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Distr.
RESTRICTED

LC/MEX/R.728
7 September 1999

ORIGINAL: ENGLISH

ECLAC

Economic Commission for Latin America and the Caribbean

**THE GLOBAL FINANCIAL CRISIS AND ITS EFFECTS ON
LATIN AMERICAN AND CARIBBEAN ECONOMIES**



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1. Introduction

In his analysis of the 19th century money market "Lombard Street", Bagehot wrote:

"We cannot appeal, therefore, to experience to prove the safety of our system as it now is, for the present magnitude of our system is entirely new. Obviously a system may be fit to regulate a few millions and yet quite inadequate when it is set to cope with many millions".

Magnitude and speed of capital flows are key elements of the financial global crisis which began with a minor event, the devaluation of Thailand's national currency, and which has spread by direct or indirect mechanisms to different parts of the world. The financial crisis has undergone four distinct stages. The first corresponds to the Asian crisis. The second stage, compounded by oversupply of world oil, is characterized by depressed prices of basic commodities and thus by declining terms of trade for developing economies. The third stage, that of the Russian crisis, "raised the spectre of sovereign default." The fourth stage corresponds to Brazil's abandonment of a choice of nominal exchange rate to anchor inflation.

As a consequence of these transmission mechanisms and as a result of policy-induced macroeconomic adjustment decisions, Latin America's GDP growth decreased in 1998 and is expected to further decline in 1999.

Regional trade agreements are not immune to economic performance. Indeed, external or internal changes in macroeconomic variables affect the volume and direction of trade between commercial partners. More important, trade and policy reform commitments may be altered when the conditions that generated such agreements are liable to change, especially when these changes are felt asymmetrically. In the process of formalizing negotiations for a free trade area of the Americas, it becomes imperative to provide a primer on the effects of the global financial crisis in the region.

The paper is divided in seven sections. Following this introduction, the second and third sections provide a brief overview of the global financial crisis and address the question of the relationship between regional trade agreements and macroeconomic performance. The fourth section centres on balance of trade effects of the global financial crisis. In this section, both import and export sides of the balance of trade are considered. Regarding the export side, quantity (external demand) and price (real exchange rate) factors are distinguished. The fifth section focuses on financial issues, particularly capital flow behaviour and the international debt market. The section ends with a brief discussion on vulnerability as measured by external debt and with sovereign risk indicators for 1999. Section six examines the fiscal dependency on export and import taxes for individual Latin American and Caribbean countries and for regional blocs. The conclusions and final reflections are presented in the last section.

2. The financial crisis: a brief overview

The global financial crisis which began with a minor event, the devaluation of Thailand's national currency –the baht– in July 1997, has had important unprecedented contagion effects on both big and small economies throughout the world. The financial crisis has proceeded in a sequential fashion in four distinct but interrelated steps. The first one is the Asian crisis proper (May-November, 1997); the second is referred to as the terms of trade effect (December-July, 1998), the third is the Russian crisis (July-October, 1998) and finally the Brazilian crisis (December-February, 1999).

The Asian crisis affected commodity markets by depressing demand for basic commodities and as a result of East Asian countries' devaluations of their currencies which measured in real terms reached in some cases more than 170%. The decline in basic commodity prices has placed fiscal constraints on some countries whose governmental budget equilibrium depends on export prices of basic commodities.

Also following the outbreak of the Asian crisis there were important changes in the composition of international investor's portfolios. International investors were inclined to reduce their holdings of emergent market financial instruments with lower degree of risk vulnerability such as United States treasury bonds. Moreover, they were forced to sell their Latin American portfolio to offset losses in Asian holdings and to meet redemptions in their portfolios.

In addition to the impact on the availability and variability of foreign capital flows which was clearly reflected in exchange and interests rate variations (see table 1), the Russian default compounded investor feared sovereign global default. Some countries have been partly shielded from the effects of the financial turmoil either by sound policies or by the lack of developed money markets. However, most countries have experienced increasing current account and budget deficits in the region, as reduced access to international capital markets from September 1998 on became a reality.

The policy response has varied between tightening fiscal and monetary policies to achieve the required adjustment with the concomitant associated cost in terms of output and employment or adapting passively to the situation. The second option has often resulted from underlying political pressures and has increased external vulnerability.

Overall the effects of the financial crisis, whether direct or induced through contractionary fiscal and monetary policies, have had an important effect in macro variables. In particular the current and future rates of economic growth are expected to decline (see table 2). The slowdown in growth is not and will not be the same for all the countries of the region.

Table 1

VOLATILITY OF EXCHANGE AND INTEREST RATES FOR SELECTED
LATIN AMERICAN COUNTRIES, 1996-1999

Country	Asian crisis		Basic commodity price decline		Russian crisis		Brazil crisis	
	May-November, 1997		December-July, 1997		July-October, 1998		December 1998-February 1999	
	E	I	E	I	E	I	E	I
Argentina	0	2.23	0	2.31	0	2.45	0	2.08
Brazil	0.01	8.37	0.12	9.6	0.016	5.17	0.47	5.3
Chile	3.67	3.22	8.17	2.4	4.9	5.06	14.5	4.73
Colombia	90.9	0.75	39.6	7.12	97.67	1.3	16.52	2.08
Costa Rica	4.29	0.13	5.211	0.31	2.57	0	3.17	0
Ecuador	135.1	1.76	382.67	2.7	641.93	2.89	1,175	5.68
Mexico	0.17	0.76	0.32	0.64	0.62	2.45	0.11	2
Panama	...	0.21	...	0.09	...	0.08	...	0.06
Peru	5.47	0.62	76.4	0.97	0.06	0.76	0.14	0.77
Uruguay	0.17	3.1	0.18	2.96	0.04	1	0.11	1.19
Venezuela	6.01	2.73	17.71	8.62	8.60	2.58	6.43	3.51

Source: ECLAC (1999); BPC securities (1999). Note: E = national currency dollar exchange rate; I = interest rate. Volatility is measured by the standard deviation.

Table 2

LATIN AMERICA. SELECTED INDICATORS, 1996-1999

	1996	1997	1998	1999
		Internal performance		
Real GDP	3.7	5.2	2.1	-1.5
Domestic Demand	3.9	6.8	1.9	-4.0
Consumer prices	16.2	8.5	8.3	12.8
		External performance		
Export Volume	10.5	12.3	7.3	7.8
Import Volume	12.6	17.1	5.4	-3.7
Terms of Trade	1.9	-2.9	-9.0	-3.3
Current account balance	-2.0	-3.1	-4.3	-3.8
External debt	225	206	231	229
Interest payments	14.7	13.9	15.9	16.0

Source: Institute of International Finance (IIF) (1999).

For 1999, it is expected that most of the decline in output growth will result mainly from Brazil's economic woes. Brazil underwent a devaluation in mid-January as authorities were forced to abandon, due to excessive reserve losses, an exchange rate policy targeted at anchoring inflation to the nominal exchange rate.

Brazilian GDP is expected to fall by 5% as the government implements measures oriented to achieve a fiscal surplus and macroeconomic balance. Spillover effects through trade linkages or borrowing spreads have affected other countries in the region. From a financial point of view Argentina and Colombia have been affected as national authorities raised short term interest rates. In Argentina prime rates of interest increased by five percentage points following the Real devaluation.

From a trade perspective, Paraguay, Uruguay, and Argentina are likely to be affected as their respective exports to Brazil represent 25%, 34% and 28% of their total external sales for 1998. Other countries are likely to be better positioned to withstand the "Samba Effect" as their trade linkages are not significant. Colombia, Ecuador or Mexico are cases in point. In particular, Mexico is shielded from regional disturbances by its trade relationship with the United States. The United States market share of Mexican exports amounts to 82%.

3. Regional Trade Agreements and Macroeconomic Performance

Tables 3 to 6 show intra-regional exports as a percentage of total exports by partner country for the Central American Common Market (CACM), Mercosur, Andean Community and G-3 countries.

In the case of the Central American Common Market (CACM) and viewed from the export side, intra-regional trade accounts for 17% and 12% from the import side. These percentages have remained almost constant throughout the 1990's. The export and import dynamics have fluctuated significantly and do not seem to exhibit a pattern. The average rate of growth of exports is 14% and 14.7% for imports for the period 1994-1998. The standard deviation is 5 and 9 respectively.

Table 3 also highlights the importance of the bilateral trade relationship between Guatemala and El Salvador for the CACM. Close to 20% (12%) of all Salvadoran (Guatemalan) exports go to the Guatemalan (Salvadoran market).

In a similar fashion the bilateral trade relationship between Brazil and Argentina is fundamental to the workings of the Mercosur. Moreover, in this case also Paraguay and Uruguay depend heavily on the Brazilian market as an outlet for their exports. On average between 1990 and 1998, 34% of all Paraguayan and 31% of Uruguayan exports were destined for the Brazilian market (see table 4, below). In Mercosur intra-regional trade accounts for 26% of total exports.

In the case of the Andean Community, there are important relationships between Bolivia and Peru and between Colombia and Venezuela. However, their trade linkages are not as strong as those of the CACM or Mercosur countries. Andean Community countries have in fact strengthened ties with other individual countries or with other trade agreements. Colombia and Venezuela have formed the G-3 group with Mexico (see table 6 for intra-regional flows) while Bolivia has become an associate member of Mercosur.

Intra-regional trade accounts only for 14% of total trade. During the 1990's trade growth has proceeded at a steady pace above 20% between 1990-1997. During 1998, Bolivian exports to other members of the Andean Community increased by 8.6% (mostly soy exports) as did Peruvian external sales. Ecuador increased its exports by 5%, while both Colombia and Venezuela

experienced declines in their rates of growth of exports. In particular depressed demand in Venezuela affects Colombian manufacturing exports in a significant way.

Table 3

CENTRAL AMERICAN COMMON MARKET. INTRA-REGIONAL EXPORTS
AS PERCENTAGE OF TOTAL EXPORTS, 1990-1998

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Costa Rica					
1990		2.47	3.27	1.26	1.85
1993		2.27	2.16	1.90	3.07
1995		2.46	1.76	0.67	3.44
1996		2.40	1.15	0.76	3.79
1997		2.37	1.89	0.74	3.73
1998		2.47	1.75	0.77	3.42
Average Share		2.41	2.05	1.02	3.22
El Salvador					
1990	8.19		17.24	2.9	1.54
1993	8.96		21.85	6.51	9.75
1995	8.79		14.69	6.89	4.50
1996	9.12		20.59	9.51	5.20
1997	4.51		8.85	...	2.59
1998	4.61		8.63	...	2.66
Average Share	7.36		15.31	4.30	3.54
Guatemala					
1990	6.19	12.05		3.18	2.68
1993	7.08	14.23		5.74	4.10
1995	5.22	13.89		6.56	3.67
1996	4.72	10.77		6.31	3.69
1997	3.47	9.76		5.61	2.65
1998	2.94	8.03		4.87	2.20
Average Share	4.94	11.46		5.36	3.16
Honduras					
1990	0.12	1.56	1.44		0.12
1993	0.36	2.25	1.88		0.44
1995	0.52	0.81	2.28		0.62
1996	0.53	2.59	1.70		0.61
1997	0.46	...	1.69		0.57
1998	1.54	...	5.33		1.89
Average Share	0.59	1.20	2.37		0.71
Nicaragua					
1990	4.91	3.07	3.99	2.76	
1993	4.18	6.08	1.14	2.66	
1995	3.23	7.07	1.41	1.01	
1996	2.90	7.89	1.29	0.97	
1997	2.73	7.29	0.89	0.93	
1998	3.67	7.40	0.91	0.96	
Average Share	3.60	6.47	1.61	1.55	

Source: DOTS Yearbook, IMF (1990-1998). Several issues.

