LATIN AMERICA AND THE CARIBBEAN IN THE WORLD ECONOMY

1998 EDITION

Latin America and the Caribbean in the World Economy is an annual report prepared by the International Trade Unit of the International Trade, Finance and Transport Division of ECLAC. The principal author and coordinator of the report is the Head of the International Trade Unit, Vivianne Ventura Dias. The individual chapters of the 1998 edition were prepared by the following persons and offices. Chapters I and II: Vivianne Ventura Dias, with the assistance of Mabel Cabezas and in collaboration with Gunilla Ryd and Claudia de Camino of the Statistics and Economic Projections Division (chapter I) and with the assistance of Patricia Rich and Mikio Kuwayama (chapter II); chapter III: Vivianne Ventura Dias, with the assistance of the ECLAC offices in Brasilia (Brazil), Buenos Aires (Argentina), Mexico (Mexico and the Central American countries) and Port of Spain (Caribbean), María Angélica Larach (Peru and Venezuela), José Carlos Mattos (Colombia), Valentine Kouzmine (Bolivia and Ecuador) and Verónica Silva (Chile and Uruguay); chapter IV: Carla Macario of the Division of Production, Productivity and Management; chapter V: Vivianne Ventura Dias, Mabel Cabezas and Jaime Contador; chapters VI and VII: Jan Heirman, with the assistance of Miguel Izam (Mercosur) in the preparation of chapter VII; chapter VIII: Mikio Kuwayama; and chapter IX: María Angélica Larach. Jaime Contador was in charge of the compilation and processing of the statistical data contained in the report.

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Notes and explanation of symbols

The following symbols have been used in the tables in this study:

Three dots (. . .) indicate that data are not available or are not separately reported.
A minus sign (-) indicates a deficit or decrease, unless otherwise indicated.
A full stop (.) is used to indicate decimals.
Use of a hyphen (-) between years, e.g., 1960-1970, signifies an annual average for the calendar years involved, including the beginning and the end years.
The word “dollars” refers to United States dollars, unless otherwise specified.
Figures and percentages in tables may not neccessarily add up to the corresponding totals, because of rounding.

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ABSTRACT

The 1998 edition of *Latin America and the Caribbean in the World Economy* is divided into four sections.

The first section (chapters I and II) is devoted to an examination of the international situation and describes the main short-term trends to be observed in the global economy together with their impact on regional trade. It also examines the evolution of major economic groupings, such as the European Union and the North American Free Trade Agreement (NAFTA), the steps being taken to establish the Free Trade Area of the Americas, and recent decisions taken by the Asia-Pacific Economic Cooperation (APEC) Council, all of which directly or indirectly influences Latin American and Caribbean products' access to the region's principal markets.

The second section (chapters III, IV and V) deals with Latin American and Caribbean trade and trade policy in 1997-1998 and includes a discussion of the trade policies and performance of the countries of the region from June 1997 to August/September 1998, an assessment of the various export promotion tools that comply with multilateral trading regulations and standards, and an analysis of the composition of the region's trade deficits during the 1990s.

The third section (chapters VI and VII) explores the concept of regional convergence and outlines the main stages to be observed in the regional integration process during the period from June 1997 to August 1998.

The fourth and final section (chapters VIII and IX) discusses selected aspects of trade activity and trade policy, compares the experiences of East Asia and Latin America in relation to industrial and trade policy, and analyses the environmental protection policies of the United States and how they have influenced the exports of some Latin American countries.

SUMMARY

1. The international economy: cyclical and structural trends

In 1998 Latin American and Caribbean exports were affected by the unfavourable international economic environment that began to take shape in the second half of 1997 as a result of the financial crisis in Asia. The impact of these events was transmitted to the region through three different channels: sharp reductions in short-term international capital flows and the higher cost of external financing; steep downturns in commodity prices; and a slowdown in the growth of world trade. An expansion of export volumes of nearly 8% only partially offset the drop in prices, and ECLAC estimates indicate that, for the first time in 12 years, the value of the region's exports was lower than it had been the year before. Despite lower prices for manufactures and petroleum, imports climbed more steeply than exports in terms of value, thereby deepening both the trade and current account deficits.

