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ECLAC
Economic Commission for Latin America and the Caribbean
World Bank

Seminar on Globalization

Santiago, Chile, 6-8 March 2002

**TRADE FOR DEVELOPMENT IN LATIN AMERICA AND
THE CARIBBEAN**

D. Lederman, W. Maloney, and W. Martin

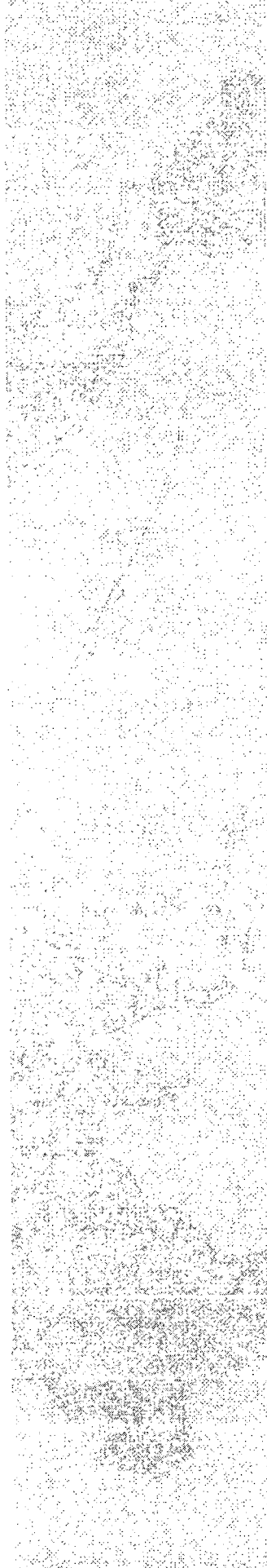
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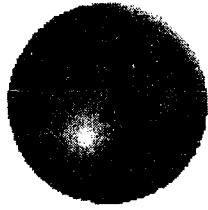
***Trade for Development in Latin
America and the Caribbean***

**D. Lederman, W. Maloney, and W. Martin
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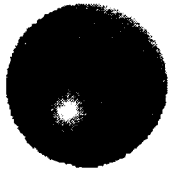
**ECLAC - World Bank Conference on Globalization
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*I. Trade Liberalization:
Where Does LAC Stand?*

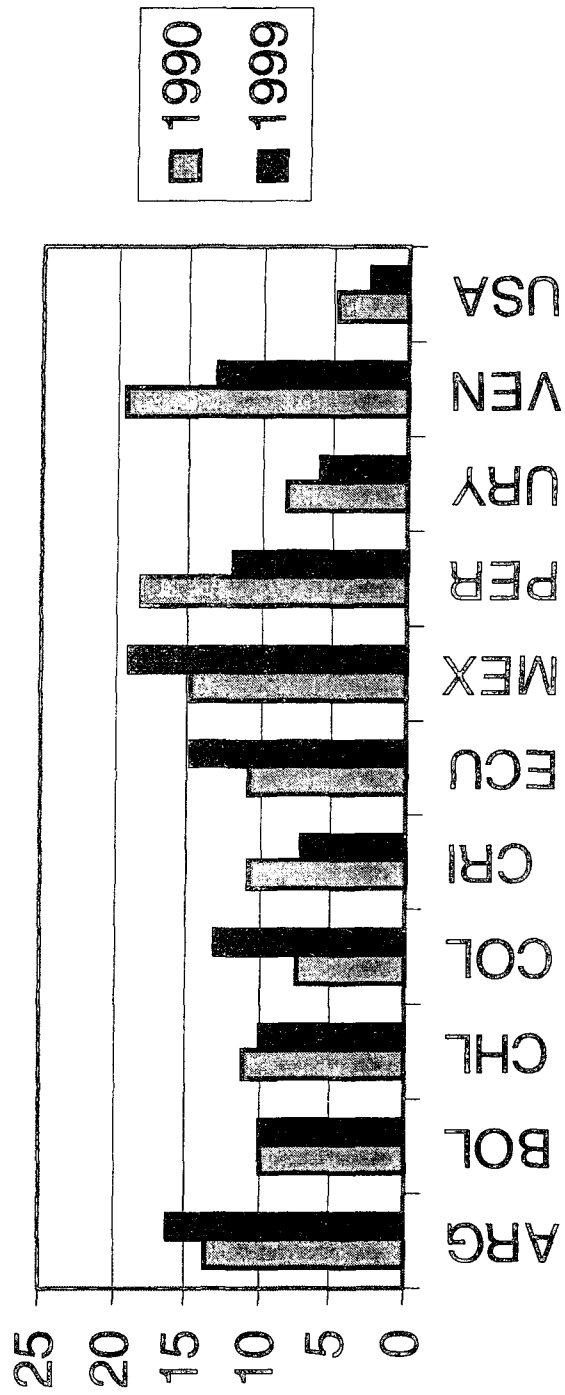


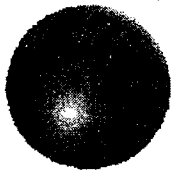
Progress, but some reversals in
1990s



Trade Reforms: Tariffs on Imports of Manufactures

Median Tariff (by Country)

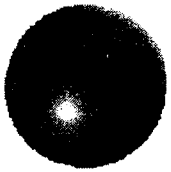




Trade Reforms: Non-Tariff Barriers Relatively Low

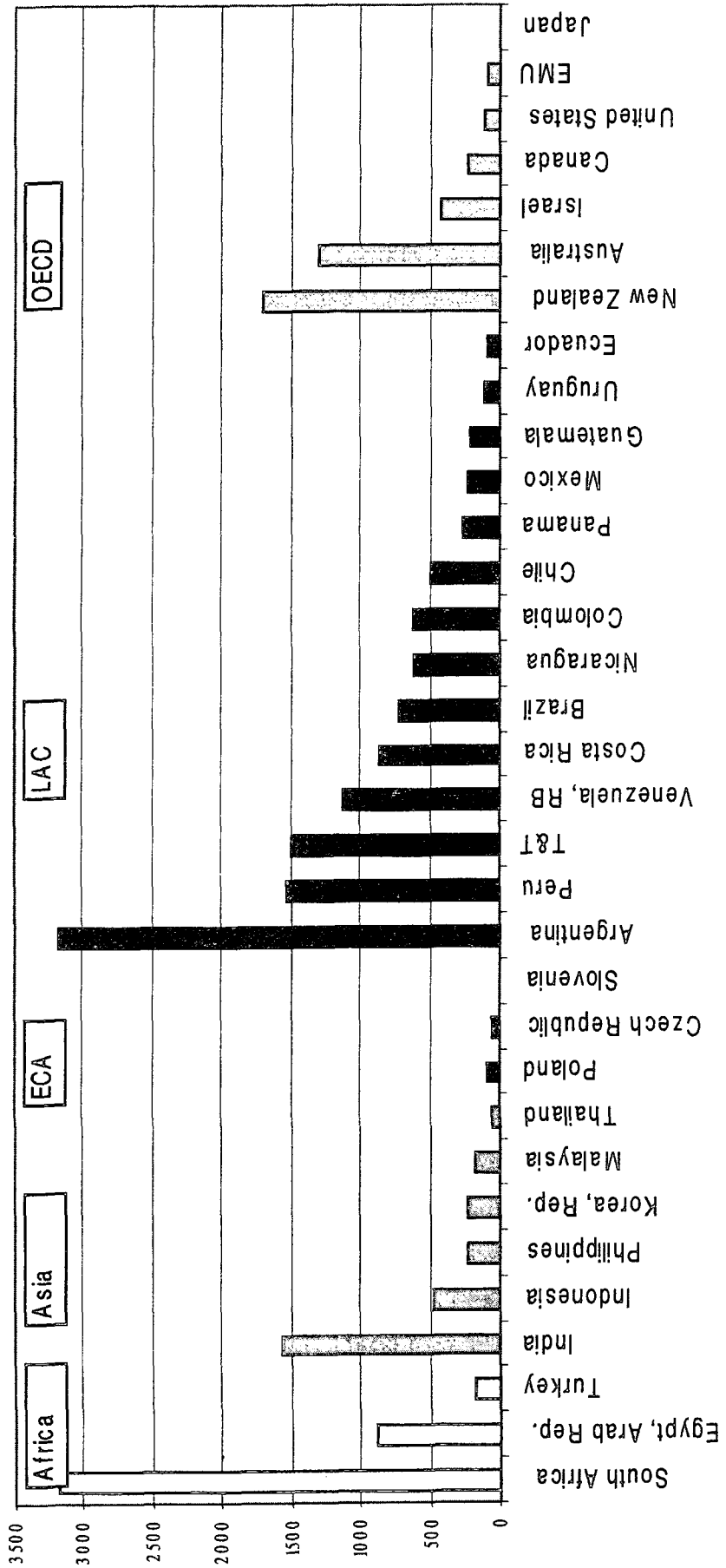
Frequency of Core NTBs (Percentage)	1989-94	1995-98
East Asia and Pacific	30.1	16.3
Latin America	18.3	8.0
Middle East/ North Africa	43.8	16.6
South Asia	57.0	58.3
Sub-Saharan Africa	26.0	10.4

Source: Will Martin, WTO, Dec 2001.

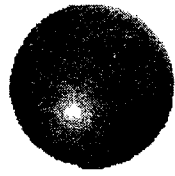


But AD and CVD Cases-More Sinner than Sinned Against?

