEC: TRADE AS A PERCENTAGE OF GDP ADJUSTED
ACCORDING TO PURCHASING POWER PARITY (PPP)

Source: COMTRADE; Summers and Heston, 1991.

As in Asia, there are differences among the European countries with regard to their degree of regional interdependence. In spite of the high share of intra-regional trade in its GDP (around 25%), Germany has significantly increased its extra-regional trade, so that basically the ratio between the two types of trade has not varied. In the case of the United Kingdom, for its part, this ratio shows a steady trend towards an increase in intra-regional trade. In other important economies such as France and Italy, there was a decline in the share of this trade in the period 1973-1980, followed by recovery and further strengthening in subsequent years. In Spain and Portugal, the figures for the ratio between intra-regional and extra-regional trade show that intra-regional trade doubled in three years (1985-1988). This process of integration has been accompanied by an increasingly marked degree of openness. The same is true, although to a lesser extent, in the case of Greece, which has made effective use since the early 1980s of the expanded markets opened up to it by its entry into regional trade (ECLAC, 1991d). When we consider that in all the EEC countries the share of intra-regional trade in GDP (regardless of the way GDP is calculated) increased in the 1980s, and that the countries which only recently entered the Community also achieved this result with ease, it may be concluded that the EEC is the only one of the three regions where the theory of the formation of a trade bloc is borne out.¹⁰

European integration was favoured from the very beginning by the relatively high degree of interdependence of the countries involved: thus, the degree of trade openness among the EEC countries was already high when the Community was set up in 1958. It is also necessary to highlight, among other factors of the greatest importance for facilitating intra-European trade, the sustained economic growth of the region, its high rate of intra-industry investment, the effective use made of complementarity of production and economies of scale, the full bilateral convertibility of the member countries' currencies since 1950 (the European Payments Union), the European Customs Union, and the coordination of macroeconomic policies.

It should be noted, however, that even though intra-regional trade has exceeded extra-regional trade for the EEC, the latter type of trade is still of significant importance, and its share in GDP exceeds that registered in North America. This means that, for any assumed bloc, extra-regional trade would be too important to be sacrificed with the aim of establishing new regional trade agreements or strengthening the existing ones. Likewise, the relatively low share of intra-regional trade in the GDP of the central country does not contradict the key function carried out by the trade absorption capacity of that country within the region for the successful opening up of the "satellite" economies.

II

Changes in financial flows

1. Main features

The 1980s witnessed a structural change in the circulation of international capital. This may be illustrated

¹⁰ The European Free Trade Association (EFTA), which has seven member countries, recently completed two years of negotiations with the EEC by agreeing on its integration into the Single Market. Because of EFTA's greater trade links with the Community, the ratio of intra-regional to extra-regional trade has been less favourable for it, and since 1975 this ratio has gone down to only 16%. The share of intra-regional trade in GDP (less than 10%) has not changed significantly in recent decades.

by the fact that there was almost a three-fold increase in the total current account deficits of certain industrialized countries (notably the United States, France, the United Kingdom, Italy and Denmark), which rose from US\$350 billion in the first half of the decade to US\$950 billion in the second half. Canada went from a position of equilibrium to a deficit of US\$50 billion. At the same time, the joint surplus of the industrialized countries registering trade surpluses – mainly Japan, Germany, the Netherlands, Belgium, Luxembourg and the Scandinavian

countries— rose from US\$180 billion to US\$670 billion over the same period. For the member countries of the Organization of Petroleum Exporting Countries (OPEC), the situation deteriorated, with their surplus of US\$15 billion being turned into a deficit of US\$38 billion. The developing countries as a whole reduced their deficit from US\$273 billion to US\$45 billion (*Deutsche Bundesbank*, April 1991). As a result, according to a publication of the Japanese Ministry of International Trade and Industry (Japan, 1991, p. 38), the United States absorbed over the period 1983-1988 an annual average of US\$45.8 billion from the EEC and US\$39.9 billion from Japan. In the preceding period (1978-1982), it had received an annual average of US\$1.5 billion from Japan, while it transferred US\$4.9 billion to the EEC.

These changes were reflected in a boom in portfolio and direct investments. It may be noted that the first-named were due almost entirely to transactions among the industrialized countries. In the period 1988-1990, bond issues by the developed countries reached an annual average of over US\$200 billion, while those issued by the developing countries (by the countries themselves and by international agencies) totalled only US\$20 billion. Within this latter group, almost half the bonds issued corresponded to seven Asian countries (the recently industrialized countries, Indonesia, Malaysia and Thailand). In most of the developing countries, stock markets are small or almost non-existent, so that the total joint capitalization of these countries came to only 6% of that for the developed countries (Turner, 1991).