Table 4

MERCOSUR. INTRA-REGIONAL EXPORTS AS PERCENTAGE OF
TOTAL EXPORTS, 1990-1998

	Argentina	Brazil	Paraguay	Uruguay
Argentina				
1990		11.52	1.19	2.13
1993		21.45	2.07	3.90
1995		29.48	1.31	3.16
1996		27.80	1.06	3.05
1997		27.57	2.18	2.71
1998		28.07	2.20	3.11
Average Share		24.32	1.67	3.01
Brazil				
1990	2.05		1.21	0.94
1993	9.44		2.48	2.00
1995	8.67		2.79	1.74
1996	10.83		2.78	1.70
1997	13.52		2.61	1.61
1998	13.71		2.46	1.70
Average Share	9.7		2.39	1.6
Paraguay				
1990	5.17	29.35		1.13
1993	8.46	27.99		0.91
1995	8.07	40.26		3.03
1996	11.0	44.22		2.26
1997	12.47	38.46		1.64
1998	22.90	25.47		2.15
Average Share	11.3	34.29		1.85
Uruguay				
1990	4.74	29.25	0.35	
1993	18.83	21.81	0.95	
1995	12.69	33.10	1.18	
1996	11.35	34.67	2.09	
1997	12.67	33.61	2.17	
1998	15.78	34.37	2.11	
Average Share	12.68	31.14	1.48	

Source: DOTS Yearbook, IMF (1990-1998). Several issues.

Table 5

ANDEAN COMMUNITY. INTRA-REGIONAL EXPORTS AS PERCENTAGE
OF TOTAL EXPORTS, 1990-1998

	Bolivia	Colombia	Ecuador	Peru	Venezuela
Bolivia					
1990		0.43	...	5.74	0.33
1993		4.60	0.87	9.83	0.25
1995		5.42	0.59	12.46	0.53
1996		9.54	0.58	11.10	...
1997		6.87	0.28	12.39	0.11
1998		7.69	0.30	13.85	0.11
Average Share		5.76	0.5	10.90	0.27
Colombia					
1990	0.07		1.11	1.32	3.02
1993	0.24		2.99	2.82	9.63
1995	0.24		4.25	5.71	9.49
1996	0.29		4.02	5.86	7.45
1997	0.30		4.05	2.94	7.50
1997	0.32		4.16	1.01	7.70
Average Share	0.24		3.43	3.28	7.47
Ecuador					
1990	...	1.18		5.08	0.66
1993	0.07	4.72		4.35	0.33
1995	0.09	5.78		1.58	0.78
1996	0.08	5.68		0.97	0.67
1997	...	6.24		1.60	0.67
1998	...	6.44		1.73	0.28
Average Share	0.08	5.01		2.6	0.57
Peru					
1990	0.61	2.90	0.98		1.68
1993	1.82	2.48	1.33		2.17
1995	1.40	2.19	0.85		2.94
1996	1.74	2.07	1.21		2.15
1997	1.65	2.31	1.66		2.07
1998	2.07	2.86	1.94		2.40
Average Share	1.55	2.47	1.33		2.24
Venezuela					
1990	0.00	1.88	0.39	0.16	
1993	0.01	5.68	0.29	0.60	
1995	0.06	6.40	1.23	1.77	
1996	0.05	5.18	1.07	1.90	
1997	0.08	5.70	1.03	1.43	
1998	0.10	6.84	1.21	1.83	
Average Share	0.05	5.28	0.87	1.28	

Source: DOTS Yearbook, IMF (1990-1998). Several issues.

Table 6

G-3: INTRA-REGIONAL EXPORTS AS PERCENTAGE OF TOTAL, 1990-1998

	Colombia	Mexico	Venezuela
Colombia			
1990		0.61	3.02
1993		1.11	9.63
1995		0.91	9.44
1996		0.84	7.45
1997		1.05	7.50
1998		1.06	7.50
Average Share		0.93	7.47
Mexico			
1990	0.40		0.50
1993	0.46		0.44
1995	0.60		0.48
1996	0.46		0.44
1997	0.46		0.61
1998	0.49		0.61
Average Share	0.48		0.51
Venezuela			
1990	1.88	0.50	
1993	6.17	0.44	
1995	6.35	0.48	
1996	5.18	0.44	
1997	5.70	1.65	
1998	6.84	1.86	
Average Share	5.28	0.90	

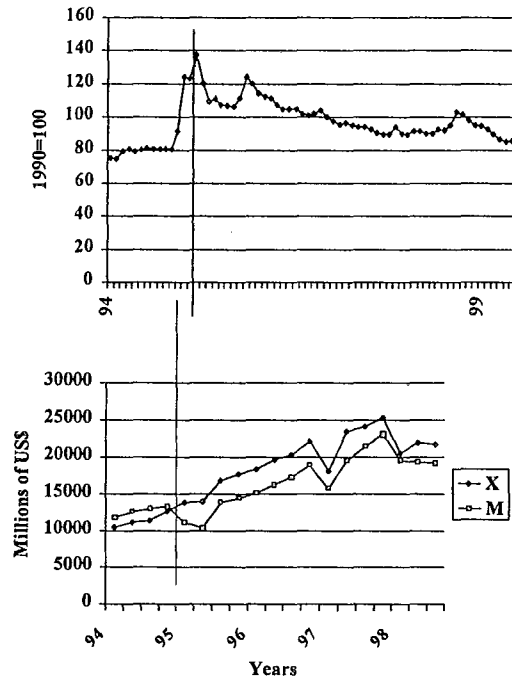
Source: DOTS Yearbook, IMF (1990-1998). Several issues.

Regional trade agreements are not immune from macroeconomic performance. Disturbances, whether domestically or externally generated, can result in fluctuations in policy variables which may cause trade distortions.

Graphs 1 to 3 show bilateral real exchange rate variations in four selected cases, Mexico-United States; Brazil-Argentina; Guatemala-El Salvador; Colombia-Venezuela, and the corresponding export and import behaviour. In these examples the trade deficit behaviour over time responds to real exchange rate performance.

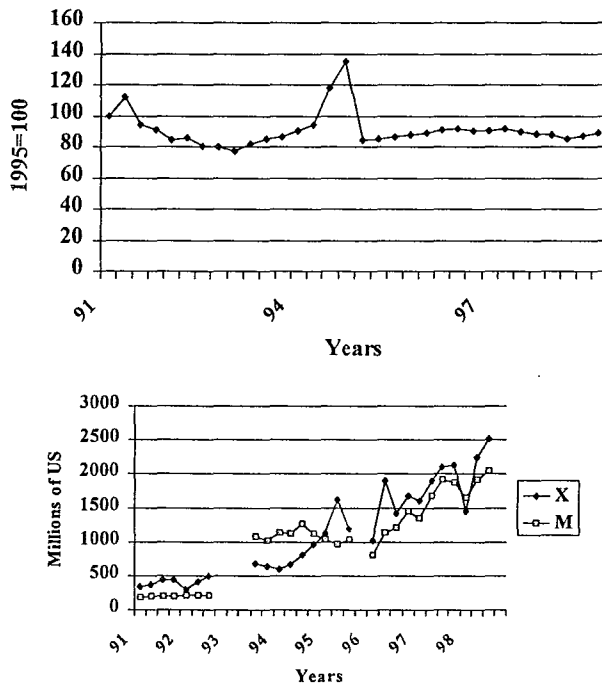
In the case of Mexico-United States the devaluation of the peso in December 1994 coincides with an increase in the real exchange rate (i.e., depreciation of the currency) which leads to a change from a trade balance deficit to a surplus in the first quarter of 1995 (this is shown in Graph 1 by a vertical line). For Argentina-Brazil, the increase in the real exchange rate (i.e., depreciation of the currency) of Argentina relative to Brazil around the fourth quarter of 1994 is accompanied by an increase in exports and a decrease in imports. Colombia-Venezuela illustrates the opposite case. A decrease in the exchange rate Colombia-Venezuela (i.e., appreciation of the currency) is associated with an increase of imports over exports (a widening of the trade deficit). Finally, the stability of the Guatemala-El Salvador exchange rate goes hand in hand with the stability of the export-import behaviour over time.

Graph 1: Real Dollar Index-Mexico (monthly data) and bilateral exports and imports (quarterly data), 1994-1999



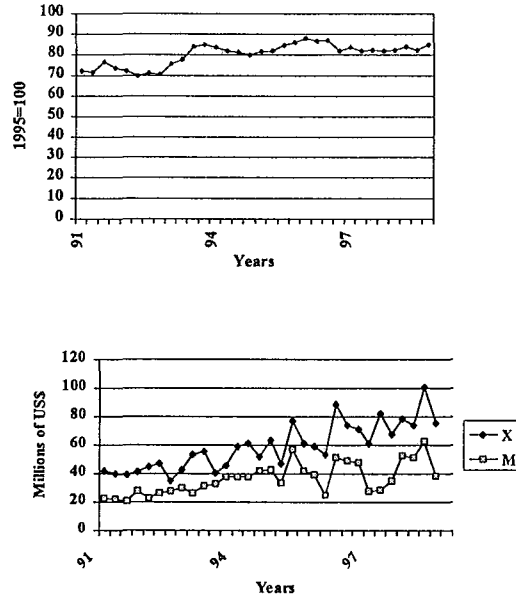
Source: Federal Reserve Bank of Dallas (1999); DOTS Yearbook, IMF (1995-1998).
 Note: The vertical line in both graphs corresponds to the first quarter of 1995.

Graph 2: Argentina-Brazil real exchange rate and bilateral exports and imports 1991-1998; Quarterly Data



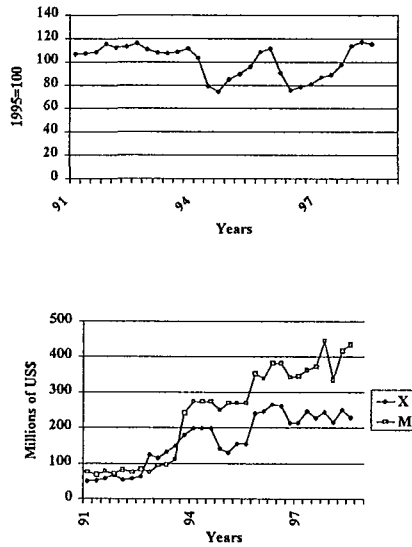
Source: ECLAC (1999); IMF (1999); DOTS Yearbook, IMF (1995-1998).

Graph 3: Guatemala-El Salvador real exchange rate and bilateral exports and imports
1991-1998; Quarterly Data



Source: ECLAC (1999); IMF (1999); DOTS Yearbook, IMF (1995-1998).

Graph 4: Colombia-Venezuela real exchange rate and bilateral exports and imports
1991 - 1998; Quarterly Data



Source: ECLAC (1999); IMF (1999); DOTS Yearbook, IMF (1990-1998).