AD Initiations per Dollar of Imports 1995-2000 (USA=100)



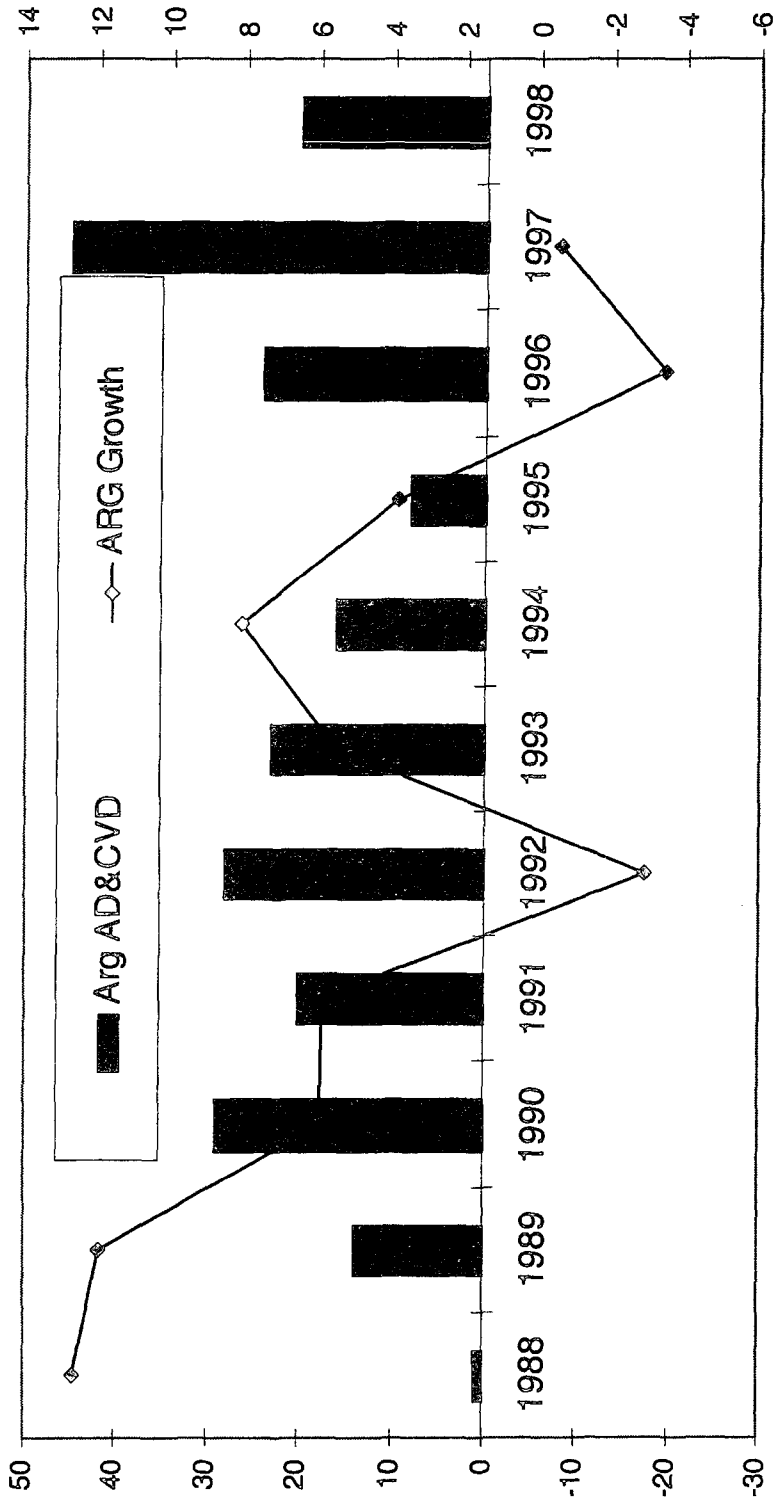
Source: AD initiations: WTO; Imports: WDI.

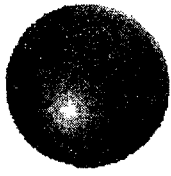


Preferential Trade Agreements

- The good.
 - Reciprocity: access and economies of scale.
 - Political economy effects in favor of liberalization.
- The bad.
 - Trade diversion: little aggregate evidence for LAC.
 - Emergence of “regional goods” and influential sectors: important in Mercosur.
 - Rules of origin: dilute reciprocity; transaction costs.
 - Technology transfer—who are you learning from?

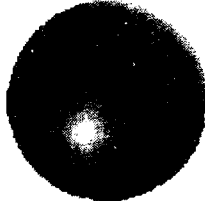
Reversals: Are They Related to the Business Cycle and Macro Issues?





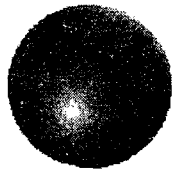
*Trade Policy for Macro Management:
Not the Appropriate Policy Tool*

- Backsliding related to macro problems
- But, historically, not effective.
 - Rajapatirana (1998)- panel LAC
 - Argentina in 2001
- Political Economy Risks: can they be removed afterwards?



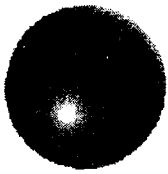
*II. Impacts on Growth
Positive*

And hence on poverty

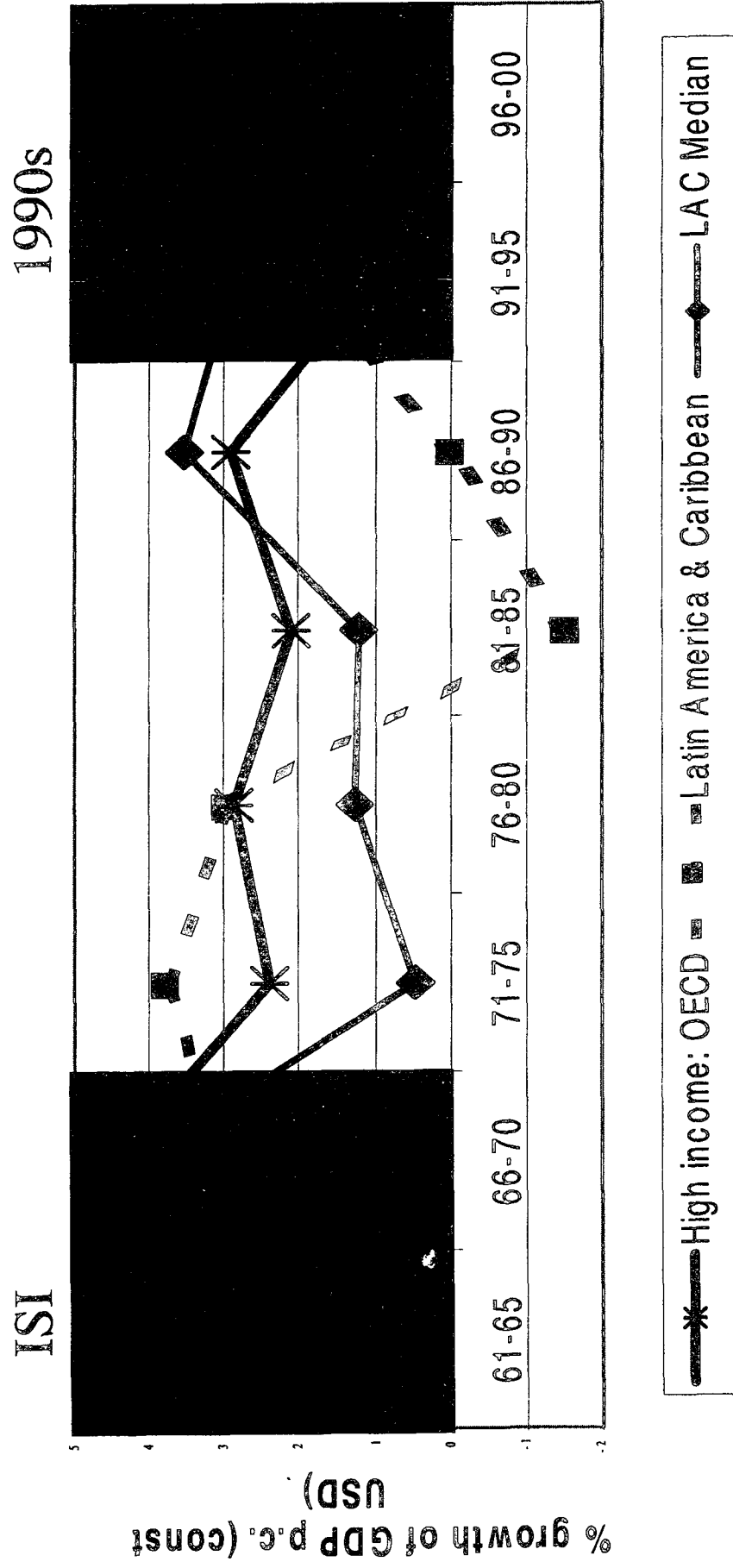


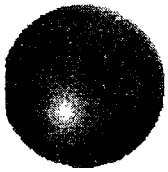
Trade and Growth

- “Openness” correlated with growth in cross country regressions-with caveats
 - Rodríguez and Rodrik (2000) critique;
 - Wacziarg (2001) counter-critique
 - No evidence of negative relation
 - LAC underperformed during ISI period