In contrast with what occurred in the 1970s, when the global imbalances were financed by the international banking system, in the 1980s it was non-bank financial bodies such as pension funds, insurance companies and investment funds which financed the deficits, although they were now greater than before. In the first half of the 1980s, there was a notable increase in the participation of these companies in ownership of foreign stocks and bonds, through the channeling of family savings to institutional investors instead of bank accounts. This was due to the enormous expansion in the wealth of the private sector, brought about largely by the rise in value of stocks, real estate and other assets, and the massive diversification of institutional investments towards foreign assets,

except in the case of United States institutions. In the 1980s, portfolio investment flows were concentrated more on bond transactions than in shares, although the bigger role played by bonds giving the right to purchase stock made the difference between the two types of transactions less perceptible.

Flows of foreign direct investment grew rapidly in the latter years of the 1980s: in 1989, they amounted to US\$185 billion after having averaged around US\$50 billion per year in the first half of the decade. At the end of 1989, total cumulative world foreign direct investment came to US\$1.5 million million. This increase was due almost entirely to movements towards the industrialized countries, since flows to the developing countries as a whole hardly changed, even in nominal terms. With regard to the industrialized countries, there was a big increase in the flows towards the United States, which received approximately half of the total amount invested in those countries, compared with one-third in the 1970s and one-tenth in the 1960s. There was also a notable increase in flows of foreign direct investment towards the EEC, both from countries forming part of the Community and from others. In the case of Australia and Canada, however, which were relatively important importers of capital in the 1950s and 1960s, foreign direct investment went down considerably. At the end of the 1980s, such investment in the developing countries as a whole was less than one-eighth of that channeled towards the developed countries. As a reflection of general economic performance, the flows to the seven Asian countries mentioned earlier exceeded those to the indebted countries (Turner, 1991).

There were three main factors behind the boom in foreign direct investment directed towards the industrialized countries: i) in the 1980s, such investment had a strongly procyclical nature which caused it to vary disproportionately in relation to economic activity; this phenomenon explains why it was oriented more towards the United States and European markets, where domestic demand grew sharply; ii) the total amount of foreign direct investment in respect of mergers and trans-border acquisitions came to US\$120 billion in 1989, compared with only US\$40 billion in 1986, and iii) considerations of the cost of labour compared with productivity, exchange rates, or protectionism encouraged the relocation of production abroad.

2. The United States

Since 1981, the current account deficit of the United States has been offset by a net inflow of external financing which has steadily eroded that country's position as a net international investor. Thus, after having been the world's leading creditor, with positive net international investments of US\$140 billion in 1981, this country declined to a negative position in 1985, and since 1986 it has been the world's biggest international debtor, with a net negative international investment position of over US\$400 billion at the end of 1989 (United States, Department of Commerce).

The attraction of portfolio investments has been impressive, stimulated mainly by the higher interest rates on dollar-denominated assets. If we look at the United States capital account in the 1980s in terms of the origin of capital flows (Japan, 1991), we see that the net inflow of capital into that country rose from US\$35.5 billion in 1983 to a record level of US\$155.5 billion in 1987, during which period the EEC countries contributed by far the largest amount of these assets. Japan's contribution was considerable, but it never exceeded that of the EEC except in 1988, when it provided 34% of the net inflow (although even then it was exceeded by the contribution of Latin America). During the first three quarters of 1990, portfolio investments by Japan and the EEC in the United States went down markedly. Thanks largely to the vigorous recovery of the economy, the inflow of foreign direct investment increased sharply. Thus, as from 1985 it grew at an annual rate of 34%, until in 1989 it represented 32% of the gross capital inflow. It is interesting to note that in the period 1983-1989 the inflow of funds into the United States in respect of foreign direct investment grew at an annual average rate twice that of United States foreign direct investment abroad.¹¹

If we look in detail at United States foreign direct investment abroad, we immediately see the importance of the European countries both in terms of flows abroad and reinvested profits and in terms of income (ECLAC, 1991d, table 9), even though there is a certain degree of geographical diversification of

the market. In the second half of the 1980s, Europe accounted for over 50% of the reinvested profits and total income, and it increased its relative share in these categories compared with the period 1982-1985. In this context, it is worth noting the modest position occupied by Germany and the dominant weight of the United Kingdom.

In order to understand the structure and balance of United States trade, it is important to analyse the links between foreign direct investment and the trade carried on within transnational corporations (intra-enterprise trade).¹² According to data supplied by the Department of Commerce, in 1988 intra-enterprise trade accounted for over 47% of the exports and more than 50% of the imports of that country. An important feature of this trade was that the United States enterprises contributed a small surplus to the trade balance, while the operations of the foreign firms registered a significant deficit. Thus, between 1980 and 1988, the total deficit of the foreign firms operating in the United States rose from US\$24.1 billion to US\$89.9 billion, giving rise to approximately 70% of the total trade deficit of the country. A large part of the deficit generated by foreign firms corresponded to those from Japan and Germany (JETRO, 1991).