These examples, as well as more recent ones such as the effects of the Brazilian devaluation on the automobile industry or the consequences of slack demand in Venezuela for Colombian manufacturing exports, illustrate the importance of maintaining stability of basic macroeconomic variables.

They also provide a reminder that trade policy and trade commitments are not independent from macroeconomic performance. According to Eichengreen (1998), following Argentina's implementation of the convertibility plan, the peso-real real exchange rate appreciated sharply. As Argentina registered a bilateral trade deficit with Brazil, in 1992 the authorities imposed anti-dumping measures and safeguard clauses against exports of farm machinery, spark plugs, and steel among other products. The January 1999 real devaluation led to expectations that similar measures would be undertaken by Argentina. And indeed, Argentina has announced higher tariffs on Latin American imported textiles. This has highlighted the fragility of the Mercosur trade arrangements and compromises.

If regional agreements were able, during the early 1990's, to make progress by reducing trade barriers amongst members and engaging into significant tariff reductions schedules with third countries, (as shown in table 7 below) it was in part the result of capital inflow availability, investors' so-called 'animal spirits', world economic stability and prospects of future growth.

Table 7

AVERAGE TARIFF RATES FOR SELECTED LATIN AMERICAN COUNTRIES

Country	Pre-reform Average Duty Rate	Average Duty Rate 1995	Average Duty Rate and Duty Ranks 1999
Argentina	44	14	14.1
Bolivia	10	...	9.7
Brazil	69	13	15
Colombia	24	...	12
Costa Rica	52	5-20	0-16
Chile			10
Dominican Republic	...	17.5	17.3
Ecuador	17		14
El Salvador	48	5-20	0-15
Guatemala	50	5-20	0-15
Honduras	41	5-20	0-15
Mexico	23.8	13.7	16.1
Paraguay	19	9	12
Peru	17	...	...
Uruguay	27	10	7
Venezuela	17	...	12

Source: Latin American Integration Association (LAIA) (1999).

In this sense, and for the reasons already stated, it becomes important to analyse, in the light of the Free Trade Area of the Americas negotiation efforts, the effects of the financial crisis on Latin American and Caribbean economies. Moreover, the ongoing negotiations make it

important to understand how economies, big and small, react to external shocks. Finally, the analysis of transmission and propagation mechanisms may facilitate the task of outlining potential policy options.

4. Balance of trade effects

The economies of Latin America and the Caribbean are mostly open economies and as a result are dependent on balance of trade performance. The global financial crisis can affect both sides of a balance of trade accounting. On the one hand, changes in external demand, and in competitive positions in third markets affect exports (i.e., injections). On the other hand, variations in income are likely to determine import behaviour (i.e., leakages). In this section the effects of the global financial crisis are ascertained by focussing on external demand, real exchange rate appreciation and import changes relative to income variations.

a) External demand

When analysing the external demand effect of the Asian crisis, it is important to distinguish between a direct and an indirect external demand effect. The former effect refers to the potential decrease in Central American and Caribbean exports to East Asian countries that have experienced substantial decreases in GDP. These are Indonesia, Malaysia, Philippines, Thailand, South Korea (See Table 8) and are referred to in this paper as Asian Crisis Countries (ACC, hereafter) for analytical purposes.

For 1998 the average GDP growth for ACC declined by -6.7%. In 1999 GDP growth is expected to reach -0.5%. However its effect on regional exports is not significant. The ACC average market share for the years 1992-1998 amounts to 0.14% for the MCCA; 0.19% for the G-3; 1.43% for the Andean Community; 0.39% for Caribbean Community (CARICOM) countries. In the cases of the Mercosur and the North American Free Trade Agreement (NAFTA), the ACC share is higher, 3.22% and 5.11% respectively (see Tables 8 and 9).

Table 8

GDP GROWTH FOR ACC, 1996-1999

Country	1996	1997	1998e	1999e
Indonesia	8.0	5.0	-14.3 (-13.7)	-5.0 (-4.0)
Malaysia	8.6	7.0	-6.2 (-6.8)	-0.1 (0.9)
Philippines	5.7	5.1	0.0 (-0.5)	2.6 (2.0)
Thailand	6.4	0.6	-7.7 (-8.0)	-0.2 (1.0)
South Korea	7.1	5.5	-5.2 (-5.5)	0.3 (2.0)
Regional Average	7.2	4.6	-6.7 (-6.9)	-0.5 (0.4)

Source: ECLAC (1998), Mexico City. 1999, Economic outlook for East Asia, IDE/Japan. Dec 1998. IMF, May 1999, World Economic Outlook.

Note: Figures in parenthesis correspond for 1998 and 1999 correspond to IMF forecasts. The figures that are not in parenthesis for 1998 and 1999 correspond to IDE/Japan forecasts.

Table 9

ACC MARKET SHARE OF SELECTED REGIONAL BLOC EXPORTS 1990-1998

Region/Country	1992	1993	1994	1995	1996	1997	1998*
NAFTA	4.91	5.08	5.33	6.20	6.11	4.92	3.24
CMCA	0.27	0.14	0.17	0.15	0.12	0.06	0.06
G-3	0.15	0.24	0.17	0.23	0.25	0.15	0.14
Mercosur	3.31	3.26	3.19	3.91	4.03	2.92	1.95
Andean Community	0.66	1.73	1.76	1.71	1.59	1.24	1.32
CARICOM	0.90	0.70	0.65	0.33	0.10	0.04	0.04

Source: Module for the Analysis of Growth of International Commerce (MAGIC) (1997). ECLAC, Mexico City.

Note: ACC = Asian Crisis Countries. * preliminary, third quarter.

While the direct external demand effect of the crisis on the exports of those economies analysed in this paper is unimportant, this is not the case of the indirect effect. The latter refers to a potential decrease in their main trading partner's income. Table 10 shows the main trading partners of Latin American and selected Caribbean countries.

Looking at the bilateral trade relation from the export side, the United States and Germany are Central America and Panama's main trading partners and during 1991-1997 accounted on average for 40% and 15% of all external sales respectively. Also table 6 shows the importance of intra-regional trade partnership. This is clearly reflected in the case of El Salvador and Guatemala.

In the case of the selected Caribbean countries, and with the exception of the Dominican Republic, the United Kingdom is the leading trade partner followed by the United States (29% and 28% respectively of export market share).

In the case of South American countries the United States account for 35% of all exports. As mentioned in the previous section bilateral trade relationships are also significant. Argentina-Brazil, Paraguay-Brazil and Uruguay-Brazil are cases in point.

Table 11 presents the other side of the picture. It shows the percent import share of total United States imports for individual Latin American and Caribbean countries and for regional trading blocs. The table also includes two non-grouped countries, Chile and the Dominican Republic.

Mexico represents in 1998 10.4% of all United States imports, while the rest of the countries import share is meagre. Brazil accounts for 1% of total imports which is equivalent to the Central American Common Market share.¹

¹ The annex shows the importance for Mexico of the rest of Latin American and Caribbean countries as a source of its imports.

Table 10

AVERAGE EXPORT SHARES OF CENTRAL AMERICAN AND CARIBBEAN
MAIN TRADING PARTNERS, 1991-1997

Country	Main Trading Partners	Average Export Share (%)
Central America and Panama		
Costa Rica	United States	42
	Germany	9
	Belgium	6
	Italy	5
El Salvador	United States	25
	Germany	14
	Guatemala	21
	Costa Rica	9
Guatemala	United States	35
	El Salvador	14
	Costa Rica	6
Honduras	United States	54
	Germany	12
Nicaragua	United States	37
	Germany	10
	El Salvador	8
Panama	United States	41
	Germany	15
	Costa Rica	7
	Sweden	8
Selected South American Countries		
Argentina	United States	31
	Brazil	29
	Chile	7
	Netherlands	5
Brazil	United States	35
	Argentina	10
	Germany	7
	Netherlands	4
Paraguay	Brazil	44
	Argentina	11
	Netherlands	10
Uruguay	United States	28
	Brazil	35
	Argentina	11
	Germany	5
Bolivia	People's Republic of China	5
	United States	26
	United Kingdom	12
	Argentina	11
	Peru	10
	Colombia	10

/Continue

Table 10 (Conclusion)

Colombia	United States	41
	Venezuela	7
	Germany	6
	Peru	6
Ecuador	United States	37
	Colombia	6
	Panama	6
	Germany	6
	South Korea	6
Peru	United States	20
	Japan	7
	Germany	7
	United Kingdom	7
	People's Republic of China	7
	Switzerland	5
	Brazil	4
	Venezuela	5
Venezuela	United States	54
	Colombia	5
Selected Caribbean Countries		
Barbados	United States	19
	United Kingdom	22
	Trinidad and Tobago	12
	Santa Lucia	5
Belize	United States	49
	United Kingdom	38
Dominica	United Kingdom	44
	United States	7
	Jamaica	13
Jamaica	United States	36
	United Kingdom	15
	Canada	12
	Norway	9
Trinidad and Tobago	...	...
Dominican Republic	United States	84

Source: External Trade Data Bank for Latin America and the Caribbean (BADECEL). DOTS Yearbook, IMF(1997). In the case of South American countries export share was computed only for 1996.

Table 11

UNITED STATES IMPORTS FROM LATIN AMERICAN COUNTRIES AND THE CARIBBEAN
BY COUNTRY AND REGIONAL BLOC. MARKET SHARE, 1993-1998

	1993	1994	1995	1996	1997	1998
	NAFTA					
Mexico	6.9	7.5	8.3	9.2	9.9	10.4
	CACM					
Costa Rica	0.27	0.25	0.25	0.25	0.27	0.3
El Salvador	0.08	0.09	0.11	0.14	0.16	0.16
Guatemala	0.21	0.19	0.21	0.21	0.23	0.23
Honduras	0.16	0.17	0.19	0.23	0.27	0.28
Nicaragua	0.02	0.03	0.03	0.04	0.05	0.05
Total	0.74	0.72	0.79	0.87	0.97	1.01
	Mercosur					
Argentina	0.21	0.26	0.24	0.29	0.26	0.25
Brazil	1.29	1.31	1.19	1.11	1.11	1.11
Paraguay	0.03	0.04	0.04	0.04	0.03	0.02
Uruguay	0.01	0.01	0.01	0.01	0.01	0.00
Total	1.54	1.62	1.48	1.45	1.41	1.38
	Andean Community					
Bolivia	0.03	0.04	0.04	0.04	0.03	0.02
Colombia	0.52	0.48	0.51	0.54	0.54	0.51
Ecuador	0.24	0.26	0.26	0.24	0.24	0.19
Peru	0.13	0.13	0.14	0.16	0.20	0.22
Venezuela	1.4	1.26	1.31	1.63	1.55	1.02
Total	2.32	2.17	2.26	2.61	2.56	1.96
	CARICOM					
Antigua & Barbuda	0.003	0.001	0.00	0.001	0.001	0.000
Bahamas	0.06	0.03	0.02	0.02	0.02	0.02
Barbados	0.006	0.005	0.005	0.005	0.005	0.004
Belize	0.009	0.008	0.007	0.009	0.009	0.007
Dominica	0.001	0.001	0.001	0.001	0.001	0.001
Grenada	0.001	0.001	0.001	0.001	0.001	0.001
Guyana	0.002	0.02	0.014	0.014	0.013	0.015
Jamaica	0.12	0.11	0.11	0.11	0.09	0.082
Saint Kitts & Nevis	0.004	0.003	0.003	0.003	0.003	0.003
Saint Vincent & Grenadines	0.001	0.001	0.001	0.001	0.00	0.001
St Lucia	0.005	0.004	0.005	0.003	0.004	0.002
Suriname	0.010	0.007	0.0013	0.012	0.011	0.012
Trinidad & Tobago	0.14	0.17	0.13	0.13	0.13	0.14
Total	0.36	0.36	0.30	0.31	0.29	0.29
	Non grouped					
Chile	0.25	0.27	0.26	0.29	0.26	0.27
Dominican Republic	0.16	0.47	0.46	0.45	0.50	0.49
Total	0.41	0.74	0.72	0.74	0.76	0.76

Source: ECLAC (1999), DOTS Yearbook, IMF (1999).

