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Economic Commission for Latin America and the Caribbean

POLITICA COMERCIAL Y TRANSFORMACION PRODUCTIVA

TRADE POLICY AND CHANGING PRODUCTION PATTERNS

EDITED ENGLISH VERSION OF  
PART V: FINAL CONSIDERATIONS

## V. FINAL CONSIDERATIONS

The modernization of trade policy does not end with the dismantling of import controls. Quite the opposite: this is only the beginning. A strategy must be devised for incorporating countries into international markets, implemented by means of a broad, coherent policy package. Some of the aspects touched on in this study relate to old and new issues of trade policy. Others go beyond the sphere of traditional commercial policy but are equally fundamental to gaining entry to international markets. These issues have not been adequately addressed in recent reforms (or, for that matter, in the not-so-recent Chilean reform).

Long-standing issues of trade policy include tariffs, non-tariff measures and subsidies for non-traditional exports. While the correct approach is undoubtedly to move closer to incentive neutrality than in the import-substitution phase, a lot of room for selectivity remains and must be explicitly recognized and properly put into practice. The positive experience of the East Asian countries—as well as the more ambiguous experience of Latin America—shows that, in addition to the rationalization of trade policy incentives, a selective approach is essential for the pursuit of transforming production patterns. The problem is to find the most efficient mechanisms for this, including decreasing incentives tied to specific export targets and the necessary reform of public institutions.

In fact, greater selectivity is needed than during the import-substitution phase, as well as clear criteria for such selectivity. Protection of domestic output and export incentives form part of a policy package for implementing a strategy to transform production patterns. However, experience has shown that incentives must be moderate and finite, that the exceptions to neutrality must be few and carefully chosen and that the anti-export bias of protection must be balanced by export incentives. It also seems more efficient to give incentives by major area of activity—those areas most likely to yield dynamic benefits not internalized by the market—than to try to choose specific winners. Promotion of non-traditional exports is a particularly appropriate sphere for selective trade policy.

As regards new issues (new for Latin America), it is essential that the region's countries adopt or tighten anti-dumping regulations, countervailing measures and safeguard clauses. Import liberalization has increased the vulnerability of Latin America's economies to unfair trade practices and to the instability of trading partners. However, care must be taken to prevent private interests from using new regulations in these areas to revive protectionism. The successful conclusion of the Uruguay Round would result in the adoption of international rules in this area that would limit the use of such measures for purely protectionist

purposes. In the longer term, anti-dumping issues should be tackled in the context of rules to enhance competition, an area in which the region still has a lot of ground to cover.

Another new issue is trade policy towards services, the broad approach to which is similar to that for foreign investment. In order to formulate appropriate policies in these areas, a strategic vision is needed of each country's incorporation in the international economy. For instance, a determination will have to be made as to how far the country's own service industries are to be protected and what modern services are required in order to become internationally competitive in goods.

The acceleration of the regional integration processes now under way is an important factor for promoting the internationalization of the manufacturing and services sectors of Latin America's economies. New safeguard mechanisms must be devised to prevent short-term problems from interfering with the long-term benefits to be expected from regional and subregional integration programmes.

Some other policies which we consider indispensable and which have sometimes been omitted from the region's liberalization programmes relate to the correction of the market failures that obstruct investments aimed at changing production patterns. Such action includes policies to supplement the capital market, attract foreign investment to new sectors offering potential comparative advantages, improve physical and social infrastructures, implement an effective manpower training programme and negotiate access for specific products to specific markets.

International trade negotiations must be closely related with the Latin American countries' strategic vision of their long-run role in the international economy and with the policies needed to attain it. As this study has emphasized, the possibilities of implementing an active trade policy, particularly one that would promote non-traditional exports, would be hampered by the adoption of new regulations as a result of the Uruguay Round. The Latin American countries must defend their right to preferential treatment as developing countries, including the possibility of subsidizing activities crucial to development. They should also push for the right to impose temporary quantitative restrictions to protect their balance of payments. Acceptance of objective "graduation" criteria subject to international monitoring could be a quid pro quo that the developing countries could offer in exchange for recognition of the principle that they are entitled to special and differential treatment—a principle that has been seriously eroded in the Uruguay Round.<sup>1</sup> In this connection, it is

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<sup>1</sup> These ideas are developed further in Agosin and Tussie (1993).

important to emphasize that, irrespective of the outcome of the Uruguay Round, the Latin American countries must take a new look at the issues related to their degrees of freedom in trade policy formulation, with a view to future international negotiations. This also applies to any negotiations on free trade agreements with developed nations.

Readjustments in trade policy must be accompanied by due recognition of the important role played by the exchange rate in securing changes in production patterns. It seems unlikely that the private sector will be persuaded to produce tradable goods unless a favourable and reasonably stable exchange rate can be maintained. The region's economic authorities must devote more attention to the economic policies needed to achieve this. One such policy must be the regulation of international flows of short-term capital.

The evolution of the international trading systems remains essential to the success of efforts to open up Latin America's economies. Continued protectionism in the economically powerful countries seriously erodes the benefits of greater openness as a policy option, no longer for a limited number of countries (as in the case of the East Asian economies in the 1960s), but for a large group of countries that are implementing such policies at the same time.