Between the end of 1997 and November 1998, the aggregate price index for commodities other than oil fell by 13%, although this average figure masks sharply differing trends (covering a range from 3% to 41%) for the various products. During the same period, oil prices tumbled more than 38%. According to estimates prepared by the World Trade Organization (WTO), in 1998 the volume of trade expanded by somewhat more than 4%. Although this means that it outpaced the growth of world GDP, which was not expected to top 2%, it was nonetheless far below the average for the four preceding years. As a consequence of weakening average prices levels, however, the value of trade (in dollars) may actually have declined for the first time since 1993.

The striking contraction of the East Asian economies, which had been growing rapidly until that time, has had a severe impact on a number of markets for goods and services because these economies are so fully integrated into world trade. In the past few years, all the world regions had increased the percentage of their exports going to Asia, which, thanks to its strong and mounting demand for imports (financed in part by private capital inflows), had become an engine for world economic growth. The slow pace of growth, on average, seen in the industrialized economies in the 1990s did not halt the expansion of the developing countries' trade activity, a fact which attests to a weakening of the link between the two groups and to the increasing importance of trade between the developing countries of Asia and of Latin America and the Caribbean.

Since the late 1980s the Governments of the region have been implementing monetary and fiscal austerity policies to control the macroeconomic disequilibria generated by the debt crisis of the 1980s. They have also moved to liberalize and deregulate their domestic markets and to privatize public-sector assets in an effort to restructure the system of incentives for the private sector, improve the operation of the market and help to place the production units located within their territory in a more competitive position at the international level. In a number of earlier studies, ECLAC has argued that these measures, while necessary, are not enough in and of themselves to put the region on a sustainable growth path, since the countries also need to increase their presence in the more dynamic types of trade flows and to gain greater access to technology, foreign direct investment and financing.

Be all this as it may, the financial crisis that has directly affected some of the most successful economies in the developing world, i.e., those of East and South-East Asia, has demonstrated that: (i) the factors influencing the position of the region's countries in the world economy are largely beyond the control of its Governments, since the reactions triggered by system-wide crises cause all countries perceived as "emerging markets" to bear the same costs in order to gain access to capital markets, regardless of the differences existing in the structural conditions in individual countries; and (ii) strong linkages to the global economy and a sound macroeconomy are not enough to block the devastating effects of external shocks. The high degree of interdependence existing among the various national economies, the unconstrained mobility of capital and the imbalances and weaknesses of the world economy magnify economic disturbances and, as a result, economic upheavals that are initially confined to a few countries soon spread through commercial and financial channels to other countries and regions.