The effect that a decrease in the demand of a major trading partner for Latin American and Caribbean products can have on the performance of these economies can be roughly approximated by obtaining an estimate of the percentage decrease in imports that would result from a given percent decline in that major trading partner's output.

This estimate, known as the import elasticity of income, was calculated, as a preliminary exercise, for the United States and Central American and Caribbean countries by taking into account only total United States imports for the years 1950-1997. Then as a closer approximation only the main products that the United States imports from both Central America and the Caribbean were taken into account in the calculations. These main products are 69 in number for both Central America and the Caribbean and represent 60% of the United States imports from both regions (see Table 12).

Table 12

UNITED STATES IMPORT ELASTICITY OF INCOME

Total United States Imports	Main Products from Central America	Main Products from the Caribbean
1.9	3.6	1.1

Source: National Trade Data Bank, 1999 and Bureau of Economic Analysis, 1999.

As table 12 indicates the overall import elasticity of income for the all United States products is 1.9.² This means that a decrease in say 1% output will result in a fall of 2% of all imports.

For the main products from Central America and the Caribbean the import elasticity of imports is much higher for the Central American (3.6) than for Caribbean products (1.1). This points to the fact that the Caribbean products as a whole are less prone to experience a decline due to a decrease in United States output than Caribbean products (i.e., are less elastic). This may in turn be explained by the composition of the set of United States import products from Central America and the Caribbean. While close to 70% of the main products imported by the United States from the Caribbean are petroleum products, these products represent 30% of all Central American countries exports to the United States. Additionally other important products for Central American countries are textiles, and primary products.

Given the share of Central American and Caribbean products in United States imports calculations were carried out which indicated that a 1% decrease in United States GDP would translate into a decrease of 7% for Central American and 5% Caribbean exports to the United States.

However, the United States and in general industrialized economies have fared well and their performance has not been affected by the global financial crisis. The exceptions are Japan, Italy and the United Kingdom. Japan's GDP growth has remained negative from the fourth quarter of 1997 throughout 1998. The United Kingdom and Italy have registered marked decreases in their rate of

² This estimate is close to Bairam (1997) who found that for 1970-1986 the import elasticity of income of the United States was 2.22.

growth by at least more than one percentage point between the third quarter of 1997 and the third quarter of 1998.

Short term interest rates have for the most part remained at their 1997 levels or shown slight decreases. Canada and once again the United Kingdom have been the exceptions to this trend as both have increased their interest rates.

Table 13

GDP GROWTH AND SHORT TERM INTEREST RATES FOR INSDUSTRIALIZED COUNTRIES, 1996-1999. QUARTERLY DATA

	96.2	96.4	97.1	97.4	98.1	98.3	98.4	99.1
United States	3.9	3.9	4.1	3.8	4.2	3.5	4.3	4.0
Canada	5.4	5.4	5.4	5.7	5.6	5.5	5.2	4.9
Euro Area	0.9	1.8	2.7	4.4	3.9	2.3	2.8	...
France	4.9	3.2	3.1	4.1	4.8	5.3	5.1	5.0
Germany	1.4	2.0	1.6	3.1	3.7	2.8	2.3	...
Italy	4.6	4.2	4.1	4.2	4.0	3.8	3.4	...
Japan	1.0	2.4	1.1	3.0	3.8	2.9	2.8	...
UK	4.0	3.5	3.4	3.7	3.6	3.6	3.5	...
	1.0	2.1	2.5	2.3	3.4	2.7	1.8	...
	3.3	3.2	3.2	3.7	3.5	3.5	3.5	...
	0.7	-0.2	-0.9	2.0	2.5	1.2	...	...
	9.1	7.6	7.3	6.4	6.0	4.9	4.0	...
	4.9	5.1	3.8	-0.8	-3.6	-3.1	-3.0	...
	0.6	0.5	0.6	0.7	1.0	0.7	0.6	0.5
	2.5	2.6	2.9	3.9	3.1	1.8	1.1	...
	6.0	6.2	6.2	7.5	7.5	7.6	6.8	...

Source: The Federal Reserve Bank of St. Louis, May 1999.

b) Increased competition in export markets

Since the outbreak of the Asian Crisis all ACC have experienced real exchange rate depreciations reaching in some cases more than 200%, i.e., Indonesia (see table 14 below). Additionally the national currencies of Latin American countries and those of some Caribbean countries have for the most part maintained their purchasing power (see table 15 below). For both reasons the resulting relative appreciation of the Latin American and Caribbean dollar exchange rate with respect to ACC could by itself have adverse consequences for those specific products with which these regions and the ACC compete in third product markets. Due to limitations in data availability this section focuses on the United States product market.

Table 14

ACC CURRENCIES REAL EXCHANGE RATES, 1996-1999

(1995 = 100)

Country	1996	1997	1998	1998 First Quarter	1999 First Quarter
Indonesia	99.25	118.06	262.24	312.2	...
Malaysia	99.88	111.38	149.97	153.77	143.01
Philippines	96.78	105.96	137.12	140.88	122.82
Thailand	98.93	118.57	147.04	169.54	132.12
South Korea	102.31	118.50	165.05	188.17	141.72

Source: ECLAC, 1999; IMF 1999); Central Bank of Malaysia (1999).

Table 15

SELECTED LATIN AMERICAN CURRENCIES REAL EXCHANGE RATES, 1996-1999

(195 = 100)

Country	1996	1997	1998	1998 First Quarter	1999 First Quarter
Argentina	102.7	104.5	105.3	104.6	106.4
Bolivia	96.8	97.9	96.9	95.5	99.4
Brazil	97.3	99.9	106.0	102.6	162.1
Colombia	97.2	92.4	100.5	97.7	...
Costa Rica	101.2	102.4	103.1	102.6	103.8
Chile	99.9	97.6	103.4	102.4	108.7
El Salvador	93.7	91.8	91.0	91.5	90.8
Guatemala	96.4	90.6	90.7	90.2	98.0
Haiti	88.7	79.8	73.8	78.1	70.7
Honduras	102.7	97.2	89.4	92.8	87.8
Jamaica	86.0	76.5	73.9	75.4	79.1
Mexico	90.6	80.1	81.0	78.1	79.3
Nicaragua	102.7	107.7	108.4	109.3	108.3
Peru	100.0	102.9	107.0	103.4	121.4
Dominican Republic	98.9	96.8	100.4	97.1	101.7
Trinidad & Tobago	100.5	103.3	98.6	102.4	...
Uruguay	100.7	101.8	103.6	102.8	105.3
Venezuela	121.5	97.0	81.4	84.7	74.6

Source: ECLAC, 1999; IMF (1999).

The effects of real exchange rate variations for regional trade agreements positioning on product competitiveness in the United States was ascertained through a by-product analysis at the two digit level for main export products to the United States by regional trade bloc. These blocs comprise the ACC, G-3, CACM, Andean Community, Mercosur, CARICOM. The products here considered represent more than 50% of all exported products to the United States.

Table 16

MAIN UNITED STATES MARKET SHARE IMPORT STRUCTURE FROM ACC, 1993-1998.
IN PERCENTAGE OF COUNTRIES' TOTAL EXPORTS

Product	1998	1997	1996	1995	1994	1993
Electrical machinery	34.13	37.18	38.16	39.95	36.49	33.61
Nuclear reactors	21.92	16.64	18.08	16.34	14.25	12.99
Articles of apparel	5.50	5.42	5.47	5.68	6.57	7.93
Articles of apparel	4.15	3.66	3.21	3.30	3.69	4.08
Rubber and related articles	3.06	3.21	3.74	3.84	3.15	3.41
Vehicles	2.67	3.05	3.18	2.85	3.13	2.09
Furniture bedding	1.77	1.71	1.66	1.59	1.75	1.69

Source: MAGIC (1999).

Table 17

UNITED STATES MARKET SHARE IMPORT STRUCTURE FROM CACM, 1993-1998.
IN PERCENTAGE OF COUNTRIES' TOTAL EXPORTS

Product	1998	1997	1996	1995	1994	1993
Articles of apparel	29.87	27.97	23.42	20.01	16.58	14.40
Articles of apparel	27.02	28.20	29.02	31.6	32.332	31.63
Nuts and fruits	8.55	9.26	11.39	12.81	13.27	14.60
Coffee	7.57	8.73	6.49	8.85	7.69	7.61
Electrical machinery	4.02	3.89	2.92	2.76	2.65	2.66
Nuclear reactors	3.93	0.10	0.10	0.11	0.20	0.5
Fish products	1.62	2.37	3.23	2.08	2.53	.70

Source: MAGIC (1999).

Table 18

UNITED STATES MARKET SHARE IMPORT STRUCTURE FROM G-3 COUNTRIES, 1993-1998.
IN PERCENTAGE OF COUNTRY'S TOTAL EXPORTS

Product	1998	1997	1996	1995	1994	1993
Electrical machinery	23.76	21.07	20.77	21.96	23.60	21.65
Vehicles	15.55	14.92	15.73	13.87	11.84	12.02
Mineral fruits	14.04	21.57	22.35	20.79	21.71	26.17
Nuclear reactors	10.72	9.63	8.73	8.44	8.87	7.12
Articles of apparel	3.78	3.18	2.79	2.72	2.49	2.47
Optical photography	3.06	2.53	2.60	2.84	3.04	2.64
Special classification	2.93	2.62	2.61	2.86	2.84	2.83
Articles of apparel	2.72	2.20	1.71	1.47	1.03	0.74

Source: MAGIC (1999).

Table 19

UNITED STATES MARKET SHARE IMPORT STRUCTURE FROM THE ANDEAN
COMMUNITY, 1993-1998. IN PERCENTAGE OF COUNTRY'S TOTAL EXPORTS

Product	1998	1997	1996	1995	1994	1993
Mineral fuels and oils	59.09	67.50	69.75	64.0	61.0	67.43
Pearls	5.15	2.73	3.32	3.65	3.46	3.31
Coffee tea	4.77	4.60	3.38	4.61	4.98	2.66
Fish products	4.40	3.81	2.81	3.91	4.45	3.77
Fruit and nuts	3.0	2.27	2.10	2.72	3.25	3.33
Live tress	2.54	2.01	2.12	2.24	2.08	2.02
Articles of apparel	2.08	1.45	1.14	1.57	1.56	1.14
Aluminium	1.53	1.36	1.40	1.93	1.87	1.00

Source: MAGIC (1999).