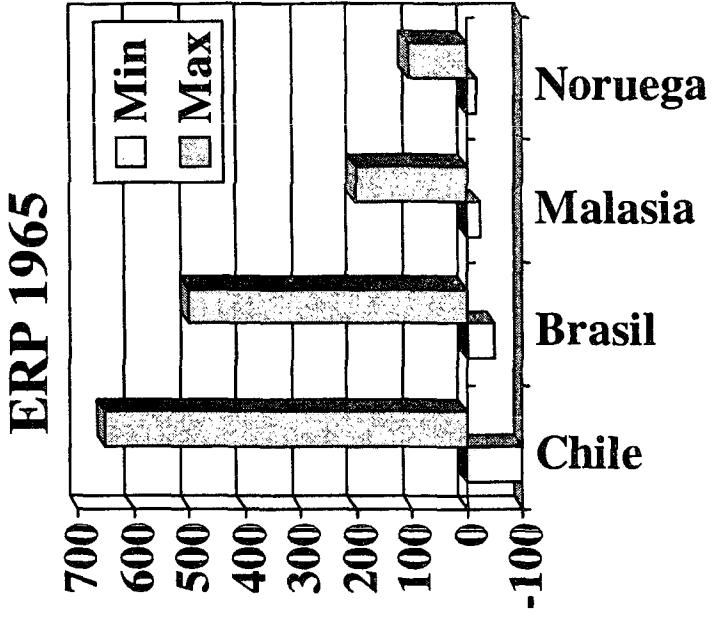


Golden Years of ISI: LAC Under-performed

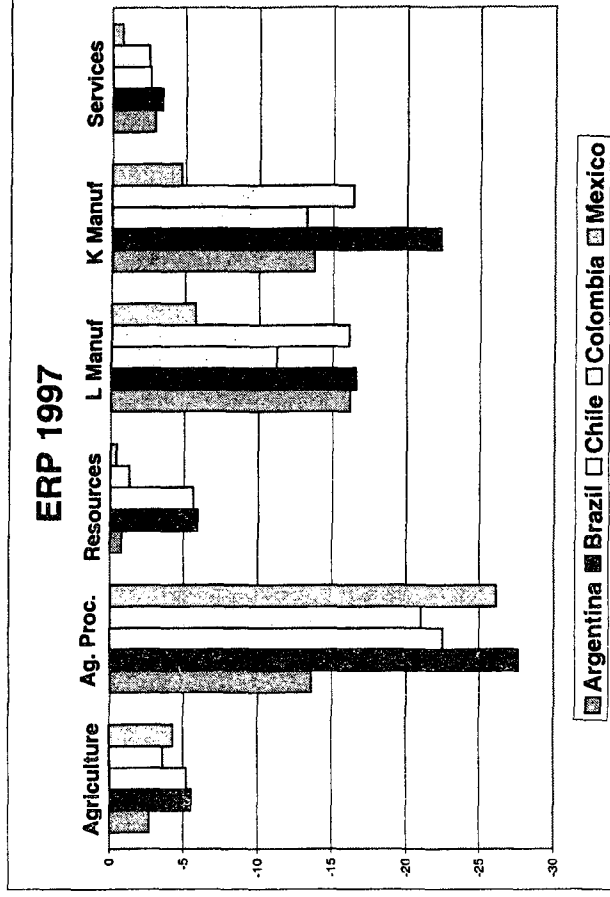




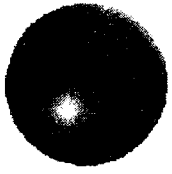
Micro-Evidence Suggestive



Chile: ERP prevents 10/21 potential exporters (CEPLAN 1972)

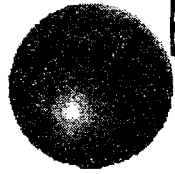


Bias against exports still high



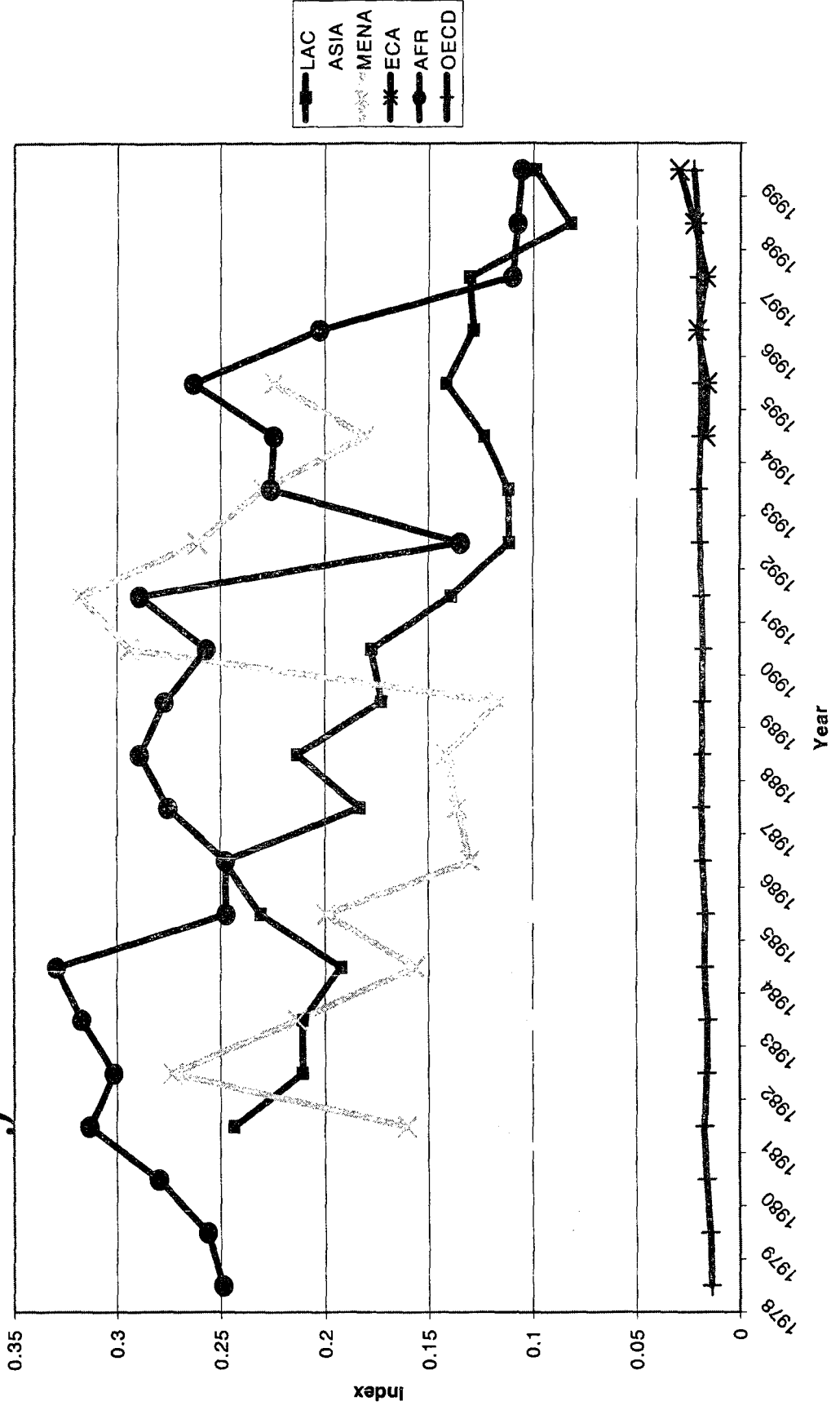
TL and Growth: Channels

- Diversification
 - Revitalize NR based sector
- Intra-industry trade
- Capital goods and investment
- Innovation