If we take into account the gigantic scale of the activities of United States firms abroad and their foreign counterparts operating in the United States, it could be maintained that if they were not taken into account the country's trade deficit would go down substantially. By way of illustration, in 1988 the local sales of United States transnational corporations abroad came to US\$607 billion and their sales to third countries totalled US\$220 billion. In the same year, foreign firms operating in the United States made local sales and purchases of US\$794 billion and US\$558 billion, respectively. If these and other domestic and external trade flows generated by transnational corporations are subtracted, the country's deficit goes down from US\$127 billion to US\$51 billion (United States, June 1990, table 12, p. 43; Japan, 1991, pages 318-319). These observations bring out the importance of the process of internationalization of the trade of the United States and other industrialized countries, which reduces the validity of the traditional approach based on consideration of national territories.

¹¹ It is estimated that in 1987 some 4.3% of the United States GDP was generated by the activities of non-United States enterprises operating in the country, while over 10.5% of the manufacturing sector GDP corresponded to foreign transnational corporations. Europe's share in the GDP generated by foreign enterprises operating in the United States was the largest, amounting to nearly 60% of the total (United States, Department of Commerce, *Survey of Current Business*, June 1990, pp. 45-53).

¹² The term "intra-enterprise trade" is understood here as a transaction between a United States firm and a foreign firm in which it holds 10% or more of the voting stock.

3. The European Economic Community (EEC)

In the 1980s, the United States attracted a substantial proportion of the flows of portfolio investment in stocks, especially up to 1987. Between 1985 and 1987, the inflow of funds into that country under this heading came to US\$37 billion, while the United Kingdom absorbed US\$15 billion and the continental European member countries of the EEC together a total of US\$17 billion. Since 1988, however, the importance of the EEC has increased and it has accounted for half of the capital flows of this type. The British have been the main investors, with net purchases of these financial instruments amounting to over US\$32 billion in 1989 alone (Turner, 1991, pp. 55-56). In the bonds market, although the EEC was less active than Japan it improved its position both as a recipient and an originating region (Turner, 1991, table 21, p. 59).

Exports of portfolio capital by Germany became a dominant element in long-term capital movements: in 1986-1990, this category registered a net outflow of DM193 billion, equivalent to approximately half the entire outflow of long-term capital. The significant increase in German exports of long-term capital meant that this country increased its share in total exports of portfolio capital by the industrialized countries from 3% to 11.5%. At the same time, German imports of portfolio capital continued to be substantial, amounting in 1986-1990 to a value of DM145 billion, compared with DM120 billion in the preceding five years. In the same period, over half these investments took the form of purchases of foreign bonds. Portfolio capital transactions were increasingly concentrated in the European markets, unlike the preceding five-year period, when investments in the United States predominated. Bonds also accounted for a growing share of the inflow of capital, and as in the case of exports, investors from the EEC played an outstanding role (*Deutsche Bundesbank*, January and April 1991).

During the period in question, the Community took the place of the United States as the biggest direct investor in the world: in 1988, the EEC registered total cumulative investments outside the Community amounting to over US\$330 billion; that is to say, 34% of total cumulative world investment, compared with 35% for the United States. If intra-Community foreign direct investment is included, then the EEC becomes by far the biggest investor, with a total of almost US\$500 billion in 1988.

Towards the end of the decade, the United Kingdom became the biggest supplier of foreign direct investment in the world through mergers and acquisitions, especially in the United States.

The process of integration of the EEC has caused intra-Community foreign direct investment to have greater weight in total foreign direct investment in that region: in 1980, its share of total investment was only 25%, but in 1988 it amounted to 40%, totalling US\$160 billion. The EEC is currently the biggest investor in six countries of the Community—in 1980 it occupied this position in only one of them—and it has generated more than 50% of the cumulative foreign direct investment in the region. Proof of this rapid process is the fact that intra-Community investment grew at an average annual rate of 38% between 1980 and 1987, while EEC investment in the rest of the world increased at the substantial but much lower rate of 17% (CTC, 1991). It should be noted, however, that the substantial increase in intra-Community foreign direct investment has been no bar to rapid penetration by European investors in the United States market.¹³

4. Japan

In 1983-1989, Japan built up a current account surplus of US\$415 billion and became the biggest capital creditor in the world. Over the same period, it registered a net outflow of long-term capital of US\$620 billion: that is to say, US\$205 billion more than the total current account surplus, this amount being financed with inflows of short-term capital. This intermediation function of Japan is reflected in the fact that at the end of 1989, some 60% of its foreign assets were of a long-term nature, while a larger proportion of foreign liabilities were short-term (Tavlas and Ozeki, 1991). In contrast with what occurred in the United Kingdom and the United States, which carried out a similar intermediation function in their own currencies, the Japanese

¹³ The notable growth of intra-Community foreign direct investment is reflected in the rapid increase in mergers, acquisitions and joint operations by European firms: in the period 1988-1989, there were 651 mergers and acquisitions in EEC countries, and of these 234 involved companies of different nationalities within the Community, while 355 involved firms of the same nationality. This tendency bears witness to the efforts of European businessmen to raise their international competitiveness and take more advantage of economies of scale in production, marketing, and research and development activities (Japan, 1991, pp. 240-241).

financial institutions obtained and made loans in foreign currency, especially dollars. In 1988, for example, 73% of loans by Japanese banks to foreign countries (US\$375.2 billion) were in foreign currency.