Table 20

UNITED STATES MARKET SHARE IMPORT STRUCTURE FROM MERCOSUR, 1993-1998.
IN PERCENTAGE OF COUNTRY'S TOTAL EXPORTS

Product	1998	1997	1996	1995	1994	1993
Nuclear reactors	10.82	10.63	11.11	11.70	10.48	9.69
Iron and steel	9.55	9.5	9.94	9.92	9.0	5.99
Footwear	8.25	9.63	10.75	10.66	12.20	16.35
Aircraft	6.48	2.56	1.25	0.84	0.64	1.30
Mineral fuels	6.28	5.92	8.51	4.56	5.72	5.85
Electrical machinery	4.01	4.45	2.53	2.44	2.30	2.61
Vehicles	3.62	3.25	3.27	3.73	3.32	3.66
Pearls	3.56	3.88	3.28	3.13	4.62	2.47
Coffee and tea	3.52	4.20	2.59	4.25	4.42	2.80

Source: MAGIC (1999).

Table 21

UNITED STATES MARKET SHARE IMPORT STRUCTURE FROM CARICOM, 1993-1998.
IN PERCENTAGE OF COUNTRY'S TOTAL EXPORTS

Product	1998	1997	1996	1995	1994	1993
Mineral fuels	20.91	23.95	18.76	18.15	26.45	30.62
Articles of apparel	16.04	16.49	17.56	19.03	14.92	14.04
Inorganic chemicals	14.80	13.09	16.32	17.21	12.39	8.30
Fish products	6.48	5.34	4.93	4.59	4.00	3.51
Ores	6.43	4.82	6.20	6.01	6.04	8.22
Articles of apparel	5.62	5.47	6.34	7.05	7.18	7.11
Organic chemicals	4.35	6.62	5.85	5.7	7.14	9.42
Special classification products	4.19	4.20	3.22	3.38	5.13	3.67
Iron and steel	3.98	3.95	3.30	3.63	2.99	1.36

Source: MAGIC (1999).

As shown by tables 16 to 21 the exports of the regional blocs to the United States here considered are concentrated in articles of apparel for the Central American common market followed by nuts, fruit and coffee. For G-3 countries, electrical machinery, vehicles and mineral fuels account for 53% of all exports to the United States.

Andean Community countries export mainly mineral fuels and oils (59% of total external sales). Mercosur has a more diversified structure ranging from iron and steel to footwear and

mineral fuels. Finally CARICOM countries' exports to the United States include mineral fuels, articles of apparel and inorganic chemicals.

Given this global regional bloc export structure, ACC countries compete in electrical machinery, articles of apparel, and vehicles. Table shows the main exporters of these products to the United States as well as the evolution of market share of Latin American and Caribbean countries' before and after the financial crisis.

Table 22

UNITED STATES IMPORT MARKET SHARE OF SELECTED PRODUCTS BY COUNTRY OF ORIGIN
AND IMPLICIT DUTY RATES, 1993-1998. IN PERCENTAGE

	1993	1994	1995	1996	1997	1998
	Articles of apparel, Chapter 61					
	1.8	1.8	1.9	1.9	2.1	2.4
Mexico	2.9	4.2	7.2	9.7	11.6	13.02
	5.5	2.8	1.4	0.6	0.5	0.5
Honduras	1.9	2.3	3.2	4.9	5.6	5.7
	13.4	11.5	9.9	7.9	7.2	6.8
Korea	6.7	6.0	4.5	3.6	3.6	4.2
	23.3	24.3	23.6	23.7	24.0	25.2
Thailand	3.4	3.4	3.4	3.3	3.4	3.8
	19.2	19.3	19.5	18.9	18.6	17.4
Dominican Republic	3.3	3.2	3.4	3.6	3.7	3.7
	8.3	8.1	7.3	6.0	5.1	5.2
El Salvador	1.1	1.6	2.1	2.6	3.5	3.6
	10.1	10.3	8.8	7.9	7.4	7.7
	Articles of apparel, Chapter 62					
	3.4	3.2	3.0	2.9	3.0	3.1
Mexico	5.1	6.0	8.1	10.0	11.9	13.8
	6.6	5.8	1.9	1.2	1.3	1.2
Dominican Republic	5.1	5.5	5.6	5.2	5.8	5.4
	7.6	8.0	7.7	8.2	8.5	8.6
Indonesia	3.7	3.6	3.9	4.3	4.4	4.3
	19.7	19.4	18.6	17.7	17.4	17.5
Philippines	4.2	4.2	4.3	4.0	3.7	3.7
	15.96	15.68	15.25	15.87	15.9	16.2
South Korea	6.3	5.5	4.6	3.8	3.4	3.6
	16.24	16.5	16.7	16.12	15.9	16.1
Guatemala	2.2	2.3	2.4	2.7	2.7	2.7
	10.6	11.32	11.11	11.15	12.5	13.3

Source: MAGIC (1999). Note: Implicit duty rates are shown in the second row.

Table 23

UNITED STATES IMPORT MARKET SHARE OF SELECTED PRODUCTS BY COUNTRY
OF ORIGIN AND IMPLICIT IMPORT DUTIES, 1993-1998. IN PERCENTAGE

	1993	1994	1995	1996	1997	1998
	Vehicles					
	14.6	14.6	13.8	13.3	13.2	13.5
Canada	39.3	39.3	39.7	39.2	38.6	37.4
	0.07	0.03	0.09	0.04	0.10	0.05
Mexico	7.2	7.4	10.1	13.3	13.4	13.5
	2.4	1.0	0.8	0.6	0.34	0.4
South Korea	1.04	1.68	1.77	1.92	1.83	1.55
	2.6	2.53	2.51	2.51	2.49	2.48
Brazil	0.36	0.35	0.37	0.33	0.32	0.35
	1.18	0.72	0.51	0.44	0.45	0.58
Venezuela	0.08	0.09	0.11	0.12	0.11	0.17
	0.10	0.23	0.07	0.10	0.10	0.03
	Machinery					
	13.4	14.2	15.4	14.5	14.0	13.9
Mexico	14.3	15.24	14.4	16.3	17.9	20.29
	1.95	1.34	0.59	0.46	0.41	0.27
Japan	30.41	27.62	25.63	22.08	20.22	18.18
	3.31	3.1	2.6	2.4	2.0	1.6
Canada	6.43	6.12	6.07	7.33	7.44	7.70
	0.76	0.75	0.44	0.39	0.21	0.13
Malaysia	7.97	8.5	8.9	8.5	7.8	6.7
	1.13	0.76	0.56	0.59	1.19	0.97
South Korea	7.01	7.59	9.03	7.67	6.94	6.57
	2.24	1.9	1.18	0.97	0.74	0.60
Philippines	2.29	2.4	2.62	3.18	3.93	4.10
	0.42	0.54	0.52	0.43	0.26	0.27
Thailand	2.18	2.31	2.26	2.25	2.55	2.39
	2.19	1.88	1.61	1.41	1.30	1.26
Brazil	0.30	0.25	0.22	0.25	0.43	0.39
	2.11	2.49	3.06	2.86	0.94	0.60

Source: MAGIC (1999). Note: Implicit duty rates are shown in the second row.

ACC are competitors in the United States market relative to Latin American countries mainly in textiles. These textile products encapsulated basically under chapter 61 and 62 of the harmonized code have slightly increased their product share in the United States market. Chapter 61 has increased its market share from 2.1% of all United States imports in 1997 to 2.4%. In a similar fashion, chapter 62 has gone from representing 3.0% of all United States imports in 1997 to 3.1% in 1998.

Most Latin American countries that export textiles have at least maintained their market share between 1997 and 1998. Cases in point are El Salvador, the Dominican Republic and Guatemala. Mexico's share on the other hand has increased from 12% to 13% for products belonging to both chapter 61 and 62. In addition, the implicit duty rate charged on the import value

of these products is higher for Asian countries than for Latin American countries. As an example, while the duty rate for the Philippines and Indonesia for chapter 62 for the year 1998 is 16% and 18% respectively, it is 13% for Guatemala and 9% for the Dominican Republic. Needless to say, NAFTA has allowed important tariff reductions for Mexican products. The duty rate applied to Mexican textiles belonging to both chapters 61 and 62 categories does not surpass 1.5%.

Regarding vehicles and electric machinery both Canada and Mexico are important United States suppliers. Asian countries, with the exception of Malaysia and South Korea in the chapter machinery, have a negligible market share. Malaysia and South Korea have in fact lost market share.

c) Import effects

The financial crisis by depressing income can affect the balance-of-trade equilibrium through its impact on imports. A way to assess the import effect of a reduction of income for Latin American and Caribbean countries is to obtain the import elasticity of income. Table 23 presents the import elasticity of income obtained through statistical techniques for all Central American countries, Panama, Haiti and the Dominican Republic.

Table 24

INCOME ELASTICITIES OF IMPORTS FOR SELECTED LATIN AMERICAN COUNTRIES

Country	Income elasticity
Costa Rica	1.69
El Salvador	0.95
Guatemala	1.35
Honduras	0.92
Nicaragua	1.92
Panama	0.87
Dominican Republic	0.48
Haiti	0.89

Source: Pérez & Moreno (1999). Based on 1950-1997 data.

From this set of countries Costa Rica, Guatemala, and Nicaragua are more susceptible to import variation due to income changes than the rest of these countries. Indeed, in the case of Costa Rica a 1% decrease in income will result in a 1.7% decrease in imports.

Depending on the sensitivity of imports to income, decreases in income can help to restore balance of trade equilibrium. But if countries are dependent on imported machinery and inputs for their internal and external production, a decrease in imports may ultimately reduce the growth path of an economy.

5. Financial effects

The financial effects of the global crisis centre on capital flows to Latin America, international debt issues, spreads, and equity price market behaviour. The performance of these indicators reflect the degree of access to external capital flows. Ultimately, the cost of reduced external finance or the cost related to an increase in foreign borrowing for a given country will depend on its degree of vulnerability. Vulnerability is assessed by sovereign credit risk indicators.

a) Capital flows to Latin America

The financial crisis affected the behaviour of capital flows to emerging market economies. Net private flows decreased substantially between 1997 and 1998 and are expected to decrease further in 1999. While net private capital flows will decrease slightly to emerging market economies (from 143 billion dollars to 140 billion dollars), net official flows are expected to decrease by 25%. Private flows to Latin America are estimated to have reached 85 billion dollars by 1998 (106 billion dollars in 1997) and the forecast for 1999 points to further decrease by close to 20 billion dollars. (See table 24 below.)

Table 25

EMERGING MARKET ECONOMIES EXTERNAL FINANCING IN PERCENTAGES, 1995-1999

	1995	1996	1997	1998	1999
Total external net finance in billions of dollars	270	332	300	194	174
Net private flows as % of total net external finance	85	99	88	74	81
Latin America as % of total net private flows	20	32	40	59	47
Private creditors as % of total net external finance	46	60	40	11	9.2
Net official flows as % of total net external finance	15	1.4	12	26	19.2
Latin America as % of official flows	64	...	10	39	64

Source: IIF (1999).

The reverse side of the coin is the decrease in fixed income market yields in the United States considered a safe haven in times of monetary and financial turbulence. This reflects confidence in that the Federal Reserve will not increase interest rates and also expectations of continued and uninterrupted growth. The flight to quality to fixed income is shown in Graph 7 below by the temporal behaviour of the United States' 10-year treasury bond yield and the spread in the corporate-treasury bond market (see Graph 7).