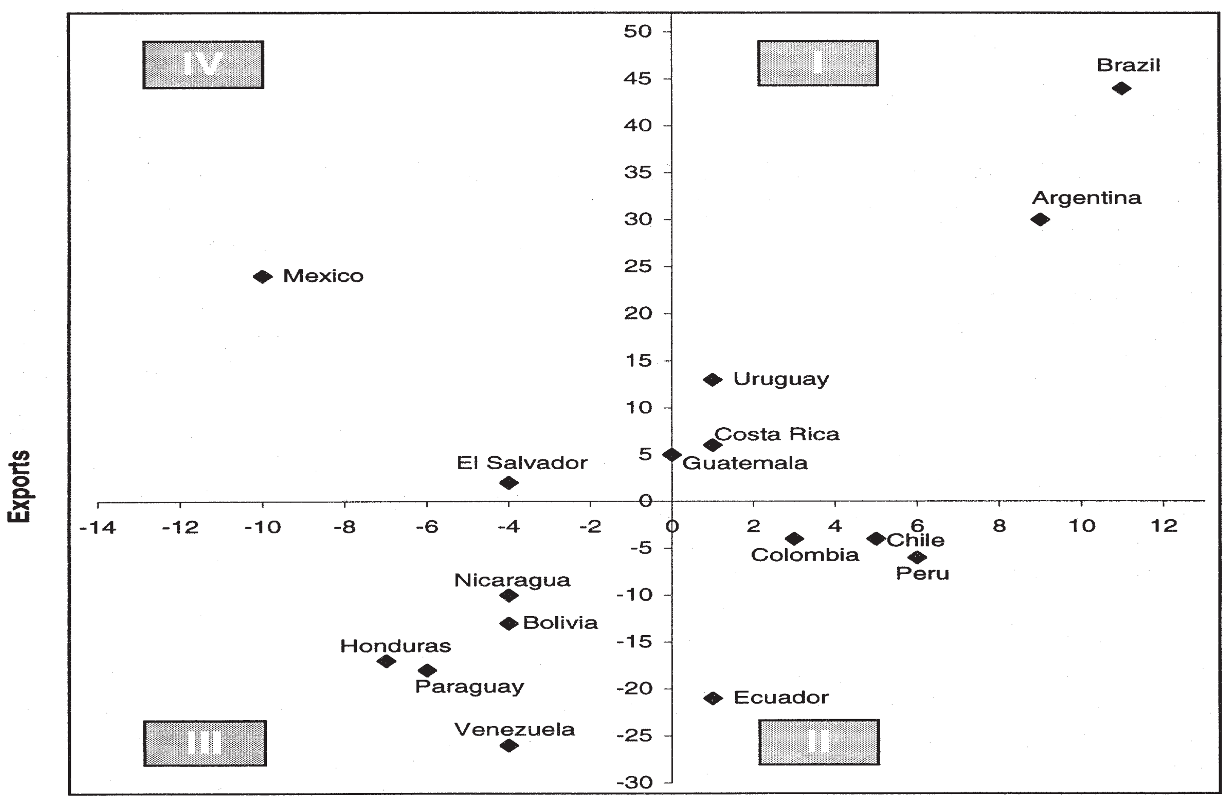
The rapid modernization of the Latin American and Caribbean countries' trade policies since the mid-1980s has not yet brought about a substantive change in the region's export profile, and most of its economies continue to rely on a very limited number of products or markets (or both) for their export earnings (see figure 1). With the exception of Mexico, the Latin American and Caribbean countries' exports are still made up chiefly of commodities; the more advanced economies have diversified their exports by moving into the production of complex industrial goods, but these products are, nonetheless, derived from the same basic commodities. Mexico, however, has managed to diversify its exports into more technologically advanced manufactures based on a strategy that has entailed a sharp increase in the part played by the United States in the country's trade and investment flows.

The countries of Latin America and the Caribbean are interested in securing access for their products to the industrialized countries' markets, especially since the steps being taken to create a single European market have had such a strong impact on other economies' trade strategies. The Government of the United States, in particular, has begun to relax its traditional opposition to preferential arrangements, has signed the North American Free Trade Agreement (NAFTA) with Canada and Mexico, is advocating an ambitious inter-American cooperation programme that is to include the formation of the Free Trade Area of the Americas (FTAA), and has been trying to transform the Asia-Pacific Economic Cooperation (APEC) Conference, in which Chile, Mexico and Peru participate, into a forum for the debate of issues relating to investment and trade liberalization.

The Latin American and Caribbean countries are readying themselves to take part in a new international scenario in which they will be playing an important role, since they are involved in one way or another in all three of the major free trade areas now being formed. The move to establish the European Economic and Monetary Union (EMU) will, given its magnitude and scope, have a considerable impact on Europe's internal affairs and on the international monetary system. The political clout and economic manifestations of the future EMU will surely alter, albeit gradually, the international monetary system's power structure, operations, policies and interlocking alliances.