The outflow of long-term capital has been concentrated in stocks and bonds. In 1985-1989, nearly 85% of total purchases of these financial instruments consisted of bonds. The enormous demand for foreign bonds by the Japanese is reflected in the size of the cumulative net purchases of such instruments during the second half of the decade, which came to no less than US\$220 billion, whereas in the case of Germany they only amounted to US\$80 billion (Turner 1991, p. 59). Demand continued to be very high until the end of the decade, in spite of changed expectations regarding exchange rates and interest rates. Moreover, although its share varied considerably from year to year, at the end of the decade foreign direct investment was the second most important component of total long-term capital flows (23%).

Analysis by country of destination reveals that long-term Japanese capital has been increasingly centered on the member countries of the Organization for Economic Cooperation and Development (OECD). In 1980, for example, the OECD absorbed nearly half the total. At the end of the decade, however, the OECD was receiving over 84%, while less than 10% went to the developing countries; 40% of Japanese long-term capital went to the United States, while a growing proportion (37% in 1988) was absorbed by the EEC. Purchases of stocks and bonds, which made up the majority of the transactions, showed some diversification of markets, since they went not only to the United States but also to the EEC (Tavlas and Ozeki, 1991).¹⁴

In contradiction of the belief that a trade bloc is being set up in the Eastern Pacific region, promoted by Japan's foreign direct investment in neighbouring Asian countries, in the 1980s the relative importance of this region in Japan's total foreign direct investment not only did not increase but actually tended to decline, going down from 25% in 1980 to 12% in 1989. This was due to the completion of the big

investment projects in the area of natural resources carried out in the late 1970s and early 1980s, as well as the significant increase in foreign direct investment in industrialized countries, encouraged by the increase in the value of the yen and the growing protectionism of those economies. In addition, there is the expansion of the Japanese financial sector, which further increased foreign direct investment in corresponding sectors of the industrialized countries and "tax havens". More specifically, the geographical distribution of foreign direct investment in the manufacturing sector shows that in 1985-1988 Asia received only 19% of the total flows (compared with 33.8% in the period 1975-1979), while North America and Europe received 63% and 11%, respectively (Takeuchi, 1990). All this shows that other poles, such as the United States and Europe, are assuming greater importance in the manufacturing sector, where it is generally assumed that there are strong trade links between Japan and other Asian countries through foreign direct investment.¹⁵

Japan's position as the biggest supplier of capital in the world gives rise to speculation about the possible creation of a tripolar international monetary system based on the US dollar, the German mark and the Japanese yen. In the same connection, there is also speculation about the formation of a yen zone in the Asian region where, because of its growing use in trade and financial transactions, the yen would act as an anchor currency. In this respect, Tavlas and Ozeki (1991) point out that although the percentage of Japanese imports invoiced in yen has markedly increased (from less than 1% in 1975 to 2.4% in 1980 and 14.1% in 1988), it is still far below the percentages invoiced in their own currencies by the United States and Germany (85.0% and 52.6% of their respective imports in 1988). With regard to exports, the proportion denominated in yen went down from 40.5% in 1983 to 34.7% in 1989: that is to say, to a level below that of the other industrialized countries,

¹⁴ It may be noted that the capital account deficit tended to go down from 1988 onwards: in 1990, it stood at US\$43.6 billion, after having reached a peak of US\$325 billion in 1987; this was due to the sharp reduction in purchases of stocks and bonds, which went down from US\$101.4 billion in 1986 to US\$5 billion in 1990.

¹⁵ There are indications that Japanese transnational corporations are trying to set up regionally integrated and self-sustaining foreign direct investment systems with various strategic objectives: i) facilitating access to each one of three regions, two of which are the largest markets in the world (the EEC and the United States), while the third is the most dynamic one (Asia); ii) guarding against the (real or imaginary) threat of protectionist measures against Japanese exports to the United States and European markets, and iii) establishing local bases in each of the regions for increasing trade with the others, so as to reduce Japan's trade surplus. The Japanese strategy is to get inside or infiltrate the region in respect of each of the three poles.

for in 1988, 96% of United States exports and between 40% and 80% of those of the main European economies were denominated in their own currencies (Germany registered the highest percentage in this latter group). If we look at the specific case of Asia, the proportion of Japanese exports to South East Asia invoiced in yen went down from 48.0% in 1983 to 43.5% in 1989, whereas the percentage for imports rose considerably (from 2.0% to 19.5%). However, it

cannot be concluded from this percentage, which is still relatively low, that the yen is playing a key role in trade transactions in the Asian region. Furthermore, its share is far below those of the currencies of other industrialized countries in international bank loans, bond issues, Eurocurrency deposits and official reserves (Tavlas and Ozeki, 1991). To sum up, it does not seem that a trade bloc based on the yen is being formed.