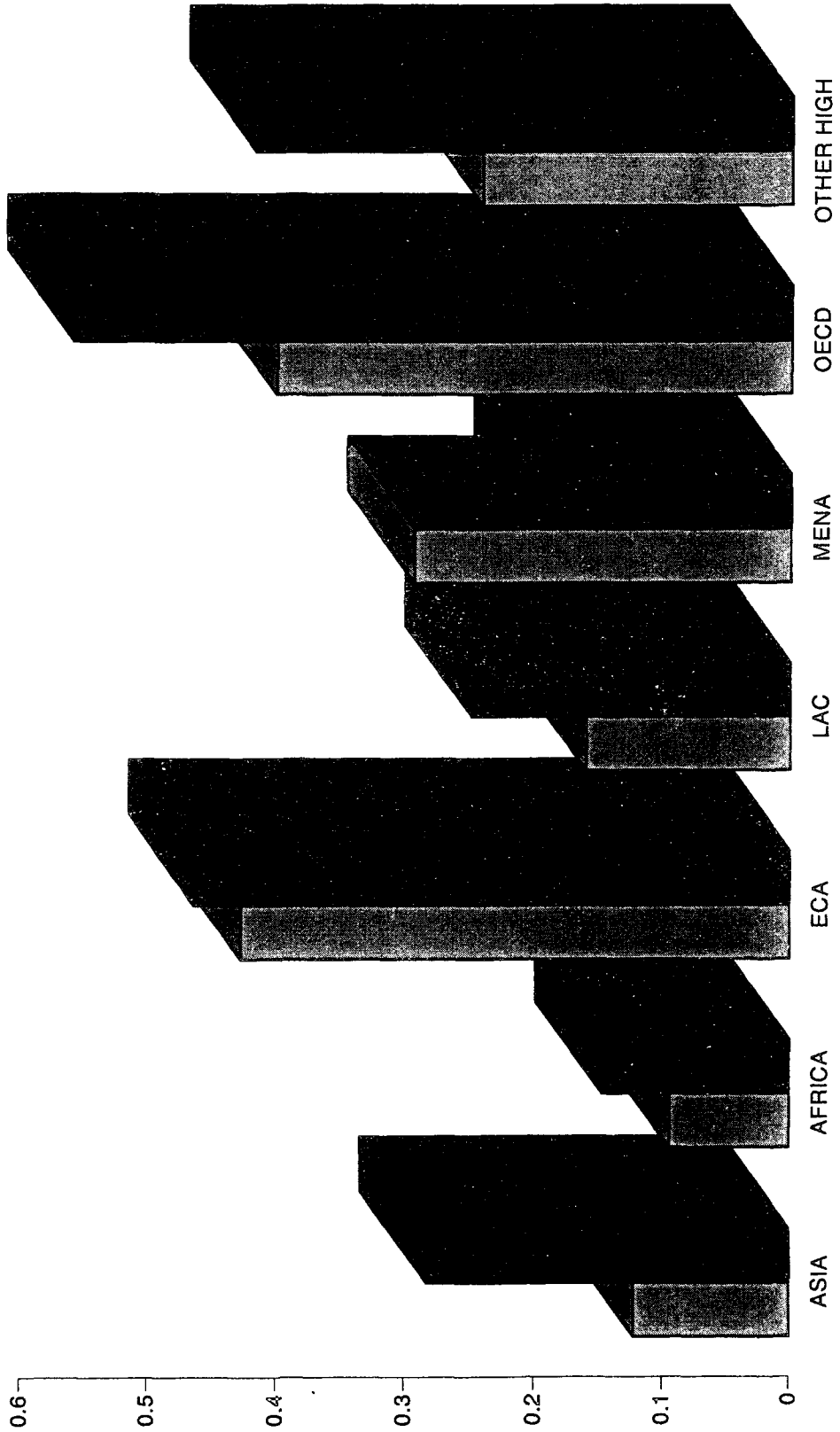
Trade Liberalization and Export

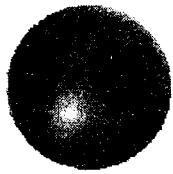
Diversification in LAC



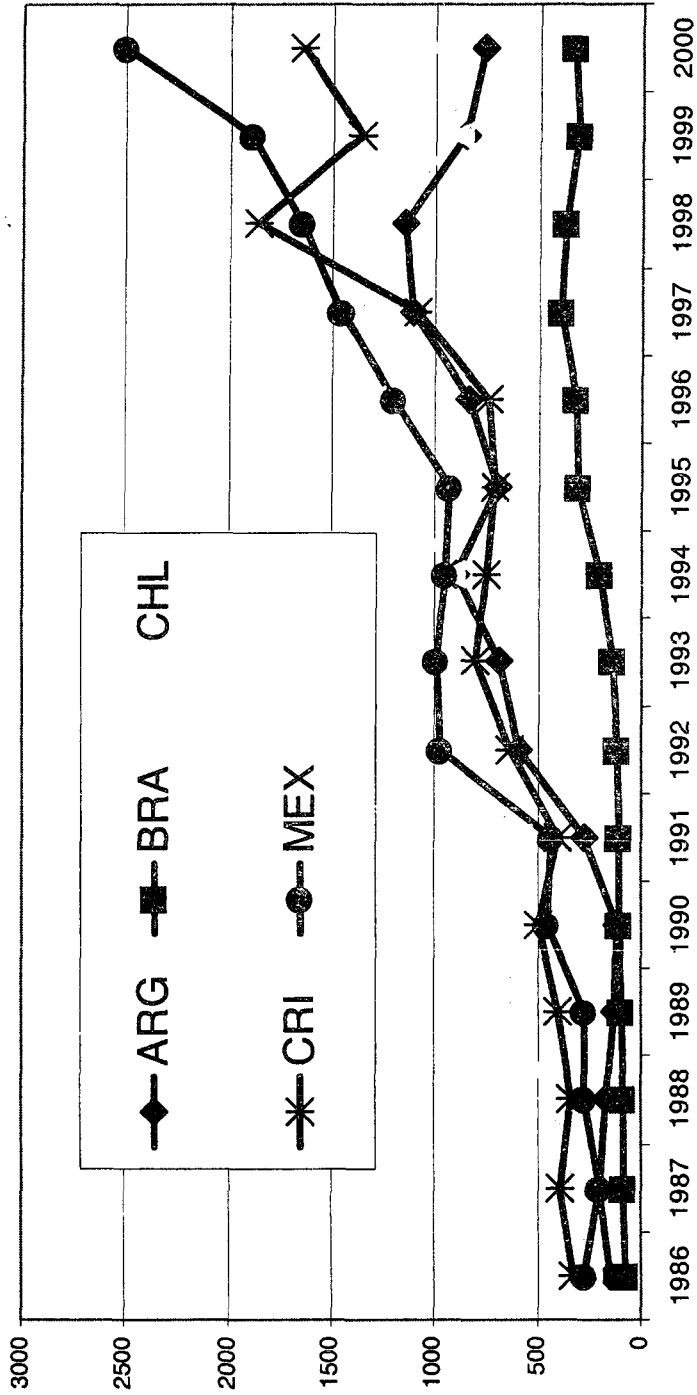
Trade Liberalization and IIT in LAC

Grubel-Lloyd Index of Intra-Industry Trade by Regions, 1980 and 1998





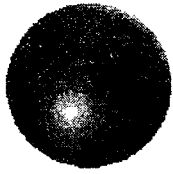
Capital Goods Imports in LAC (Per Worker)



Capital goods include: power generating machinery, metalworking machinery, industrial machinery, specialized machinery, office, telec
vehicles and other transport equipment, professional, scientific, optical machinery.

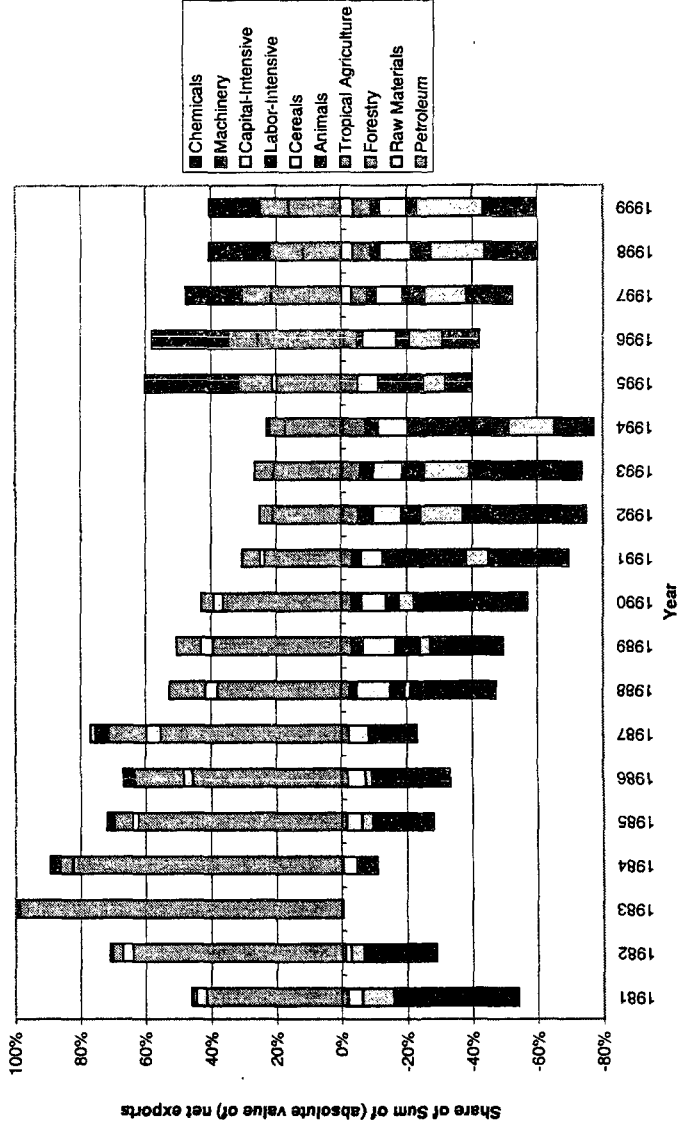
SITC 2 items 71 to 79 and 87 to 88.

Sources: Total workers: WDI; Imports: UN Comtrade

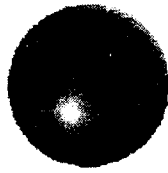


... *But Not Destiny*

Mexico: Structure of Net Exports

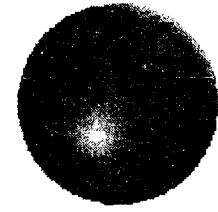


- No evidence of curse
- International evidence: role of new endowments in determining trade patterns ...



International Evidence: NRs Are Not Destiny

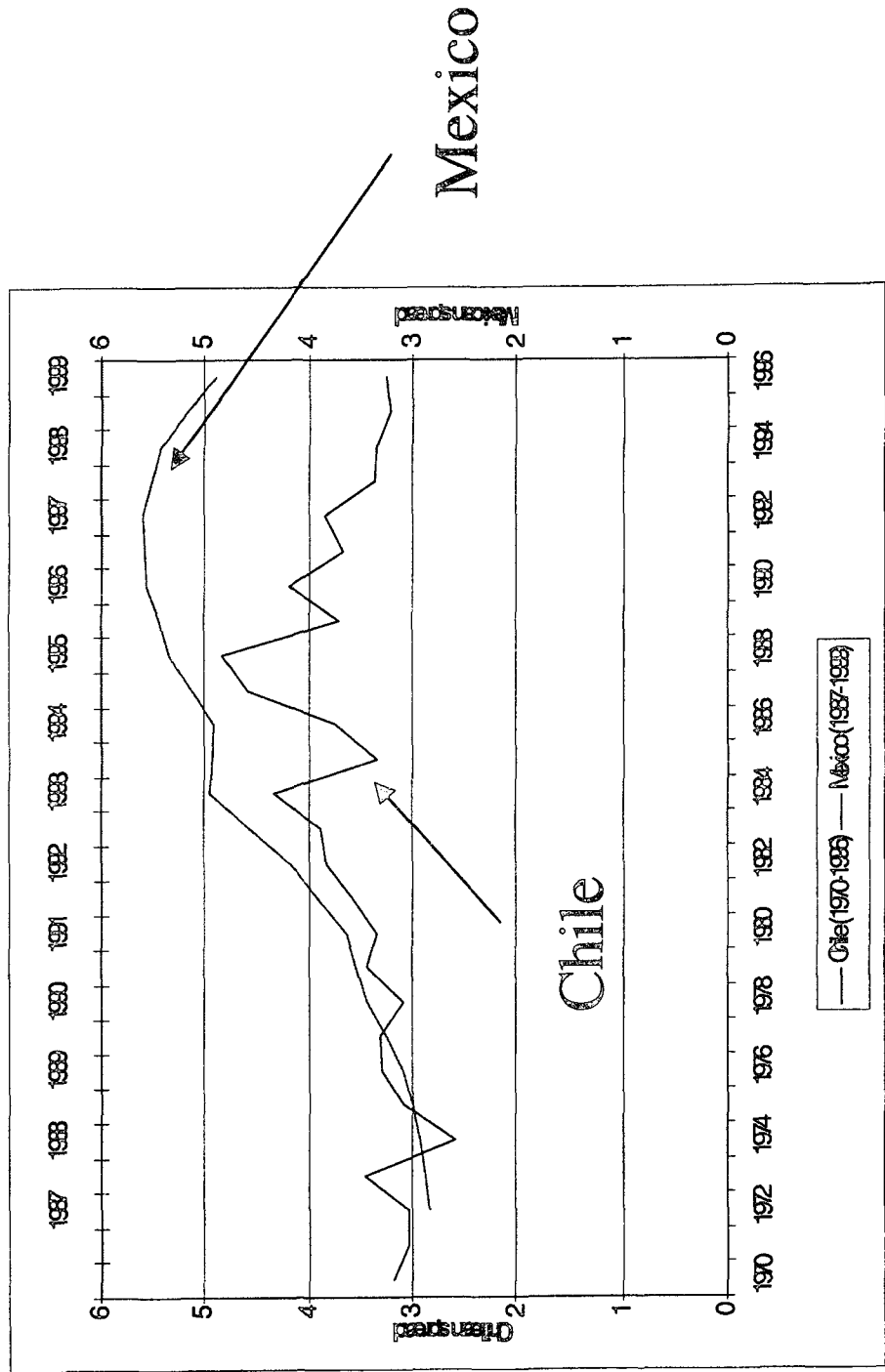
	Share of Variance Explained by:	
	“Conventional” factors: crop land, forest land, and capital per worker	“New” factors: institutions, ICT, infrastructure, volatility, education, knowledge
Comparative advantage in:		
Raw materials	0.35-0.78	0.19-0.62
Forest products	0.52-0.76	0.19-0.40
Tropical agricultural products	0.09-0.55	0.40-0.87
Animal products	0.11-0.35	0.65-0.89
Cereals	0.25-0.54	0.42-0.72
Labor intensive manuf.	0.15-0.35	0.62-0.83
Capital-intensive manuf.	0.02-0.12	0.86-0.96
Machinery	0.06-0.62	0.38-0.94
Chemicals	0.22-0.61	0.39-0.78

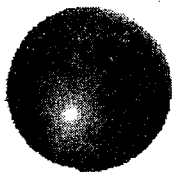


III. Impacts on Labor Markets

Mixed, but on balance negative?