All this affords an opportunity to take part in an important institutional learning process as well. Europe's integration exercise provides the Latin American and Caribbean countries with the chance to learn more about the institutional and economic aspects of macroeconomic integration processes. The APEC negotiations allow the participating Latin American countries to become familiar with new working methods and negotiating techniques that they can put to use in other forums. Valuable experience is also being gained in the FTAA working groups, and

Figure 1
CONCENTRATION OF LATIN AMERICAN EXPORTS, 1997



Source: ECLAC, on the basis of official figures.
Notes: The data refer to 16 Latin American countries (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru, Nicaragua, Uruguay and Venezuela). The value of each reporting country's exports for 1997 has been ranked according to the number of markets on which those exports are sold and the number of products that are exported (based on the revised version of the Standard International Trade Classification at the four-digit level) which account for 80% of the total value of exports. The average figures for the 16 reporting countries are 11 markets and 28 export products.
The vertical axis measures the positive and negative variations in the average number of export products. For example, a value of 5 would mean that, for a given country, 33 products account for 80% of its exports. A value of –5 would mean that 23 products account for 80% of its exports.
The horizontal axis measures the positive and negative variations in the average number of markets. For example, a value of 2 would mean that, for a given country, 13 markets buy 80% of its exports. A value of –2 would mean that 9 markets buy 80% of its exports.
Quadrant I: Countries that have an above-average number of buyer markets and export products.
Quadrant II: Countries that have an above-average number of buyer markets and a below-average number of export products.
Quadrant III: Countries that have a below-average number of buyer markets and export products.
Quadrant IV: Countries that have an above-average number of export products and a below-average number of buyer markets.

this has had positive externalities for the countries of the region in other negotiations. This kind of spillover is of particular importance within the context of the multilateral talks in the process of being initiated under the aegis of WTO.

2. Trade and trade policy in Latin America and the Caribbean in 1997-1998

Between 1990 and 1997, the region's imports increased 40% more, in quantitative terms, than its exports. At the end of 1997, the real value of imports was 35% greater than that of exports, even though since 1995 the general trend in the terms of trade has been favourable to the region's exports. Due to the high income elasticity of the region's demand for imports, which is associated with the restructuring of its production facilities and the increased percentage of imported inputs in local production, the main growth constraints affecting the region's imports have been generated by each country's level of economic activity, ability to achieve a trade surplus on the services account, ability to finance large deficits in its trade in goods and services, or a combination of the latter two.

Of the 17 Latin American countries under review, only Ecuador, Mexico and Venezuela had trade surpluses in 1997, measured at current prices, and even these positive balances were far lower than in 1996. It should be noted that this build-up in merchandise trade deficits has occurred despite export growth rates of 10% or above, except in the cases of Paraguay and major oil-producers such as Ecuador and Venezuela. The increase was the result of an upswing in the volume of shipments, since the prices of the countries' main export products –in particular oil, copper, wheat and other grains (except rice)– began to plummet in the second half of 1997. Furthermore, the prices of manufactured goods showed a drop of nearly 9% from their 1996 levels. The countries most severely affected by this situation were Argentina, Chile and Venezuela. On the other hand, higher banana, coffee, shrimp, fishmeal and beef prices benefited the Central American countries and, in the case of Ecuador, offset the downturn in oil prices.

The persistence of low commodity prices in 1998 is expected to result in sharper increases in merchandise trade deficits, even though the downward trend in oil and grain prices did benefit importing countries. Preliminary data indicate that Venezuela is the only country with a positive trade balance for 1998, although it is but a fraction of the country's 1996 surplus. Starting in July 1997, Mexico began to register increasingly large deficits. During the first nine months of 1998, Mexico's trade deficit amounted to more than US$ 5 billion, with average monthly figures in the third quarter in excess of US$ 750 million. Brazil has succeeded in curbing the growth of imports, partly through the selective enforcement of controls and partly as a result of the economic contraction triggered by strict adjustment measures –a phenomenon also visible in Chile.