III

Effects of internationalization on Latin America

1. *With regard to the United States*

The economic indicators for the United States available at the beginning of 1991 showed that that country's fiscal deficit was likely to amount to US\$300 billion, instead of the US\$64 billion estimated in line with the Gramm-Rudman Act. The increased fiscal deficit, which could amount to 5% of GDP in 1991, represents a warning of the complexity of the United States structural imbalances. The adjustment of these imbalances would have serious repercussions on Latin American exports and on variations in domestic interest and inflation rates (Rosales, 1991, pp. 126-127).

A fundamental feature of the trade relations between Latin America and the United States in the 1980s was their unevenness: the weight of the United States in the region's trade continued to increase, but Latin America's relative importance for that country went down slightly.¹⁶ The United States trade balance with the region registered a deficit, and although this was not very high in 1990 compared with the country's total trade deficit, it was nevertheless significant (over 10%).

A second feature of this trade was its geographical concentration: at the end of the decade, three Latin American countries—Mexico, Venezuela and Brazil—accounted for over 70% of the total

¹⁶During the decade, Latin American and Caribbean exports to the United States grew faster than those to the rest of the world, from 34.0% in 1980 to 40.4% in 1990. The region's imports from the United States, for their part, increased from 31.3% to 40.6% over the same period. Latin America's share in total United States imports, however, went down from 17.1% to 13.7%, while the importance of the region as a destination for United States exports also went down, from 15.1% to 13.0%.

transactions of the region (in 1980, the figure was 64%). Indeed, one of those countries (Mexico) increased its share so much that at the beginning of the 1990s it was accounting for over half the total trade between the United States and Latin America.

A third feature was the marked increase in the share of manufactures within that trade. In 1980, energy products, manufactures, and agricultural products represented 50%, 23% and 20% respectively of total Latin American exports to the United States. At the end of that decade, however, manufactures represented approximately 55% of total trade, with agricultural products accounting for 14% and energy products for 25%. As a result of this concentration, the United States market now absorbs nearly 50% of Latin America's exports in this category. Although the increased share of manufactures in export supply stimulates the procurement of investments and promotes trade, the competitiveness of the region in this sector may aggravate trade conflicts and lead to protectionist pressures in the United States Congress.¹⁷

¹⁷In the 1980s, the trade balance in respect of manufactures between Latin America and the United States was positive for the latter country, whose exports of manufactures to the region increased in the second half of the decade. In 1990, the deficit of the member countries of ALADI in the category of manufactures came to almost US\$5.8 billion. On the other hand, most of the United States negative trade balance with ALADI corresponds to its enormous deficit in respect of energy products, which amounted to over US\$16 billion in 1990. As a result of the political instability in the Persian Gulf, the United States could give preference to the importation of energy products from Latin America. If this occurs, its deficit with the region would increase still further, and if this imbalance is kept within manageable proportions, United States exports of manufactures could increase appreciably.

In the 1980s, the United States significantly modified its external trade policy by markedly orienting it towards a strategy of bilateral agreements to protect its domestic interests. Since the beginning of the 1990s, however, with the Enterprise for the Americas, a new instrument seems to be emerging for negotiations between that country and the Latin American region, which could be an alternative to the use of the reprisal machinery provided for in the United States trade legislation (Section 301 and Super 301) and to the application of trade relief acts (safeguard clauses, anti-dumping regulations and countervailing measures).¹⁸ However, these instruments will continue to be available, and it is possible that during the 1990s the region may have to face up to a vigorous United States policy of promoting its own trade interests, supported by active government intervention in policies for opening up external markets to that country's products.

The weighted average tariff applied by the United States to imports from Latin America is low, amounting to only about 2%. Moreover, over half Mexico's exports already enter the United States under preferential regimes such as the scheme for assembly industries or the Generalized System of Preferences (OAS, 1991). In 1988, for example, out of a total of US\$23.5 billion of imports by the United States from Mexico, US\$10.8 billion entered under the scheme for assembly industries and US\$2.2 billion more came in under the Generalized System of Preferences. In view of this, the countries now enjoying privileged access to the United States market under, for example, the Generalized System of

Preferences or the Caribbean Basin Initiative¹⁹ should take a careful look at the magnitude of the increase in trade expected by the United States Government. At all events, it is essential to secure the greatest possible tariff reductions for those products which are subject to tariff scaling.

Moreover, it must be borne in mind that it is difficult for the United States to settle certain problems of access to its market at the bilateral level, especially in the case of non-tariff barriers, without first achieving broader arrangements at the multilateral level, such as the Uruguay Round. It is unlikely, for example, that the system of import quotas applied to sugar, textiles and clothing, steel, dairy products, cotton, etc., will be eliminated for any country of the region unless the negotiations on agriculture in that Round are successful.

If some countries sign free trade agreements with the United States before others, this could produce inequalities in the distribution of benefits. In order to avoid distortions of this type, it would be desirable –if a decision is adopted in favour of a process of hemispheric integration– that the countries of the region should enter the future free trade zone in a coordinated manner.²⁰ Moreover, over-hasty efforts to set up a free trade zone could lead to the unlimited entry of United States products into the region, with consequent weakening of national industries.