Inequality: Short-term Tradeoff?



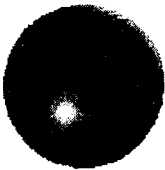


Unemployment: Specific Groups Hurt, but Long Term Effect?

Average Unemployment Rates in Latin America and the Caribbean, Percent

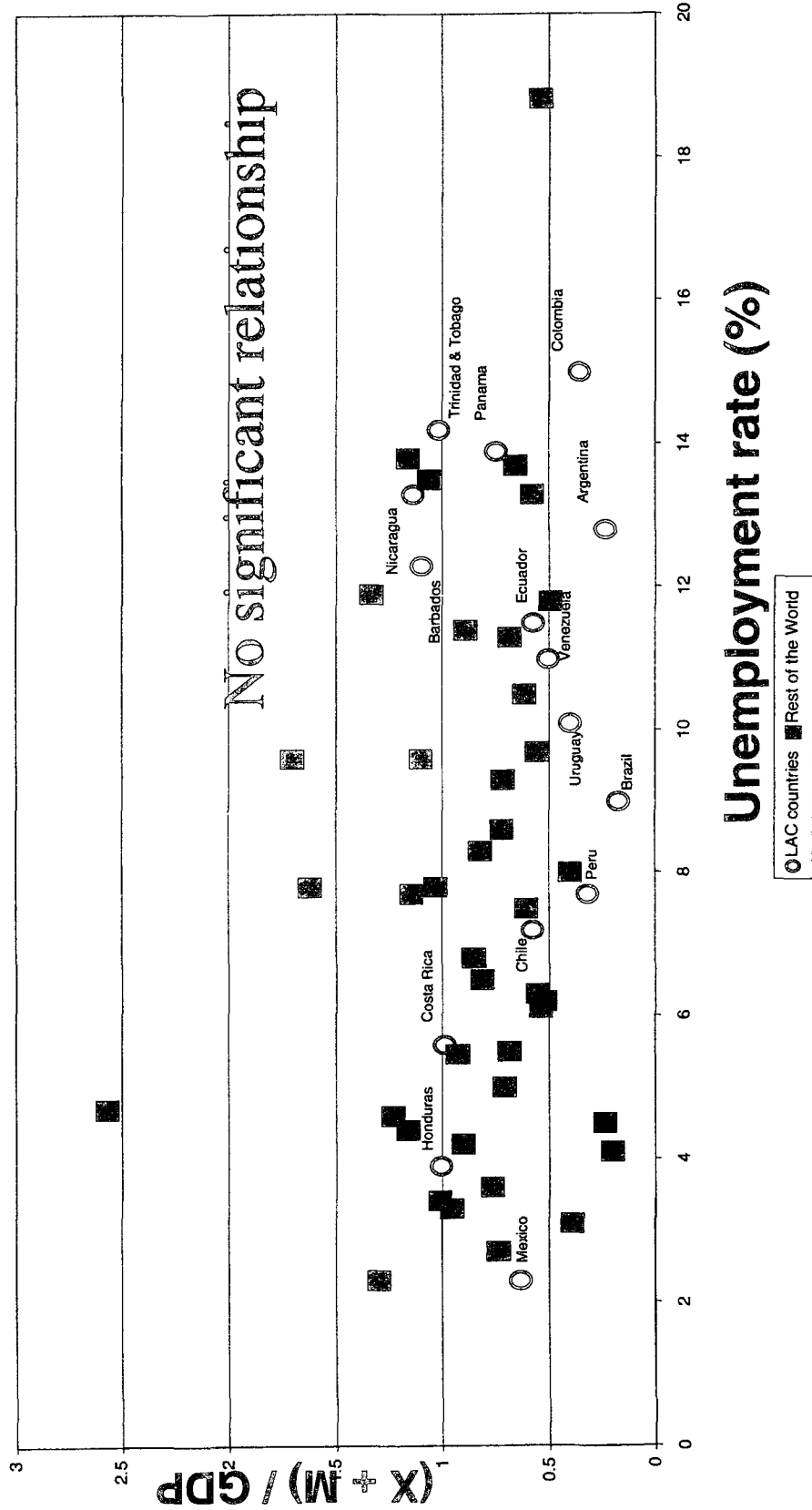
Country	1970s	1980s	1990s	Entire Period
Argentina	4.1	4.8	11.6	6.9
Bolivia	6.3	7.7	4.8	6.3
Brazil	6.6	5.4	5.4	5.7
Chile	10.5	14.4	7.0	10.7
Colombia	9.6	11.3	10.7	10.6
Costa Rica	5.0	6.9	5.3	5.9
Guyana	0.5	0.3	n.a.	0.4
Honduras	n.a.	4.5	3.4	3.7
Mexico	7.0	4.7	3.8	5.0
Peru	7.4	7.4	8.5	7.7
Paraguay	7.3	11.8	14.2	10.7
Uruguay	9.2	10.6	9.8	9.9
Venezuela	5.7	8.8	9.7	8.0
<i>LAC-Mean</i>	6.6	7.6	7.9	7.0
<i>LAC-Median</i>	6.8	7.4	7.8	6.9

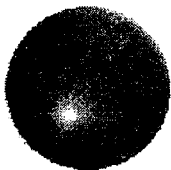
Most liberalized...lower
unemployment



Not Globally...

Employment and Openness - 1998

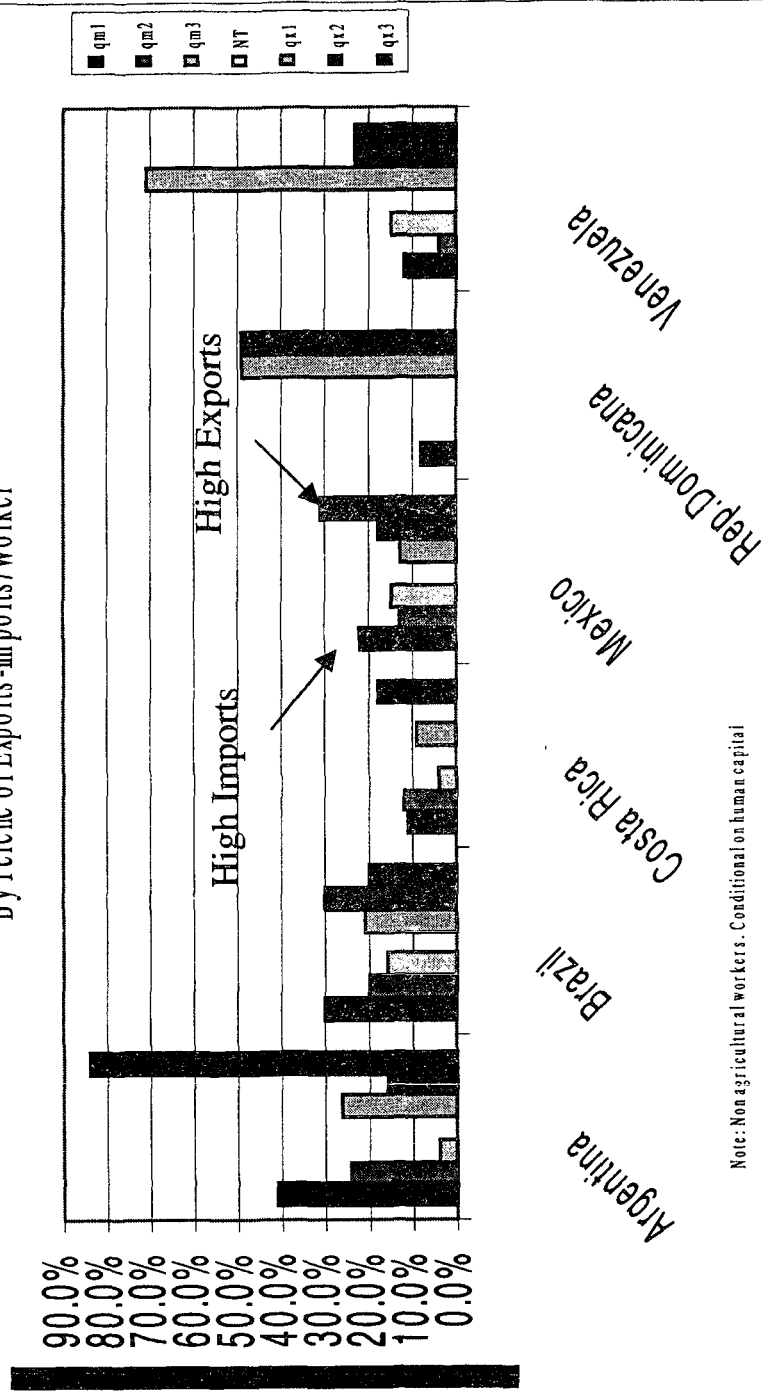




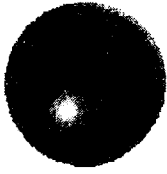
And Wages Are Higher in More Exposed Sectors