In Central America, the catastrophic damage caused by Hurricane Mitch, whose economic impact cannot yet be fully assessed, caused the loss of precious human lives, destroyed decades' worth of accumulated social capital in the form of schools, hospitals and infrastructure, and diminished the productivity of the land, which is these countries' main productive resource. For Honduras and Nicaragua and, to a lesser extent, El Salvador and Guatemala, it will be very difficult to regain the production and export levels reached in mid-1998. The growth rate for Central American exports in recent years had been the highest in the region, although it must be remembered that, owing to the civil wars that ravaged these countries until the beginning of the 1990s, they were starting from very low levels.

In general, the sharp drop in commodity prices, caused in part by problems of excess supply and a contraction of demand, demonstrated the vulnerability of the Latin American countries' export activity. Over the last few decades, various countries have made significant efforts to diversify their exports in terms of both products and markets. However, according to the findings presented in a study on the export markets and products of the countries belonging to the Latin American Integration Association (LAIA), only Argentina and Brazil have succeeded in diversifying their exports in terms of both export products and target markets; Mexico's and Uruguay's exports are diversified in terms of products, but are concentrated in a small number of markets: the United States in Mexico's case, and Argentina and Brazil in the case of Uruguay. However, as noted earlier, Mexico alone has diversified its exports into non-natural-resource-based manufactures, while Argentina's and Brazil's exports continue to be concentrated in these types of products. At the other extreme are Chile, Colombia and Peru, whose exports, though they are concentrated in a small number of products, are sold on a wide range of markets. Finally, countries such as Bolivia, Ecuador, Paraguay and Venezuela continue to display a high degree of vulnerability in this respect owing to the concentration of their exports in a small number of products and markets.

To change their export specializations while continuing to base their export profile on their endowments of natural resources and labour, the region's Governments have sought to develop programmes to support the private sector and improve the systemic competitiveness of their economies. To this end they have made use of policies and instruments consistent with the commitments they have made under the aegis of the World Trade Organization (WTO). Most of the countries have tried to assist exporters by means of tax, fiscal and credit incentives, which include access to imported inputs on preferential terms (drawbacks and temporary importation) and exemptions from value added tax (VAT), in combination with the provision of more flexible and effective instruments. Other countries, such as Argentina, Brazil, Ecuador and Mexico, have upgraded their institutional capabilities for the design and implementation of policies aimed at supporting, promoting and diversifying exports; as part of this process, they have sought to consolidate decision-making authority, which had previously been scattered among various government agencies, and to make the relevant programmes more coherent.

The trade measures put into effect in 1997 and 1998 by the region's Governments have attested to their commitment to trade liberalization while at the same time allowing them to gain more practical experience with the use of quota-based protective measures and to give the private sector access to markets all over the world, i.e., both industrialized and developing markets (including those of countries within the region itself). In various countries, such as Argentina, Brazil, Chile and Mexico, the public sector has worked in coordination with the private and professional sector to identify export barriers in importing countries beforehand in order to avoid long and expensive proceedings such as the recent investigation concerning alleged dumping by Chile in the United States. Following the example of the United States, which publishes an annual report on barriers to its exports, Canada, Japan and the European Union have begun to gather information on market access problems. Along the same lines, the Latin American and Caribbean countries are planning to conduct a survey of external barriers to trade and investment in order to provide the public and private sectors with detailed information on market access conditions, as well as to contribute to a more vigorous defense of commercial interests and the development of an active trade agenda.

Imports play a significant role in the restructuring of Latin American industry, since capital goods and inputs are needed to bring the region's industrial base into line with today's technological standards. This has been demonstrated by a number of studies, which have shown that trade liberalization and the new types of incentives and regulations that go along with it have set in motion a wide-ranging industrial restructuring process. Some of the hallmarks of this process are shifts in national production profiles and an increased use of imported inputs in local production activities, together with sweeping changes in patterns of ownership in many industrial sectors in which local firms have been unable to compete with imports.