In view of the big differences between the levels of production and efficiency of the two regions, it is necessary to keep in mind the principle of reciprocity. The present situation of the United States economy makes it difficult to envisage any economic

¹⁸ This situation is the result of various factors, including: i) the efforts made by various countries in the region to reform their economic policies, including those on trade, investment and intellectual property; ii) the recent incorporation of various Latin American countries into GATT, which means that more countries of the region are now subject to the discipline of the General Agreement and its conflict-solving system; iii) the favourable reaction of the United States to the constructive position adopted by the Latin American countries at the Uruguay Round, especially with regard to agriculture, and iv) the delay in completing the Round, the absence of a global trade agreement, and the intensification of trade conflicts between economic blocs, which causes more use to be made of bilateral policies and unilateral actions. As a result of the foregoing, protectionist measures have been applied less frequently than in previous years.

¹⁹ The Economic Recovery Act for the Caribbean, enacted in 1984, offers access to the United States market free of customs duties to most of the signatory countries, which currently number 23 (a further country, Nicaragua, was recently also declared eligible). With regard to the Caribbean Basin Initiative, its results have been very limited. In 1983, the member countries registered a trade surplus of US\$3.7 billion with the United States, but in 1989 it was the latter country which registered a surplus (of US\$2.3 billion). Over the period 1983-1989, the United States increased its exports to the member countries of the Caribbean Basin Initiative by over 70%, whereas the latter countries' exports to the United States went down from US\$9.1 billion to US\$7.1 billion, due largely to the decline in fuel prices and the exclusion from the system of some important products such as textiles, footwear, travel goods, tuna fish, and petroleum and petroleum products.

²⁰ In this connection, all the countries of the continent have signed a framework agreement with the United States except Cuba, Haiti, Suriname and the Dominican Republic.

cooperation scheme not based on that principle. Consequently, it is necessary to identify in an intelligent manner, through a process of negotiation, the terms and conditions on which it would be possible to obtain concessions for the region which involve "relative" reciprocity.

The amount of foreign direct investment received by Latin America in the 1980s was very limited. Between 1984 and 1989, the region secured a net amount of such investment equivalent to less than 1% of GDP, with an annual growth rate of 0.7%. As a result, the relative importance of the region as a recipient of net inflows of foreign direct investment at the world level went down from 12.3% in 1980-1984 to 7.6% in 1985-1989. This low percentage was particularly serious in view of the sharp reduction in financial flows of other types, which made the region even more dependent on foreign direct investment (Institute of International Finance, 1990). The net inflow of investments of this type was equivalent to only 20% of the average annual payments by the region to the international financial centres in respect of debt principal and interest.

Traditionally, the United States has been the most important source of foreign direct investment for Latin America. Consequently, a broader hemispheric market and greater competitiveness thanks to economies of scale could act as an incentive for investments, guarantee access to the United States market, and partly dispel the uncertainty with regard to new protectionist measures. Although greater trade openness with respect to foreign direct investment could have positive effects, however, it will be necessary to look closely at the regional distribution of the increase in such capital, since it is possible that it may be concentrated in a few countries where industrialization is at a relatively advanced stage. If the machinery proposed in the Enterprise for the Americas is used to incentivate the economic policy reforms already underway, access to the resources available in the future will depend on the reforms made by each country in its investments policy (SELA, 1991).

There can be no doubt that the Enterprise for the Americas is the only hemispheric-level proposal produced under the United States' new external policy. However, it does not propose a strategy for the development of the region but rather a means for speeding up the economic reforms already underway, the main elements of which have been promoted by

the international financial agencies with the support of the United States Government. It is also true that the proposal is formulated in general terms and is at a relatively incipient stage of implementation. Consequently, it would still be possible for the Latin American States to improve it in order to bring it in line with the aspirations and particular interests of the region. This also represents an opportunity for Latin America to show its negotiating capacity at the international and regional level.

2. *With regard to the European Economic Community (EEC)*²¹

In the area of trade, between 1971 and 1989 the value of Latin America's imports of goods from the Community trebled, while the region's exports to the Community market increased fivefold. This gave rise to favourable trade surpluses for Latin America—generally quite large—throughout the period, except in 1975. In 1989, the surplus came to some US\$12 billion, equivalent to almost 70% of the value of the Community's exports to Latin America.

Despite the rapid growth in the value of trade in goods, the relative importance of the Community as a trading partner of Latin America has not increased in terms of imports or exports. Thus, during the 1980s the Community received nearly 23% of Latin America's exports and provided nearly 20% of that region's imports. For its part, in 1980 Latin America received 3.4% of the EEC's exports and provided the Community with 3.1% of its imports, but by 1990 those shares had gone down to only 2.4% and 1.8%, respectively, so that the Latin American region was almost completely excluded from European trade in goods.

With regard to the Single European Market, according to a study (known as the Cecchini Report) prepared for the Commission of the European Communities, the elimination of internal barriers in the market of the Twelve will generate positive economic effects for that integration scheme, including an increase in gross domestic product of the order of 4.5% to 7%, the creation of 1.8 to 5 million new jobs, and a reduction in the level of consumer prices by between 4.5% and 6.1%. It is estimated that these benefits will be obtained, on a once-only basis, around 1997.