Wages adjusted for human capital

By Tercile of Exports-Imports/Worker

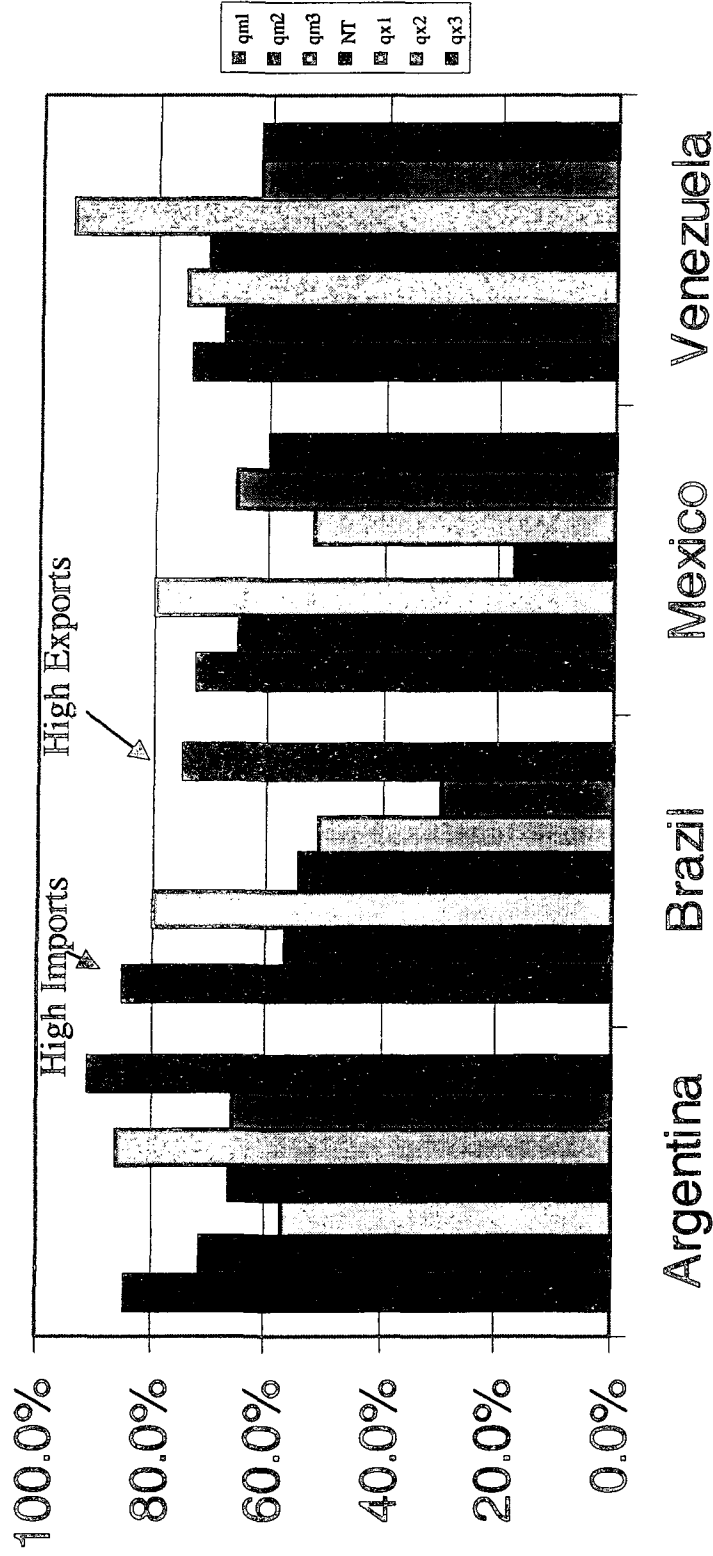


Note: Non agricultural workers. Conditional on human capital



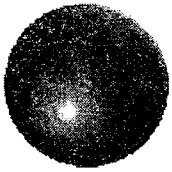
TL Cannot Explain Rise of Informality: Formality Is Higher in Tradeable Industries

(By Tercile of Exports-imports/worker)



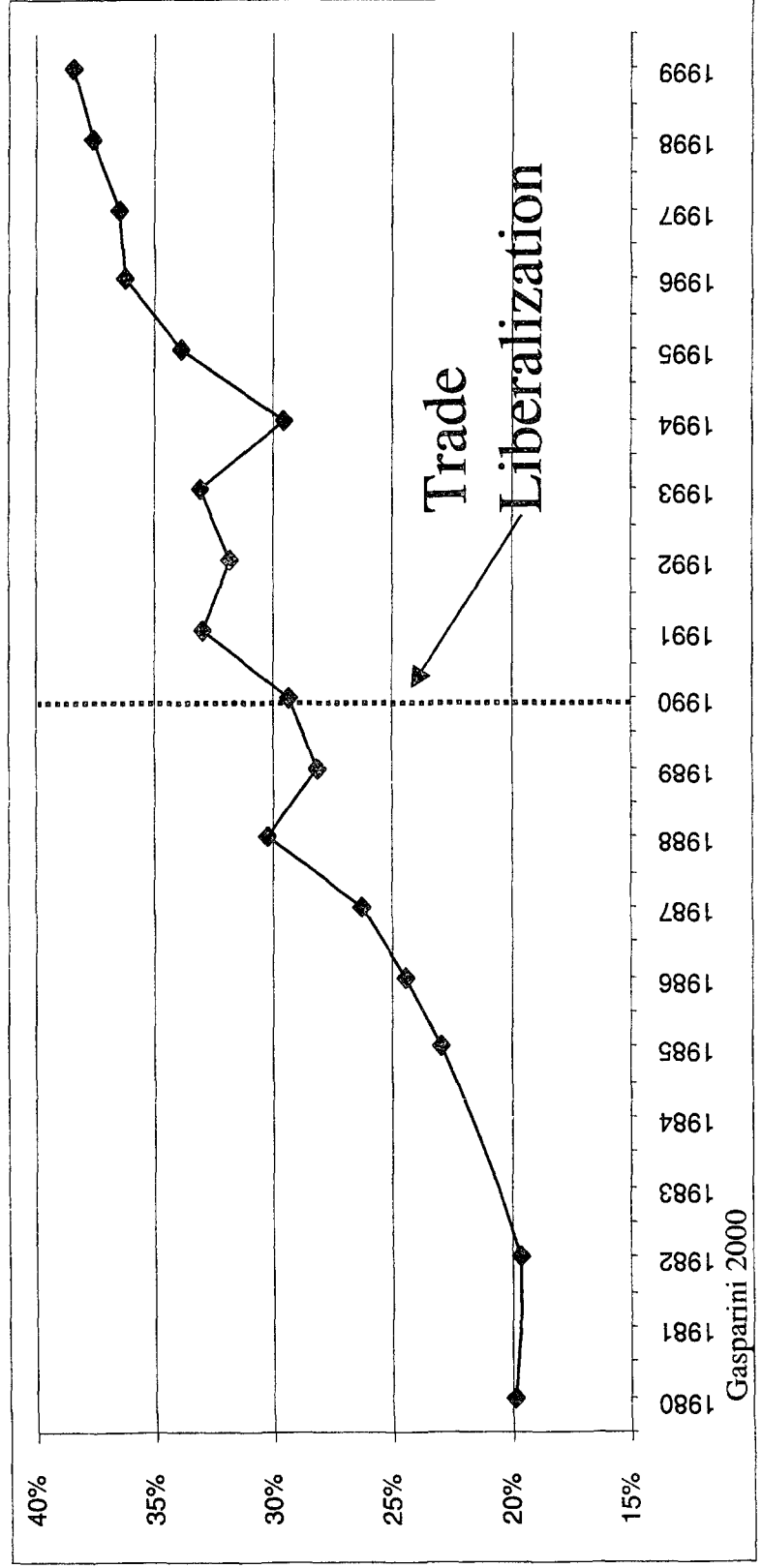
Note: Non-agricultural workers. Means by trade balance per worker centiles.

Montes and Maloney 2001

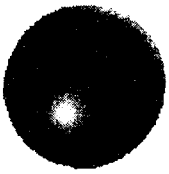


Argentina: Movement Toward Informality Predates Trade Reform

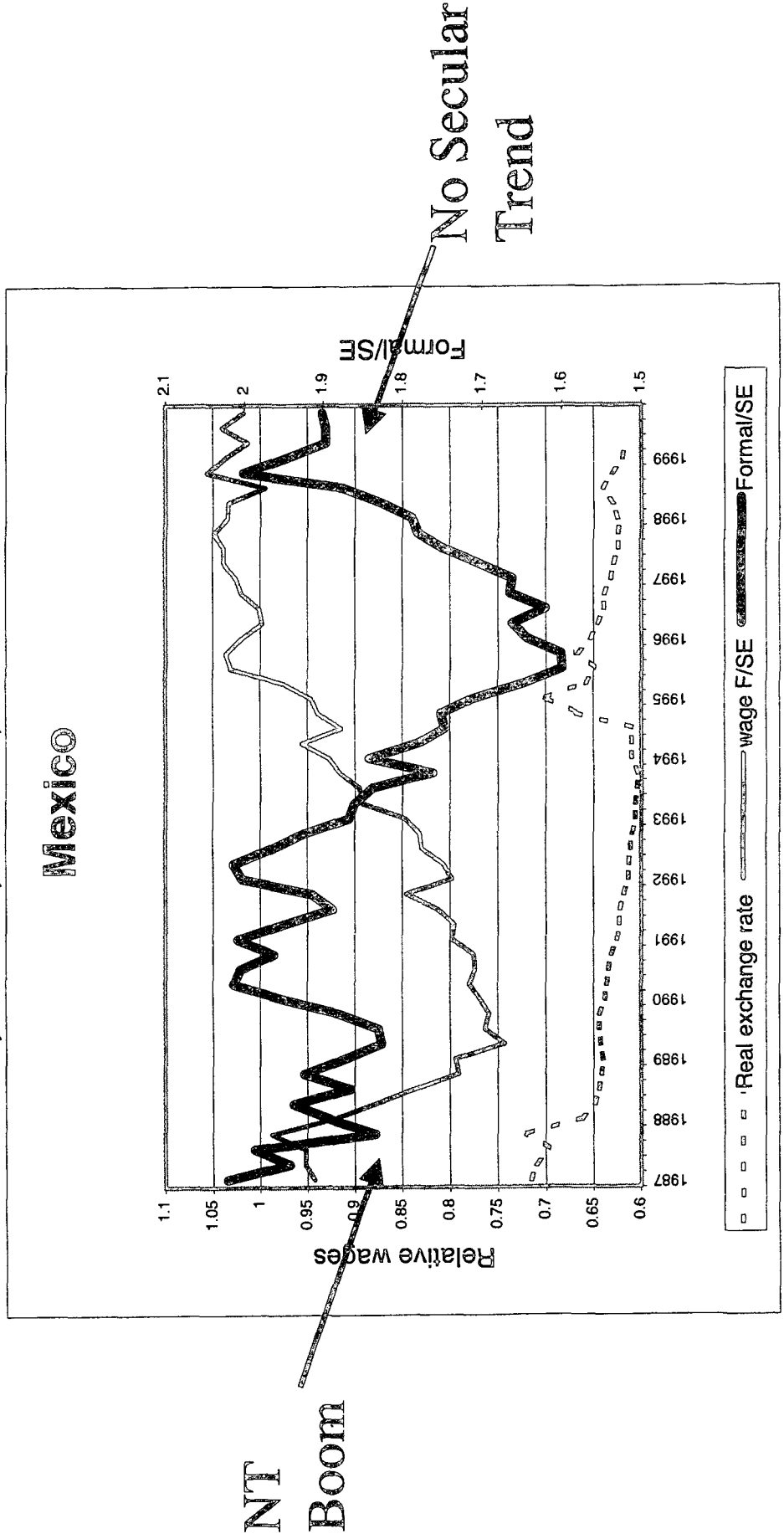
**Informality Rate for Salaried Workers in
Greater Buenos Aires, 1980-1990**