For example, one recent study indicates that the Latin American manufacturing sector has been focusing on food products and industrial commodities while de-emphasizing metal manufactures and machinery industries, capital goods and consumer durables. The manufacturing sector has ceased to exhibit the high degree of vertical integration that characterized it in previous decades because the lower costs involved in importing parts and components mean that this sort of integration is no longer profitable. In other words, many firms have substantially increased the percentage of imports they use in the production of consumer or capital goods because they are substituting equivalent imported parts for components that they or other locally-owned companies used to produce in the country. In Argentina, Chile and Mexico, a sharp decrease in local production has been observed in areas involving more value added, in-house engineering and technological development.

Trade liberalization, the relative decline in the prices of imported products and the growth of the Latin American economies in the 1990s have given rise to an upswing in imports of consumer and capital goods. By permitting the countries to renew their stock of capital goods, this trend has posed new challenges and opened up new opportunities for the region's producers and exporters. While it is true that some sectors and firms in Latin America have succeeded in meeting these challenges and taking advantage of these opportunities, the fact remains that the increased use of imported inputs makes it harder to adjust the countries' current account deficits without harming production and exports.

The countries of Latin America and the Caribbean have reached a turning point in terms of their export promotion policies. This is due to the fact, first of all, that in the past a higher priority had been placed on reforming macroeconomic and trade policy based on the belief that by reducing the economies' anti-export bias and correcting macroeconomic price levels, the reformed policies would provide a sufficient stimulus for exports. However, although these policies –together with a drop in domestic demand– did succeed in boosting exports, they did not eliminate the economies' anti-export bias. Moreover, the combination of currency appreciation and rebounding domestic demand in a number of the region's countries has reopened the debate as to what kinds of policies are most effective in promoting the sustained growth of non-traditional exports. The FTAA negotiations have also played a part in pointing up the need for a reformulation of export promotion policies in most of the Latin American and Caribbean countries.

The globalization of world trade and its implications in terms of the increasing competition faced by the region's firms on domestic and external markets have made the Latin American and Caribbean Governments and private sectors more aware of the need to set up trade promotion systems that will be of genuine assistance to firms in meeting the challenges they will face in the coming years. The commitments made by the countries of the region in the Uruguay Round have also fueled the debate concerning the need to overhaul their export promotion policies. The new rules applying to multilateral trade, under which developing countries have access to greater opportunities and to more equitable dispute settlement procedures, also have important implications in relation to subsidies for non-agricultural exports.

The countries of the region differ widely, however, in terms of what kinds of adaptations are needed in their export promotion policies. While some need to undertake major reforms in this area, others are further along in this process and only need to make minor adjustments in order to make their export promotion instruments more effective or to bring them into compliance with their Uruguay Round commitments. For example, some Caribbean and Central American countries will need to make substantive changes in their trade promotion policies and have already begun to do so, whereas in Chile only relatively minor changes are required, although they will still have a considerable impact on small-scale exporters. In Mexico, on the other hand, a very efficient and fully WTO-compliant export promotion system is already in operation.