²¹For details of the possible repercussions of the Single European Market on Latin America, see ECLAC, 1990.

If the projections of the growth in employment prove to be correct, and if Europe 1992 does not become an economic fortress but rather a trading company, favourable economic repercussions may be expected for the rest of the world. The most important of these would undoubtedly be the activation of international trade flows. The economic growth of the Community would be reflected in an increase in its imports and in the creation of new jobs, together with more efficient performance by European companies through better use of economies of scale in a market of over 320 million people, and all this could lead to a reduction of protectionist pressures in the Community, which would help to build up a broader and more multilateral international trade system.

The net effect in terms of creation and diversion of trade that the Single European Market will have on the developing countries will depend mainly on the structure of their exports and the income-elasticity of the latter. The income-elasticity of the EEC's imports is estimated at around 3.5, with high variation between sectors, ranging from a very high coefficient of 13.5 for office and data processing equipment to the minimum level of 2.5 for ready-made clothing and textiles. In this sense, the Asian countries and some Latin American countries which have been the biggest suppliers of the EEC from the developing world, both of labour-intensive manufactures and of high-technology goods, would be the main beneficiaries of the expanded market. For the countries exporting commodities, petroleum would be the most promising product (Alizadeh and Griffith-Jones, 1991).

In the financial area, the estimated reduction in consumer prices could lead to a drop in interest rates if the inflationary expectations of the economic agents go down too. However, this effect could be neutralized if the adjustment leads to critical problems of unemployment and gives rise to strong social and political pressures for governments to shoulder the costs of the liberalization process. In this case, the public sector would have to finance its needs through indebtedness with the private sector, which would generate forces tending to drive up interest rates. With regard to investments, it is necessary to highlight the possibility of a serious phenomenon: namely, that foreign direct investment from the Community or other industrialized countries will be diverted from the developing regions towards the European market. This process would be stimulated by the wage advantages existing in some areas of the integrated market, fear of protectionism, and the

competition among member countries of the Community to attract direct investment.

Latin America could benefit from the increase in the Community's imports if its export structure meets the real needs of that market and if its exports can compete in terms of price and quality both with the rest of the world and with more efficient European production. It is also possible, however, that the intra-Community restrictions eliminated in the Single Market will simply be transferred to the Community's external trade. This could happen if the adjustment process of European firms turns out to be more costly than expected, since this would give rise to strong social and political pressure for the raising, or at least maintenance, of the existing levels of protection. In this event, the possible growth in the Community product would not be reflected in an increase in Community imports from the rest of the world. If this took place, it would be necessary to pay particular attention to non-tariff barriers, and especially the rules and requirements that could be applied with regard to imports, above all in sectors of key economic importance for the Community.

In this connection, it is worth mentioning some effects of the intensification of competition within the Community. This would greatly influence the fixing of rules on imports of agricultural products, textiles and steel, which would prejudice a large part of the developing countries. The Community would also have more power to perfect its arsenal of restrictive measures that could be applied to imports, such as reciprocity agreements and anti-dumping mechanisms, which have been heavily criticized by the rest of the world because of their lack of transparency. Successful completion of the Uruguay Round would make it possible to bring this debate onto a multilateral level within GATT. It should be noted that a possible increase in Community restrictions on imports would affect above all the countries of Latin America, since they are not of priority importance to the Community from the economic point of view.

3. *With regard to Japan and East Asia*²²

The economic relations between Latin America and Japan are characterized mainly by low levels of trade and official development assistance but very high flows of foreign direct investment and private bank loans. It is estimated that the Latin American region

²² For more details on the matters dealt with in this section, see ECLAC, 1991c.

has absorbed 17% of Japan's cumulative foreign direct investment,²³ and 18% of the total private bank debt and 10% of the public debt of that country. Japan's official aid to non-Asian countries is shared out almost equally between Africa, the Middle East and Latin America, although the share of the latter region has gone down in recent years. Up to 1988, Latin America had received only between 6% and 9% of that assistance each year (Horisaka, 1990; Stalling, 1991).

The level of trade between Japan and Latin America has been very low, and there are indications of some marginalization of Latin America in the internationalization scheme of the Japanese economy. Japanese government statistics show that in 1989 Japan's exports to the region represented 3.2% of total Japanese exports, with a value of US\$8.8 billion, while Japan's imports amounted to 4.1% of the total, equivalent to US\$8.5 billion. Likewise, in 1989 Japan received 5.0% of Latin America's total exports and provided the region with 5.5% of its total imports (GATT, 1990). Although Latin America has tried to diversify its export markets, and the Japanese market has been an important objective of the trade policies applied, for most of the countries these efforts have not been successful.