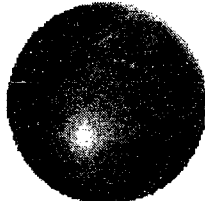
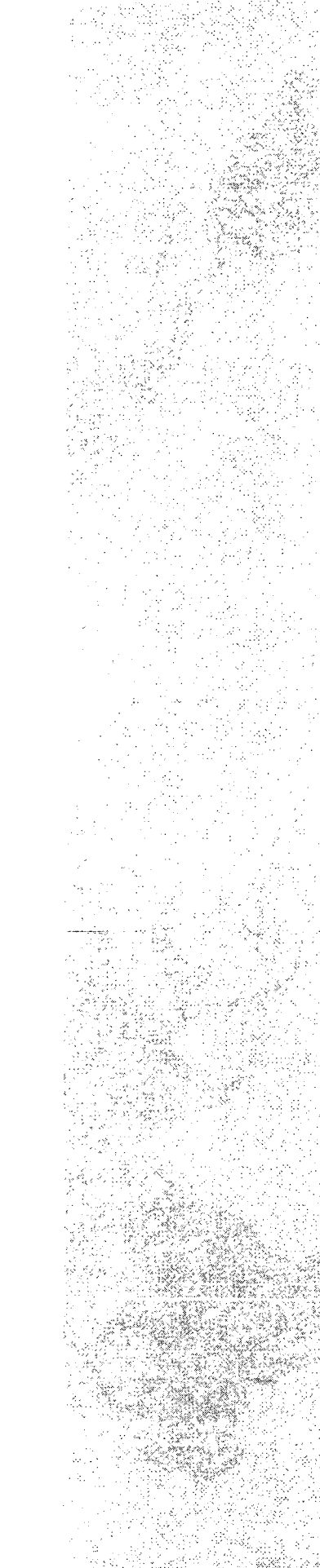


Gasparini 2000



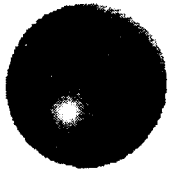
Partly Reflect Macro-Evolution: NT booms in MX, AR, BR, CO





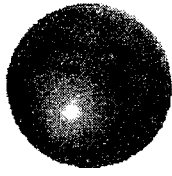
*IV. Forgotten Complements to
Trade Reform*

But it's not too late...



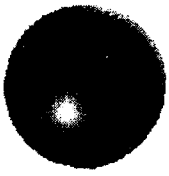
*Yet We Acknowledge Forgotten (Domestic)
Elements of Trade for Development*

- Labor re-allocation and trade-adjustment assistance
- Capacity for technology adoption and innovation (knowledge clusters)
- Domestic infrastructure
- Domestic institutions



Trade Adjustment Assistance

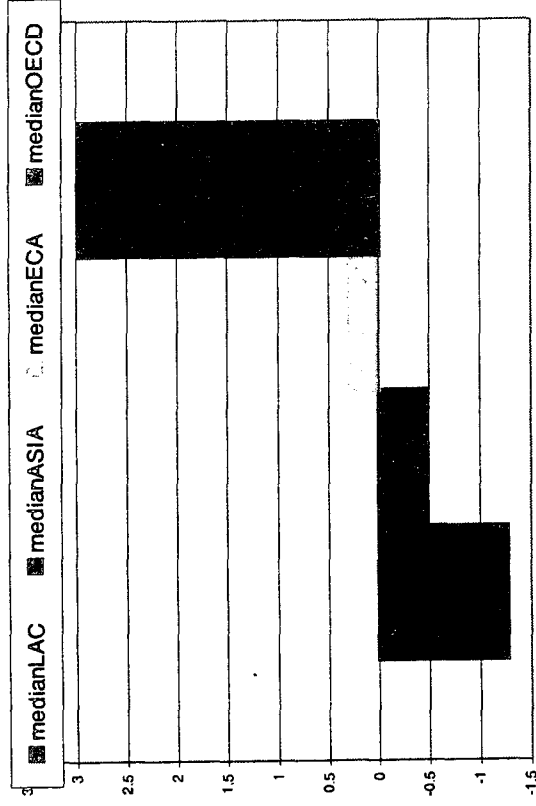
- Economically efficient if designed well and politically smart
 - Compensation mechanisms for disadvantaged workers
- Probably no secular rise in insecurity
- But need comprehensive risk strategies
 - “Securing Our Future”

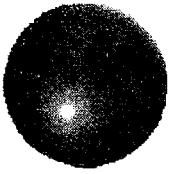


Technological Capacity Lags

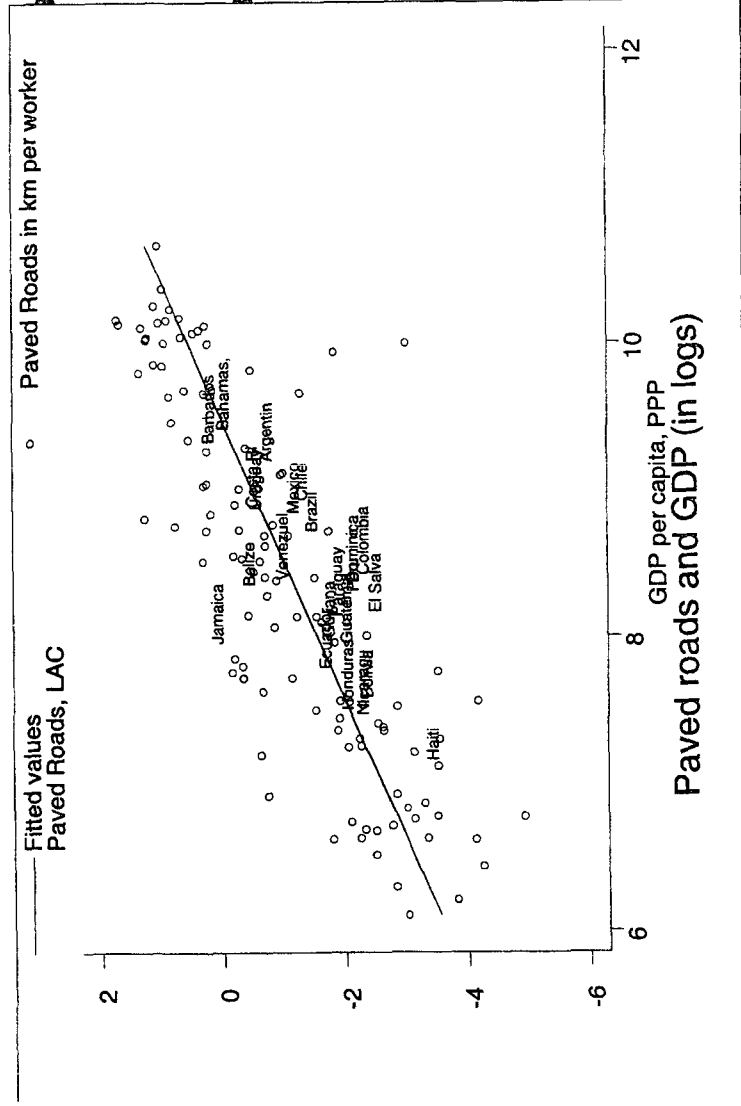
- Weak adoption: TFP drives growth
- Key to successful NR exporters: Scandin. Aus.
- Knowledge, not product clusters, key