3. The regional integration process in Latin America and the Caribbean in 1997-1998

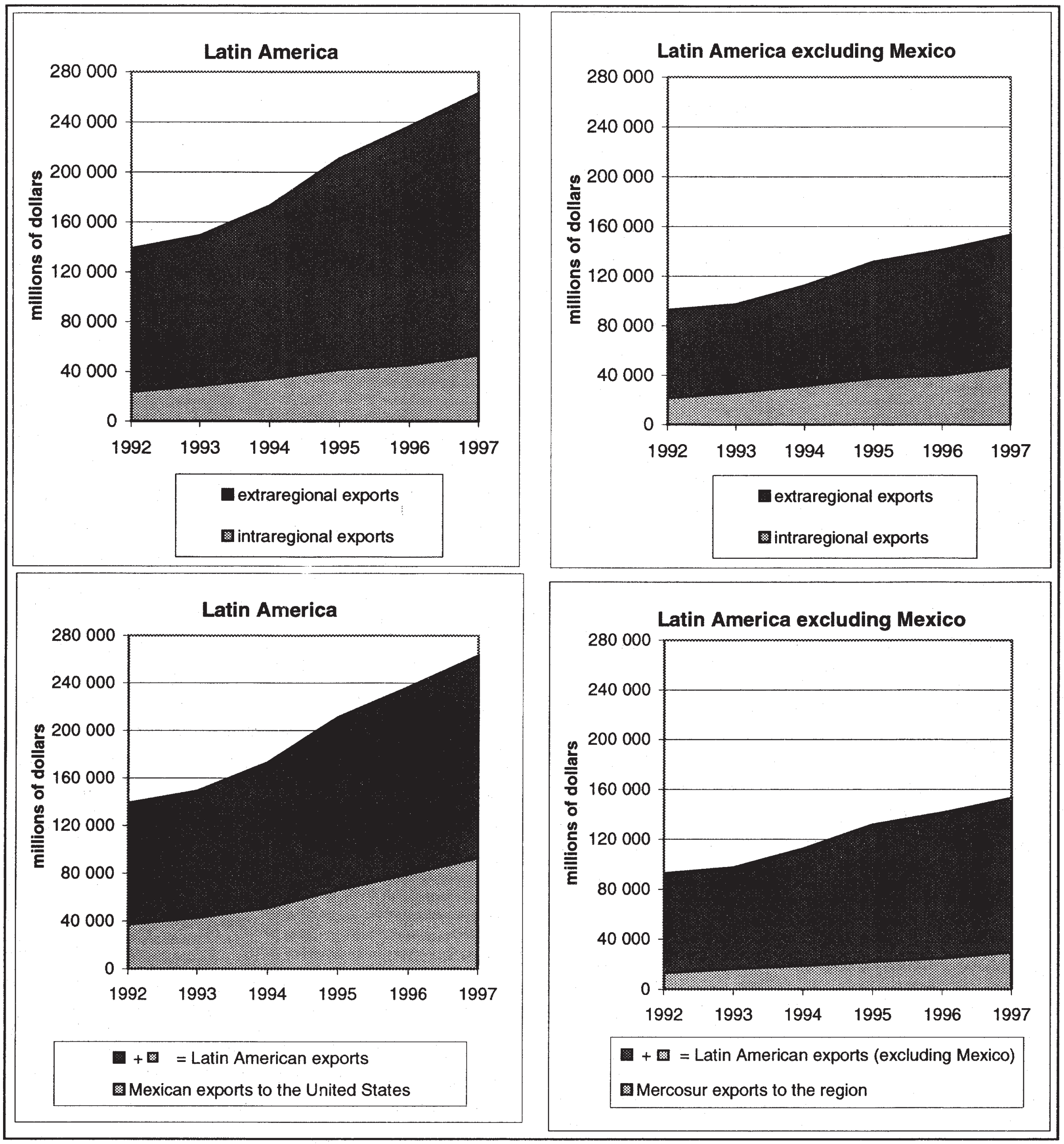
The strength of the economic integration process in the region is evidenced by the steady expansion of trade observed within its subregional groupings between January 1997 and July 1998 and by the intergovernmental agreements concluded by those groups during the same period. There is as yet no clear indication that the outbreak and subsequent deepening of the present international financial crisis has had any impact on this process. The possibility cannot be ruled out, however, that the favourable environment for integration that has existed up to this point may be undermined by any of the various repercussions of the crisis, such as the downturn in the prices of the commodities exported by the countries of the region, the competition that the region's products may face from Asian goods on its or other markets, or the slump in export earnings caused by the weakening of Asian demand.

In 1997, total intraregional trade expanded 17.5% for Latin America and the Caribbean, whereas the region's total exports climbed by slightly less than 11%. As a result, the share of the total represented by intraregional trade rose from 19% in 1996 to 20% in 1997, when measured at current prices. This average figure masks the heterogeneity of the region's trade flows, however, with one example being the importance of Mexico's trade relations with the United States (see figure 2). In the case of the South American countries belonging to Mercosur and to the Andean Community, the proportion of their total trade accounted for by intraregional transactions increased relative to trade with outside countries, whereas in the case of the countries belonging to the Central American Common Market (CACM) and to the Caribbean Community (CARICOM), transactions with third parties was the fastest-growing component of their overall trade flows.