In Japanese trade, a striking phenomenon has been the boom in imports, as export promotion has been accompanied by rapid expansion of domestic demand. The volume of imports of this country increased by 50% between 1985 and 1989, and in that period the value of imports of manufactures rose even more spectacularly: from US\$31 billion to US\$116 billion. The reduction in Japan's competitiveness in various industries has permitted an increase in exports of manufactures from developing countries to that market, especially from the newly industrialized Asian countries and the ASEAN countries. However, the penetration of manufactures from Latin America into the Japanese market has been very limited, compared with the entry of such products into the United States and European markets. Bearing in mind the high growth rate of the recently industrialized Asian countries and the ASEAN nations, Latin America's low share represents a vitally important challenge to the strategy of securing a greater presence in the Japanese market.

²³In recent years, Japanese foreign direct investment has gone almost entirely to the non-manufacturing sectors of Latin America. Among these, finance, insurance and transport account for some 90% of the total invested.

In this process, Japan's growing capacity to absorb more imports of manufactures from other Asian Pacific countries fulfills a certain function but still does not permit the replacement of the United States in this respect. At the same time, the newly industrialized Asian countries have begun to play a role of their own, opening their markets to imports from South East Asia and China and increasing direct investment²⁴ and the transfer of technology to those areas. It may be noted that in 1990, the recently industrialized Asian countries, plus Malaysia and Thailand, registered exports and imports of US\$320 billion and US\$330 billion, equivalent to 9.2% of world exports and imports of goods. Latin America should pay close attention to the new trends being registered in Japan and the Asian Pacific countries, in order to determine the best way of entering these dynamic markets.

Although the estimated growth rates for Japan are lower than those achieved in earlier periods, they are still quite high compared with those of other developed countries. Moreover, as the gross national product of Japan is equal to 16% of the world product and its external trade is equivalent to nearly 8% of total world trade, the Japanese market will probably continue to be one of the most dynamic ones. In view of its low ratio of imports with respect to the gross domestic product and the significant increase in its imports in recent years, Japan will probably increase its consumption of manufactures and of some products with a high content of raw materials. It should be noted that in Japan the index of per capita imports has increased significantly in the case of some products of great interest to Latin America. Although the latter region has gained an important position as a supplier of most of the products imported by Japan, it will be necessary to intensify promotion activities and raise the quality of the supply, with possible increases in added value. It would also be beneficial if Japan promoted structural adjustment policies which made it possible to increase the degree of local processing in the Latin American

²⁴The number of Japanese companies investing in other Asian countries more than doubled in 1985-1989. In 1989, Japan was the biggest direct investor in Korea, Thailand, Indonesia, Taiwan and Malaysia, while it occupied second place in the Philippines and Hong Kong. By the end of the 1980s, other Asian countries had also emerged as important direct investors in ASEAN countries, so that now the annual flows of direct investment by recently industrialized Asian countries in the ASEAN nations are exceeding those of Japan and the United States.

countries. In this connection, it would be necessary to promote direct investment by Japan or other technical cooperation schemes (granting of licenses, sub-contracting, etc.) which could help to introduce a new division of labour by providing capital and/or technology.

Although some tariff and non-tariff restrictions still exist in Japan, they are no greater than those in other industrialized countries (Sinha, 1990); suffice it to recall in this respect the Common Agricultural Policy of the EEC and the various restrictions imposed on Latin American products by the United States authorities. The average level of customs tariffs in Japan is lower than in the EEC and the United States, except for some tariff scaling applicable to more highly processed goods. At all events, the Latin American countries must do their utmost to carry on successful negotiations within GATT.

Possibly the biggest barrier is the marketing system of Japan. Consequently, at least until Latin American businessmen gain a better knowledge of the Japanese market, it would be advisable to make use of the services of the *sogo-shosha*,²⁵ which are perfectly familiar with the environment and have internal marketing channels. They are also important co-financiers of joint operations or big projects, in conjunction with other investment firms in the recipient market and in Japan. However, this does not

²⁵ In fiscal year 1988, the nine biggest *sogo-shosha* handled over 41% of Japan's exports and 74% of its imports. It is estimated that the total external transactions of these nine companies represent around 9% of world trade in goods.

mean that exporters should abandon their efforts to establish their own marketing system. In order to progress in this direction, it would be useful to contact the Japan External Trade Organization (JETRO), which is represented in most Latin American countries, in order to obtain information on the Japanese market in general and its special features and requirements. In this same connection, in view of the distance between the two regions, Latin America should continue with the formulation of concrete projects for the construction of port and other infrastructure, in order to facilitate the loading, storage and transport of Latin American exports to Japan and other Asian countries.

Finally, so far Japan's basic tactic with regard to Latin America has been to seek ways of supporting the United States. Japan is well aware of its economic interests in the region, but this is not sufficient to lead Japanese politicians to challenge the United States or become its opponents. By applying such a policy, however, they are running the risk of encouraging and even subsidizing the formation of a trade bloc in the Americas, headed by the United States. It would be perfectly feasible for Latin America to turn to its own benefit Japan's ambiguous and makeshift attitude to the Enterprise for the Americas. In order to work out a Latin American strategy for improving the region's place in world trade it is vitally important to determine whether Japan's current appraisal of the importance of the United States as the leading actor in the region will remain valid or will change, and if so, how.

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