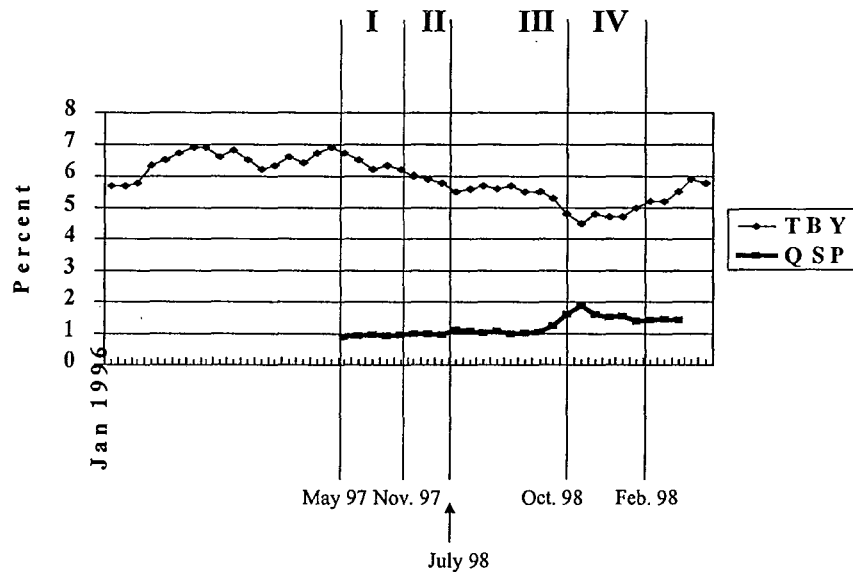
Table 26

LATIN AMERICA'S EXTERNAL FINANCE, 1995-1999
BILLIONS OF DOLLARS

	1995	1996	1997	1998	1999
Total external finance in billions of dollars	71.4	93.7	102.0	105.1	87.8
Private net flows in billions of dollars	45.4	104.4	105.9	85.4	66.3
Net Equity Investment in billions of dollars	30.1	49.6	63.9	45.7	47.4
Net Direct Equity in billions of dollars	24.5	36.5	50.9	50.7	40.2
Net Portfolio Equity in billions of dollars	5.5	13.1	13.0	-4.7	7.3
Net Private Creditors	15.4	54.8	42	39.7	18.8
Net Commercial Banks	19.4	21.5	15.3	4.9	1.7
Net Non Banks	-4.0	33.3	26.7	34.8	17.1
Net Official Flows	26	-10.7	-3.9	19.7	21.5

Source: IIF (1999).

Graph 7: United States' yield on 10-year treasury bond (TB Y) and quality spread in the bond market (QSP), 1996-1999. Monthly Data



Source: The Federal Reserve Bank of St. Louis (1999); Federal Reserve Bank of Dallas (1999). Note: Roman numerals refer to the four phases of the financial crisis referred to above. I refers to the Asian Crisis, II refers to the terms of trade decline, III refers to the Russian crisis. IV refers to the Brazilian crisis.

The main explanation for the decrease in foreign flows to Latin America are the cases of Brazil and Argentina. In the case of Brazil, private net flows are expected to decrease from 36 billion in 1998 dollars to 14 in 1999. Argentina will also experience a decline in flows while Mexico will register a surge in capital flows. The decomposition of capital into its private and official components show that the decrease in bank lending is the main cause of the decrease in capital flows.

Official flows are expected to increase due to disbursements from international organizations. Peru, Mexico, Brazil and Argentina have requested support for further IMF financing. Peru asked from the IMF for a three-year loan amounting to 383 million SDR ³ (June 1999). In its letter of intent (May, 1999), Argentina requested fund assistance to deal with the contagion effects of the Russian and Brazilian crises. Mexico's request to the IMF amounted to an equivalent of 3 109.3 million SDR in the form of a stand-by arrangement until the end of the year 2000 (June 1999). Finally, Ecuador was trying to reach an agreement with the IMF for 400 million dollar loan before August 28, 1999.

Nonetheless, Latin America is expected to maintain its overall weight in global capital flows to merging market economies and increase its weight of official capital flows. Thus in terms of levels capital flows are expected to decrease but in terms of their distribution Latin America is expected a higher share of these (see table 24 above). In addition, private net capital flows will still be above the 1995 level but below the 1996 level which marks the return of capital flows to Latin America.

In terms of direct foreign investment and within the Latin American region the data for that while small economies, with the exception of Honduras and Uruguay, have increased their flows of FDI in 1998, big economies Colombia, Venezuela and Brazil have registered marked increases (see table 26 below).

The effects of a decrease in foreign direct investment can be briefly analysed with the help of national accounting identities. ⁴ These identities indicate that a country is a borrower from the rest of the world (i.e., records negative net foreign asset purchases) when domestic private savings is not sufficient to finance private investment spending plus government budget deficits. As such, when the possibilities of attracting surplus foreign savings decrease, the country is forced to narrow the savings gap (the difference between domestic investment and savings) by curtailing domestic spending (i.e., increase domestic aggregate savings). In turn, the contraction in spending often

³ IMF's special drawing rights.

⁴ While national accounting identities are true by definition and thus do not provide a theory of external or internal accounts nor a theory of direction of causality among the variables considered, they do provide a starting point for an analysis of possible policy options.

carried out at the expense of government spending, in some cases at the expense of government capital expenditure, ⁵ often results in output and employment reduction ⁶.

Table 27

ANNUAL FOREIGN DIRECT INVESTMENT RATE OF GROWTH BY COUNTRY AND
REGIONAL TRADE AGREEMENT, 1993-1998

	1993	1994	1995	1996	1997	1998
CACM						
Costa Rica	9.9	20.1	33.1	8.2	14.2	7.9
El Salvador	6.7	...	...	-118.4	...	...
Guatemala	52.1	-54.5	15.4	2.7	10.4	605.9
Honduras	7.7	-19.2	64.3	30.4	42.2	-21.9
Nicaragua	160	2.6	75.	21.4	103.5	6.9
Average	42.3	-12.8	46.94	-11.14	42.6	149.7
Andean Group						
Bolivia	33	21.5	166.0	20.7	26.9	8.5
Colombia	5.9	108.8	29.4	65.1	61.8	-49.4
Ecuador	163.5	13.2	-11.5	-4.9	29.1	30
Peru	392.6	360.3	-33.6	58.3	-37.4	2.00
Venezuela	-208.7	126.5	404.4	144.3	175.1	-31.7
Average	77.3	126.0	111.0	56.7	51.1	-8.2
Mercosur						
Argentina	-18.8	-8.9	-5.2	5.6	36.1	-12.7
Brazil	-58.8	154.1	70.8	162.5	103.9	21.0
Paraguay	-38.3	31.1	60.8	57.7	-10.2	10.9
Uruguay	...	52.0	1.3	-12.7	16.8	-3.12
Average	-38.6	57.1	47.0	53.3	36.6	16.0

Source: ECLAC (1999).

⁵ El Salvador is a case in point.

⁶ An alternative, and perhaps more long term, option is to create incentives to attract foreign direct investment. Central American countries have, pursuing economic liberalization impulses, opted for this route.

During the past five years, besides opening up to external goods competition goods by lowering tariffs, these countries have begun to allow for competition in the service sector. The recent selling of telecommunications firms is a case in point. Additionally some Central American countries are trying to change their foreign direct investment procedures as well as their free trade zone laws to provide greater incentives for foreign investors such as lowering their fiscal burden. While the end result of this strategy may take time to materialize, there is always the possibility that it may actually generate important fiscal imbalances. This in turn may widen the savings gap aggravating thus the current account balance and furthering the need for private foreign capital flows.

b) International debt market

The international debt market suffered with unprecedented rapidity the contagion effects of the financial crisis. Initially, as pointed out in the IMF International Capital Market Report (1998), the Asian crisis caused a virtual shutdown for new debt issues in the fourth quarter of 1997.

The Russian crisis led to further fear of illiquidity and to a switch of more liquid instruments. The decrease in the rate of discount in the United States and in Europe eased the situation.

The volume of issues was significantly affected by the Russian crisis as their level fell to that registered during the Mexican crisis. Tables 27 and 28, that show international debt securities by nationality of issuer and by type of issuer, indicate in the third and fourth quarters of 1998 net issues for developing countries and Latin America actually decreased.

Table 28

INTERNATIONAL DEBT SECURITIES BY NATIONALITY OF USER. OUTSTANDING AMOUNT AND NET ISSUES

	Outstanding 1996-1998			Net issues 1998			
	1996	1997	1998	I	II	III	IV
World	3 145	3 512	4 234	180	211	126	75
Developed Countries	2 549	2 830	3 425	145	166	113	62
Developing Countries	231	302	329	7.2	21	-4.2	-2.8
Latin America	113	149	173	8.8	14.0	-0.6	-2.2
Argentina	30	42	54	3.5	6.2	0.9	0.4
Brazil	29	39	41	3.5	4.0	-2.2	-3.0
Chile	3.1	5	6	...	0.5	...	0.2
Colombia	3.8	5	7	0.7	0.8	0.5	...
Mexico	44	51	54	1.2	...	-0.1	0.6
Venezuela	3.4	9	11	...	2.6	0.2	-0.4
Offshore Centres	35	49	58	1.9	4.3	1.8	0.4
Bahamas	0.5	0.5	0.6	0.1	-0.1	0.3	-0.1
Bermuda	0.4	0.3	1.4	0.6	0.1	0.1	0.3
Panama	...	1.3	1.6	...	0.3	...	...

Source: IFI (1999).

The reduction in access to market finance has made it more difficult for these countries to manage their external debt. Other alternatives can include placement of securities in the domestic market. This option is however not without effects on interest rates depending on the balance of supply and demand for securities. For countries that have opted for fiscal and monetary restraint to attain the required adjustment, this option can actually result in output and employment losses.

The Brazilian crisis further affected the international debt market with the concomitant consequences for Latin American economies.

Following the Brazilian crisis spreads on emerging market bonds increased. Graph 5 shows the Emerging Market Bond Index (EMBI index) which is a measure of risk for total returns of traded external debt in emerging markets. In this sense the EMBI serves as a benchmark for investor confidence. The EMBI registers three surges which correspond to the three crisis mentioned above, the Asian crisis, the Russian crisis and the "Samba Effect." Between August and December of 1997 the EMBI increased by more than 200 points. It remained stable between December 1997 and August 1998 reflecting the return of investor animal spirits. Between August 1998 and October 1998, the index reached its peak following the Russian debt default. By January 1999, Brazil's devaluation sent the EMBI to late 1998 levels. Graph 5 also shows the Emerging Local Market Index (ELMI index) which shows total returns for money market instruments in emerging markets in local currency. As expected the ELMI index is close to being the mirror image of the EMBI index.