Knowledge Index by Regions, 1999

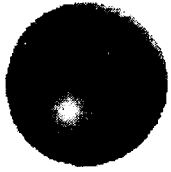




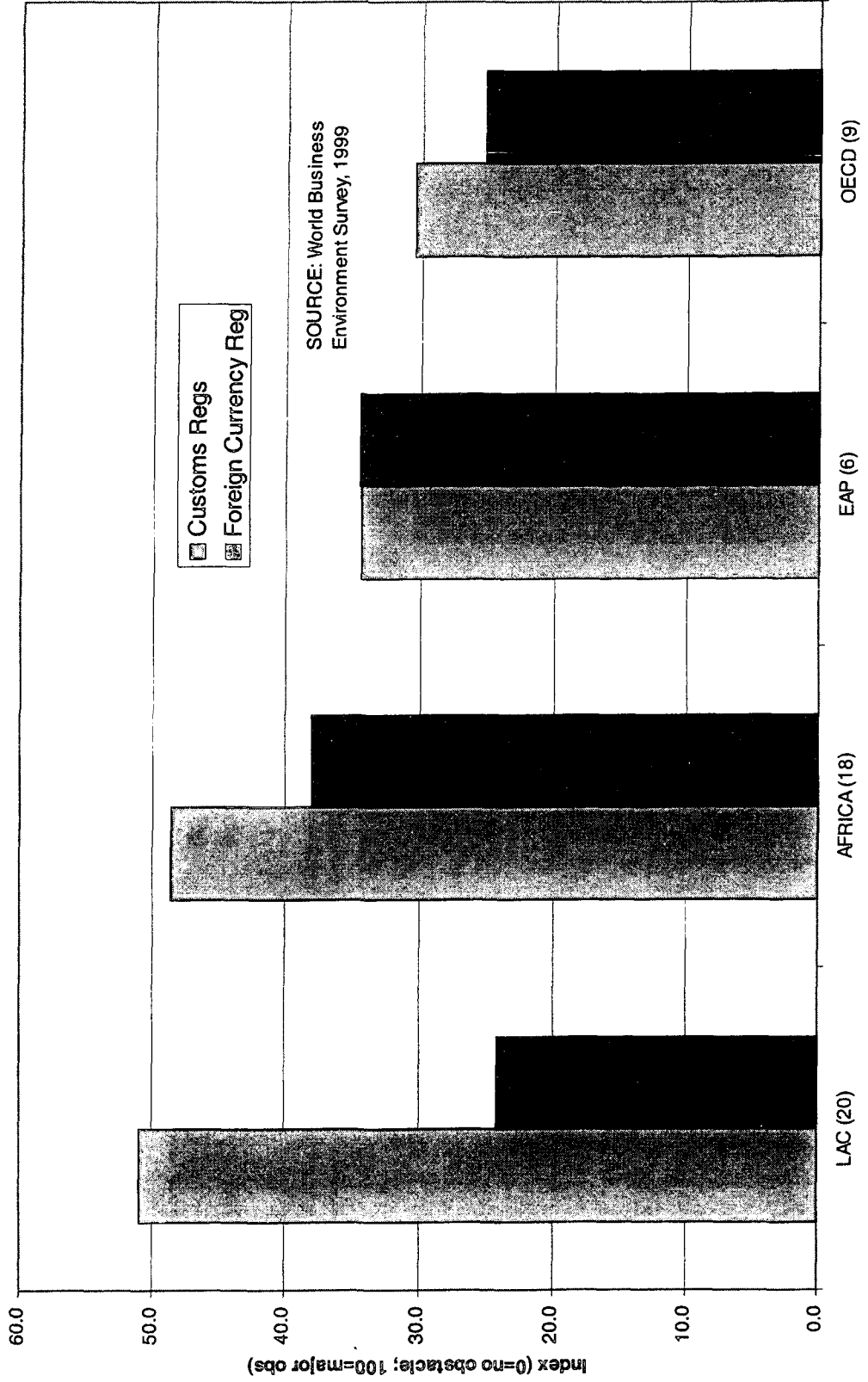
Domestic Infrastructure Lags



- Roads low for income level
- Inventory costs high
 - 20-30% GDP (Guasch)
- Restricts New CA
- Reduces wages



Domestic Institutions for Trade and Development Weak

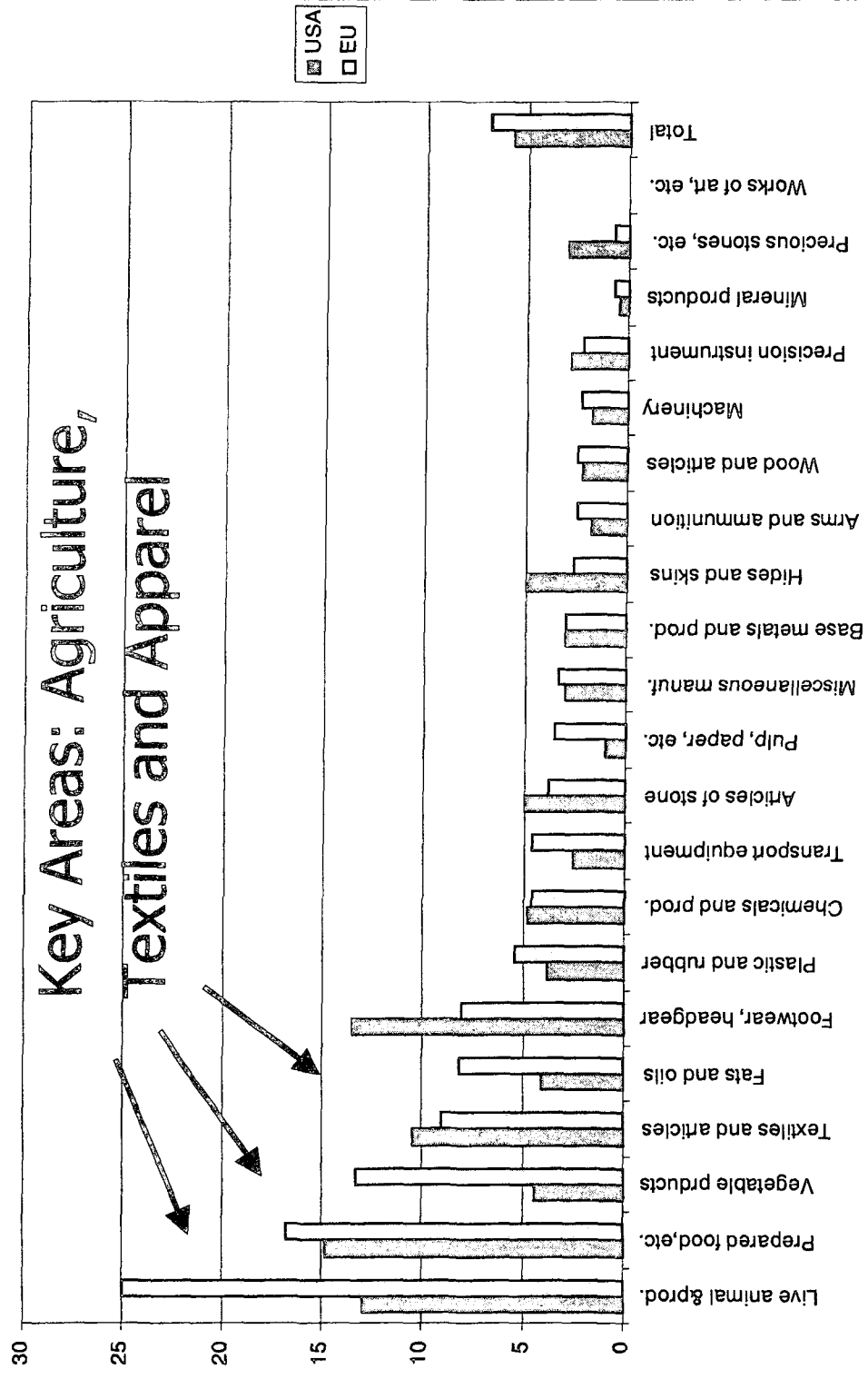


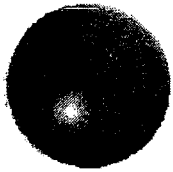


*V. Barriers to LAC Exports:
The Role of Trade Negotiations*

Tariff Peaks in the US and EU

Simple Average Applied MFN Tariff Rates by Sector (1999)

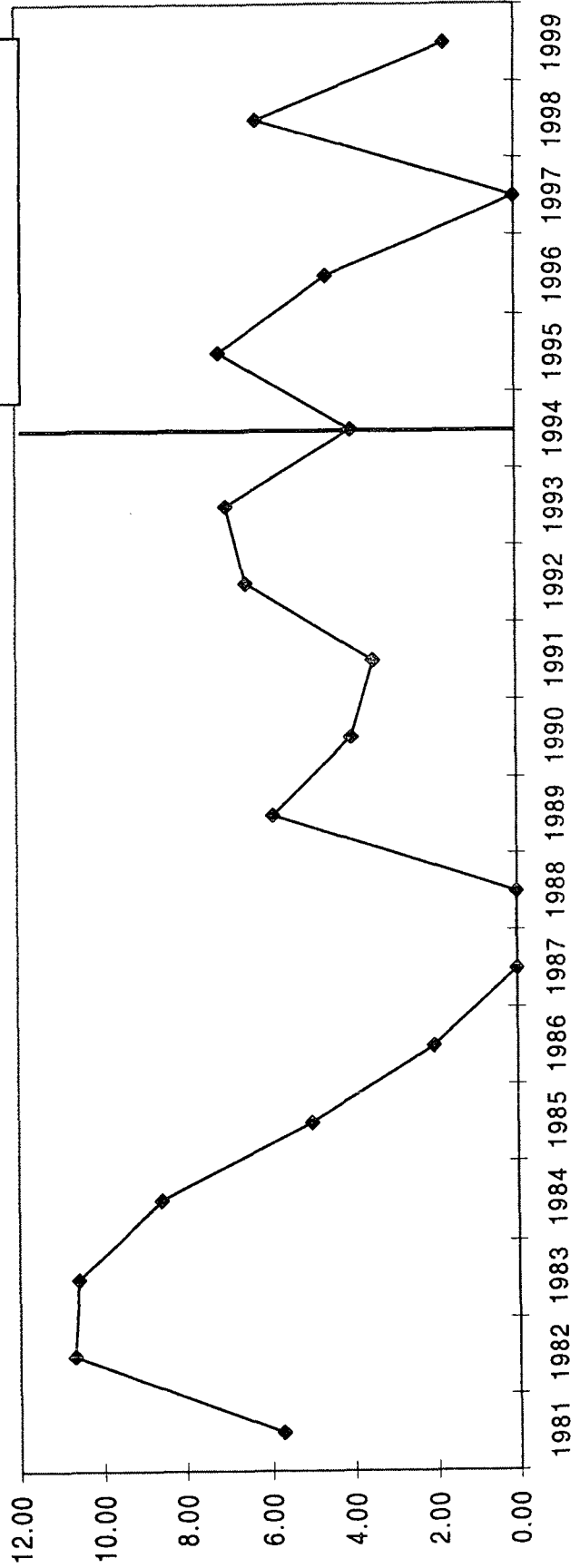


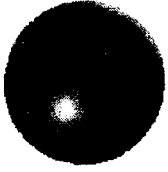


NAFTA Helped: US AD&CVD Cases Versus Mexico and the World

Anti-Dumping and Countervailing Duty Cases Initiated by the U.S. against
Mexico
(Share of Total Actions)

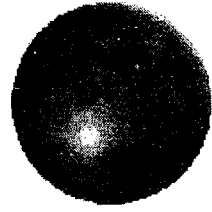
NAFTA





Asymmetry in WTO Enforcement

- Magnitude of punishment is asymmetric
 - Disadvantage for countries with small markets
- Can there be collective punishment?
 - An issue of international governance ...
 - Collective enforcement.
- OECD has interest in institutional stability
 - Are precedents punishment enough?



VI. Summary

- TL: Progress but reversals in the 1990s
- Long-run outcomes are encouraging
- Need complem. policies and mkt access
- Important negotiation issues pending