Table 29

INTERNATIONAL DEBT SECURITIES BY NATIONALITY OF USER AND TYPE
OF ISSUER. OUTSTANDING AMOUNT AND NET ISSUES, 1996-1998
BILLIONS OF US DOLLARS

	Outstanding 1996-1998			Net issues 1998			
	1996	1997	1998	I	II	III	IV
World							
Financial	1 321	1 592	1 978	110	108	76	28
Government	730	749	906	30	50	27	22
Corporate	784	868	973	16	41	14	10
Developed Countries							
Financial	1 249	1 507	1 886	107	101	78	30
Government	618	603	725	24	33	20	22
Corporate	682	720	815	14	32	16	10
Developing Countries							
Financial	58	64	64	2	4	-5	-3
Government	85	113	132	3.3	10	1	0.4
Corporate	89	125	134	1.7	8	-1	-0.4
Latin America							
Financial	25	28	30	2.9	4	-3.0	-3
Government	50	70	84	4	5	2.5	0.2
Corporate	37	51	58	2	5	-0.1	0.4
Argentina							
Financial	4	5	6	0.2	2	-1	-0.1
Government	19	26	36	3	3	2	0.8
Corporate	7	10	12	0.7	2	...	-0.3

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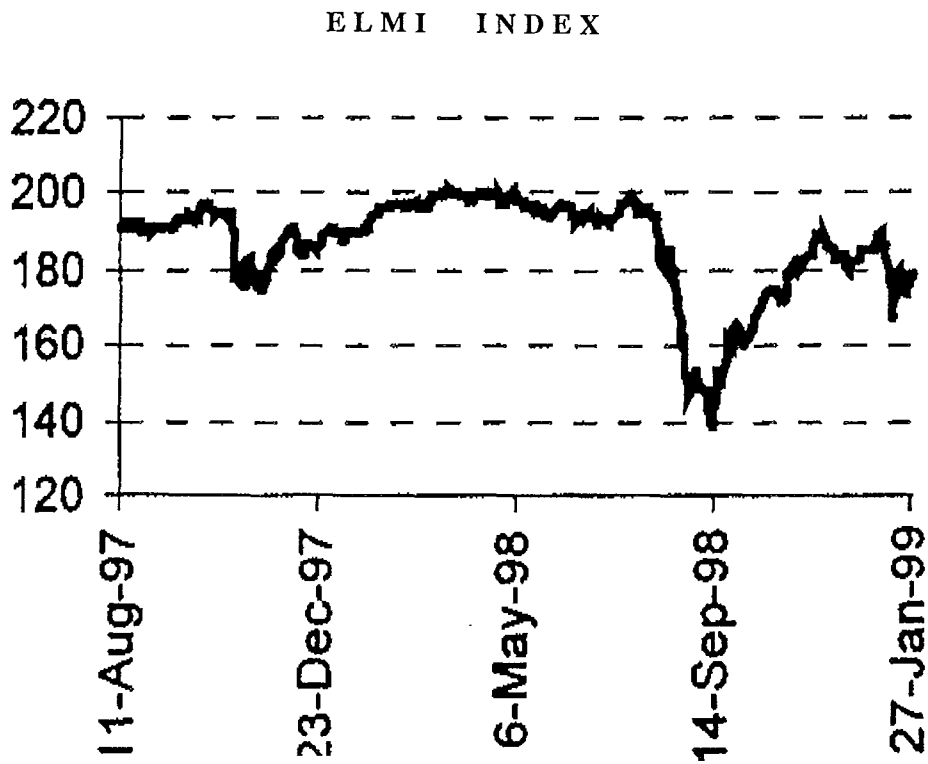
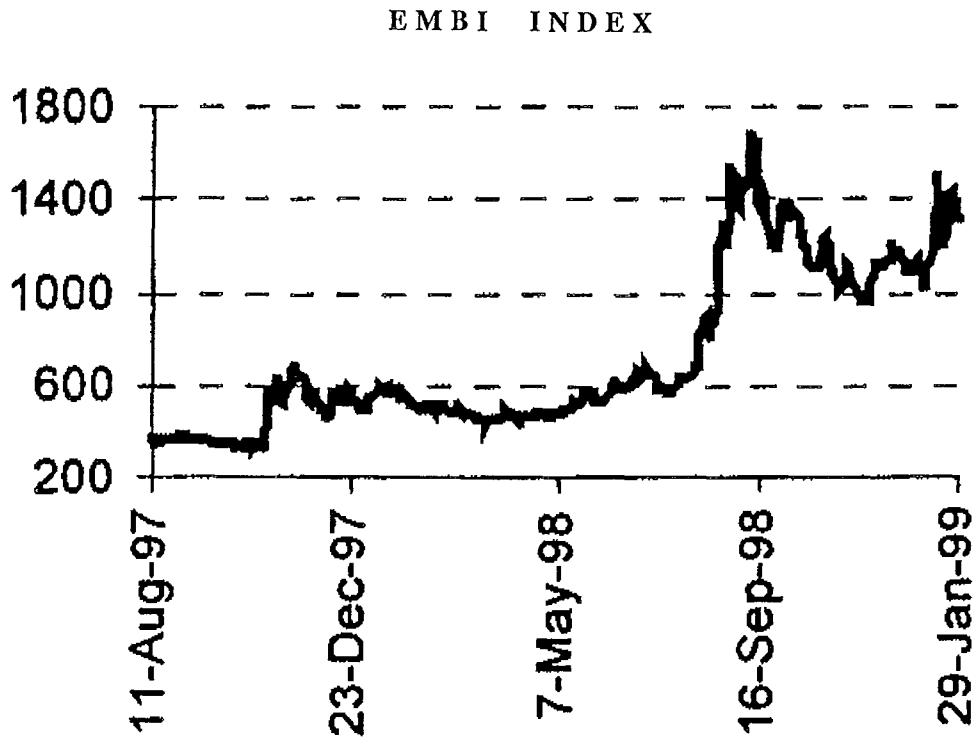
Table 29 (Conclusion)

Brazil							
Financial	15	17	18	2.3	1.7	-0.8	-2.3
Government	3	7	9	0.5	1.6	-0.6	...
Corporate	11	15	15	0.6	0.6	-0.8	-0.7
Chile							
Financial	...	0.4	0.4	0.4	...	...	...
Government	...	...	...	...	...	...	...
Corporate	3	4	5	...	0.5	...	0.2
Colombia							
Financial	0.5	0.5	1	0.3	0.3	...	...
Government	3	4	5	0.4	0.5	0.7	...
Corporate	0.5	0.8	0.6	0.6	...	-0.1	...
Mexico							
Financial	6.0	5.3	3.8	0.1	-0.3	-0.9	-0.4
Government	24	28	28	0.6	....	-0.3	-0.2
Corporate	13	18	22	0.5	0.3	1.2	1.2
Venezuela							
Financial	0.1	0.2	0.8	...	0.6	...	...
Government	1	6	6	...	-0.1	...	...
Corporate	2	3	5	...	2.1	...	...
Offshore Centres							
Bahamas							
Financial	0.4	0.3	0.2	...	-0.1	...	-0.1
Government	...	...	...	...	...	...	...
Corporate	0.1	0.1	0.4	0.1	...	0.2	...
Bermuda							
Financial	...	...	0.6	0.2	0.1	0.3	...
Government	...	...	...	...	...	...	...
Corporate	0.4	0.3	0.8	0.4	...	-0.2	0.3
Panama							
Financial	...	0.1	0.1	...	...	...	...
Government	...	1.2	1.5	...	0.3	...	...
Corporate	...	...	...	...	...	...	...

Source: IFI (1999).

The Brazilian crisis, which has had important effects on Argentina, has led this country to implicitly announce an increasing risk of debt default. This has had an impact on emerging market debt as Argentina's external debt is one of the biggest in the region (129 400 million dollars (see Table 29). By 1999, external debt represented 44% of GDP and the debt service 21% of its exports (see Table 30). The recent announcement by Argentina to increase tariffs for textiles on its Latin American partners have sent further signs of instability to financial markets.

GRAPH 5: Emerging Market Bond Index (EMBI) and Emerging Local Markets Index (ELMI)



Source: J.P. Morgan

Table 30

STOCK OF EXTERNAL DEBT OF ALL MATURITY, 1997-1999.
MILLIONS OF US DOLLARS. END OF PERIOD

Country	1997	1998	1999 (March)
		NAFTA	
Mexico	160,072	162,266	67,406
		CACM	
Costa Rica	3,445	3,156	497
El Salvador	2,162	1,754	302
Guatemala	2,631	2,393	362
Honduras	2,212	1,847	918
Nicaragua	2,048	1,622	646
		Mercosur	
Argentina	119,295	129,402	67,439
Brazil	182,919	170,928	49,704
Uruguay	6,082	7,206	2,151
Paraguay	1,262	998	184
		Andean Community	
Bolivia	3,107	2,234	1,308
Colombia	22,869	23,537	8,308
Ecuador	12,739	11,590	1,558
Peru	21,466	17,838	3,261
Venezuela	30,178	30,459	8,750
		Non grouped	
Cuba	4,361	4,192	...
Chile	26,584	27,718	6,881
Haiti	766	748	548
Panama	39,193	39,723	2,706
Dominican Republic	3,044	2,525	532
		CARICOM	
Antigua & Barbuda	18	191	...
Bahamas	132,575	145,481	3,633
Barbados	8,752	7,516	49
Belize	193	159	42
Dominica	257	44	14
Granada	56	44	8
Guyana	782	515	387
Jamaica	2,813	1,823	999
Saint Kitts & Nevis	50	32	4
Saint Vincent & Grenadines	244	339	8
St. Lucia	117	63	16
Suriname	145	162	22
Trinidad & Tobago	2,206	1,983	479

Source: World Bank External Debt tales.

Table 31

SOVEREIGN RISK INDICATORS 1999

	External Debt/GDP	Total Debt/ Exports	Total Debt Service/Exports	Foreign Exchange Reserves	Reserves/Imports
Argentina	43.7	596.9	21.5	30.4	9.1
Brazil	36.5	325	24	20.8	6.5
Chile	41.2	151.4	8.5	13.1	6.7
Colombia	39.4	230.2	15.4	9.7	5.4
Ecuador	86.8	287.4	17.6	1.5	2.0
Mexico	40.4	118.4	10.7	16.2	1.6
Peru	45.1	376.9	19.5	10.1	9.1
Venezuela	39.2	207	18.3	7.1	9.9

Source: BCP Securities

6. Fiscal effects

An important effect of the financial crisis is its deflationary impact on the price of basic commodities. The slack in Asian demand in combination with other factors have reinforced the tendency of basic export price commodities to decrease (see Table 31).

Table 32

BASIC EXPORT COMMODITY PRICES. BASE 1990 = 100
1991-1998

Product	1991	1992	1993	1994	1995	1996	1997	1998
Sugar	71	72	80	95	106	95	91	75
Banana	109	91	85	84	85	91	109	95
Meat	105	96	103	92	75	70	73	69
Coffee	93	71	79	163	164	136	206	157
Cotton	95	76	77	101	129	110	101	94
Wood	105	114	135	145	147	169	131	110
Petroleum	83	81	71	66	71	86	80	56

Source: ECLA, 1999.

The decrease in the prices of basic commodities may possibly result in a contraction output growth *via* the terms-of-trade effect. However, according to empirical studies the terms-of-trade effect seems to be negligible.⁷ More importantly, the fall in commodity prices may alter the equilibrium of the fiscal accounts; especially in those cases where governmental budget equilibrium depends to an

⁷ At least for the Central American case the terms of trade play a minor role in determining GDP. See, Moreno-Brid, 1999.

important extent on the export price behaviour of these goods. In addition, decreases in income that have resulted from the financial crisis, can have important fiscal effects when governmental revenues depend to a large extent of import taxes.

The options for restoring the equilibrium in the fiscal accounts can be illustrated by referring to a simple government budget identity. This accounting relationship states that government expenditures on goods and services plus interest payments on government debt must be financed by tax revenues, money creation or indebtedness. In small Latin American and Caribbean economies, governments have little leeway to increase direct taxes and generally tend to increase indirect taxes (i.e., value added tax). Even so, increasing indirect taxation is an unpopular and sometimes difficult measure to undertake.

An alternative option to restore budget equilibrium is greater indebtedness, which in small economies refers to foreign debt. Yet, leaving aside official aid, it becomes difficult to borrow when countries are faced with capital outflows.

Thus the main policy options available are to decrease government expenditure or to increase the money supply. Either by contracting output and employment or by increasing prices both options have important costs.

Table 32 shows the weight of total trade tax revenue, import tax revenue and export tax revenue as a percentage of total tax revenue at three points in time for Latin American and Caribbean countries. The countries are also grouped at the lower end of the table by regional bloc formation.

In most cases the importance of trade taxes for fiscal revenue has decreased. Exceptions to this trend are Nicaragua and Paraguay. In some cases trade taxes have registered only slight decreases. Cases in point are the Bahamas, Guatemala and the Dominican Republic. In terms of regional trade bloc formation all blocs have lowered their fiscal dependence on trade taxes. Taking as comparison points reference year 1 and reference year 3, Mercosur has decreased the fiscal weight of trade taxes from 9% in reference year 1 to 5% in year 3. Similarly the Andean Community has lowered the trade tax fiscal revenue ratio from 17% to 8%. The CACM has followed a similar line: 21% in reference year 1 and 18% in reference year 3.

Among trade taxes the most significant reduction is without doubt the decline in export taxes. In the case of Central American countries while export taxes that at the start of 1980 represented close to 2% of GDP and 40% of all tax revenues declined by 1997 to 0.07% of GDP and 0.02% of all tax revenues. In this sense the decline in basic commodity prices does not pose a danger to fiscal equilibrium.

This decline in the vulnerability of fiscal revenues to external shocks has to a greater extent resulted from a trade liberalization strategy. This strategy has in fact, under this scenario, allowed Central American countries to avoid the choice between unemployment and inflation to restore its budget balance. However, this maneuver margin is reduced by the fact that import taxes represent still 17% of tax revenue for Central American countries and 8% for the Andean Community.

Table 33

TOTAL TRADE TAX REVENUE (TTT), IMPORT TAX REVENUE (IMT), EXPORT TAX REVENUE (EXT)
AS A PERCENTAGE OF TOTAL FISCAL REVENUE FOR THREE REFERENCE YEARS
BY COUNTRY AND TRADE BLOC

	Reference year 1			Reference year 2			Reference year 3		
	TTT	IMT	EXT	TTT	IMT	EXT	TTT	IMT	EXT
Argentina									
86/90/95	12.03	5.38	5.27	14.12	2.30	8.32	5.22	4.41	0.10
Bahamas									
85/90/93	59.61	55.48	0.86	64.62	57.94	1.26	58.98	47.48	1.54
Bolivia									
87/90/96	15.44	11.65	3.73	6.88	6.88	-	5.76	5.76	-
Brazil									
85/90/93	2.33	1.50	0.90	1.52	1.49	0.03	1.50	1.50	-
Colombia									
85/90/94	16.35	14.22	2.11	19.86	18.22	1.63	8.20	8.20	-
Costa Rica									
86/90/95	21.06	13.01	7.95	22.95	15.53	6.86	14.89	11.55	2.60
Chile									
87/90/96	10.30	10.30	-	11.60	...		9.30	...	
Ecuador*									
85/90/94	17.46	14.29	1.06	13.29	11.81	0.34	11.27	10.41	-
El Salvador*									
87/90/96	26.13	9.62	16.48	21.77	14.10	7.62	12.33	12.22	-
Guatemala*									
86/90/95	27.99	9.88	15.19	19.58	19.34	0.17	22.96	22.29	-
Grenada*									
91/93/95	24.51	18.56	0.01	19.69	16.81	0.01	16.77	16.77	-
Mexico									
86/90/95	6.02	5.62	0.40	6.24	6.18	0.07	3.99	3.96	0.02
Nicaragua									
85/90/95	6.90	4.68	0.12	18.61	18.59	0.02	20.56	20.56	-
Panama									
86/90/95	11.69	10.76	0.77	11.97	10.92	0.93	...	...	0.52
Paraguay									
85/90/93	11.33	9.86	0.01	20.01	14.01	-	12.46	12.46	-
Peru									
87/90/96	21.54	21.18	0.36	16.67	9.29	7.23	9.02	9.02	-
Trinidad & Tobago									
93/94/95	8.83	4.59		7.32	7.32		5.58	5.58	
Uruguay									
87/90/96	11.90	9.11	0.25	9.43	7.70	0.54	3.48	3.20	0.03
Venezuela									
87/90/96	12.72	12.72		5.70	...		6.90	6.90	
Dominican Republic									
85/90/95	30.2	26.4	2.1	32.1	20.4	0.1	27.7	26.8	0.4
Total Average	17.06	13.44	3.39	17.2	14.38	2.34	13.52	12.72	0.75
MERCOSUR	9.40	6.46	1.61	11.27	6.38	2.96	5.06	5.39	0.06
Andean Community	16.70	14.81	1.81	12.48	11.55	3.07	8.23	8.06	...
CACM	20.52	9.30	9.94	20.73	16.89	3.67	17.68	16.65	...

Source: Government Finance Statistics, IMF (1997).

Note: *Related to the budgetary central government; all the rest are related to the consolidated central government.

... Not available; (-) zero; a blank means absence of data.

7. Conclusion

The global financial crisis which started in Asia has registered unprecedented contagion effects throughout the world. In particular, it has highlighted the fragility of macroeconomic fundamentals of important countries such as Russia or Brazil.

Regional trade agreements have shown, despite their renewed impetus in the early 1990's, to be vulnerable to macroeconomic fluctuations. Through direct or indirect transmission mechanisms these can alter the volume and direction of trade among trade partners. Also trade liberalization commitments may suffer when the external conditions that propitiated these commitments are prone to unforeseen alterations. This has recently been the case with Mercosur as Argentina has announced trade barriers to protect its exchange rate regime.

It is thus important, in the stages of formalizing a trade agreement that would involve the entire region, to analyse the effects of the global financial crisis. The effects are threefold: balance of trade effects, financial effects and fiscal effects.

The balance-of-trade effects comprise an external demand effect and a real exchange rate effect that translates into increasing competition from East Asian countries in export markets. Available data show that the external demand effect was not significant. In addition, an empirical product-by-product analysis of the United States import market shows that Asian Countries do not pose a competitive threat to Latin American and Caribbean countries. In particular in terms of implicit tariff duties, Latin American and Caribbean countries have preferential access to the United States import market. This may have compensated East Asia's increase in external competitiveness due to real exchange rate devaluations.

The financial effects are centred in the reduction in the availability of capital inflows mostly due to the reduction in commercial bank lending. This has resulted in internal monetary and fiscal adjustment with the concomitant costs in terms of foregone output and employment as was evidenced by Argentina, Chile, Mexico, Peru and more recently Brazil.

While official flows have compensated part of this decline, Latin American and Caribbean countries will have to find alternative sources of external financing. This may put additional pressure on interest rates.

The fiscal effect refers to the dependency of budget equilibrium on import and export taxes. For a given import elasticity of income, decreases in income result in decreases in import revenue. Also, Latin American countries show a high dispersion of fiscal dependence on import tax revenue. Thus while for the Mercosur the ratio of import taxes to total government revenue is 5%, for the CACM it is 16%. This is probably the result of an increase in the import base that has more than compensated the decrease in import tariff rates due to trade liberalisation policies.

Finally, the crisis, in its second stage, has reinforced the decrease in demand for basic export commodities. Through this channel it had an important fiscal impact for those countries in which government revenues depend on the price behaviour of these commodities. Oil exporting countries provide a case in point. Other countries such as Central American countries have become, through trade liberalisation, less vulnerable to this type of external shock.

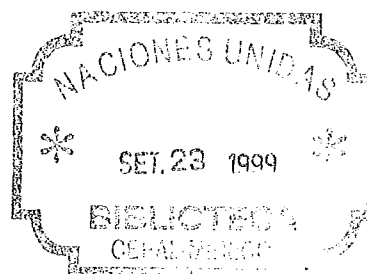
Annex

Table A-1

MEXICAN IMPORTS FROM LATIN AMERICAN COUNTRIES AND THE CARIBBEAN
BY COUNTRY AND REGIONAL BLOC. MARKET SHARE, 1993-1998

	1993	1994	1995	1996	1997	1998
Central America						
Costa Rica	0.033	0.035	0.022	0.064	0.07	0.07
El Salvador	0.02	0.02	0.01	0.02	0.02	0.02
Guatemala	0.09	0.10	0.07	0.08	0.07	0.065
Honduras	0.010	0.004	0.005	0.006	0.006	0.01
Nicaragua	0.017	0.014	0.012	0.014	0.01	0.01
Total	0.18	0.12	0.12	0.19	0.18	0.18
Mercosur						
Argentina	0.39	0.42	0.26	0.34	0.22	0.21
Brazil	1.84	1.55	0.78	0.77	0.79	0.83
Paraguay	0.008	0.006	0.004	0.02	0.01	0.001
Uruguay	0.066	0.071	0.024	0.04	0.032	0.025
Total	2.3	2.1	1.1	1.2	1.1	1.1
Andean Community						
Bolivia	0.025	0.024	0.007	0.009	0.009	0.007
Colombia	0.13	0.15	0.14	0.10	0.11	0.12
Ecuador	0.057	0.11	0.095	0.07	0.05	0.06
Peru	0.26	0.27	0.14	0.13	0.13	0.11
Venezuela	0.35	0.38	0.30	0.26	0.38	0.24
Total	0.8	0.9	0.7	0.6	0.7	0.5
CARICOM						
Antigua & Barbuda	0.000	0.000	0.000	0.000	0.000	0.000
Bahamas	0.000	0.000	0.000	0.000	0.000	0.001
Barbados	0.000	0.000	0.000	0.000	0.000	0.000
Belize	0.01	0.01	0.003	0.002	0.002	0.001
Dominica	0.000	0.000	0.000	0.000	0.000	0.000
Grenada	0.000	0.000	0.000	0.000	0.000	0.000
Guyana	0.001	0.002	0.002	0.001	0.000	0.000
Jamaica	0.005	0.005	0.006	0.004	0.006	0.005
Saint Kitts & Nevis	0.000	0.000	0.000	0.000	0.000	0.000
Saint Vincent & Grenadines	0.000	0.000	0.000	0.000	0.000	0.000
St Lucia	0.000	0.000	0.000	0.000	0.000	0.000
Suriname	0.000	0.000	0.000	0.000	0.000	0.000
Trinidad & Tobago	0.039	0.057	0.093	0.061	0.057	0.036
Total	0.1	0.1	0.1	0.1	0.1	0.04

Source: ECLAC (1999), DOTS Yearbook, IMF (1999).





This document was prepared by the Economic Commission for Latin America and the Caribbean (ECLAC) Regional Headquarters in Mexico

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