The region's four integration schemes moved ahead with the implementation of their free trade regimes and common external tariffs as swiftly as possible within the constraints imposed by the economies of their member countries. Meanwhile, their Governments also sought to address complementary issues or to speed up the pace of implementation in such areas as institution-building, the liberalization of the services sector and the mobility of people and capital. In some cases, initial steps were also taken towards designing effective dispute settlement procedures.

On the other hand, fewer new free trade agreements were signed by the countries of the region, whether because the two countries that had been the most active in this respect –Chile and Mexico– succeeded in making all the arrangements of this sort that they had planned, or because there was increasing interest in seeking areas of convergence among existing subregional schemes, as reflected in the negotiations now under way between Mercosur and the Andean Community, and in concluding agreements between integration schemes and non-member countries, as in the case of CACM and the Dominican Republic. These types of alliances are partly a response to the challenges posed by the initiation of hemisphere-wide talks early in 1998, but they are also a reflection of the Latin American and Caribbean countries' desire to broaden the scope of their economic activity, which is still too narrow to permit them to deal with international competition successfully.

Figure 2
LATIN AMERICAN EXPORT TRENDS AND STRUCTURE, 1992-1997



Source: ECLAC, on the basis of official figures.

The literature on economic integration frequently refers to the idea of convergence, although it fails to provide a precise definition of this concept. Convergence is a dynamic phenomenon associated with the steady-state concepts of asymmetry and heterogeneity. In the context of economic integration, convergence (which could be defined simply as the gradual confluence of non-uniform elements towards a more harmonious whole) can be understood as a process leading towards a reduction in the differences or asymmetries originally existing between the independent components of a set. This process may either be spontaneous or may be negotiated by Governments and endowed with some degree of institutionality.

Within the context of regional integration, a distinction can be drawn between convergence within integration schemes and convergence between integration schemes. In its turn, the type of convergence process seen within a given integration scheme may relate to different dimensions of that scheme depending, in essence, on the degree to which the participating countries are committed to policy harmonization as a basis for integration. The series of stages involved in forming a wider market –which are often described as being those of a free trade area, customs union, common market, economic union, and economic, monetary and policy union– entail increasing degrees of policy harmonization and, ultimately, convergence. Free trade areas are regarded as being the least demanding mechanism in terms of the degree of economic-policy convergence required among the member countries, while, at the other extreme, an economic, monetary and policy union requires the member countries to refrain almost entirely from the exercise of national policy.

The type of convergence that may occur between integration schemes also depends on the nature of the schemes involved. For example, convergence between free trade areas and customs unions entails a reduction in the asymmetries existing between such arrangements in terms of their basic rules and standards regarding trade activity and their tariff rollback programmes.

The convergence of different schemes' basic trade instruments is a preliminary and fairly loose form of convergence which, because of these very characteristics, may be the most appropriate for the current stage of integration of the three subregions in Latin America and the Caribbean. The intraregional negotiations now being held with a view to the establishment of a free trade area between the Andean Community and Mercosur correspond to this stage. These talks are focusing on trade facilitation instruments and on trade policies affecting access to a broader market of this sort, such as tariffs, rules of origin, safeguards, customs valuation and technical standards.

Once the necessary adjustments have been made in the basic aspects of the regimes agreed upon by the relevant integration schemes, it can be expected that as the trade relations among members of the schemes intensify, there will be increasing calls for the coordination of other policies that influence trade between these countries and their ability to attract investment.

Policy convergence in areas other than trade would appear to be associated with a more advanced form of integration than the types of processes upon which the existing subregional schemes are just now embarking. Examples of these processes would include the efforts currently being made by the Andean Community, Mercosur, CACM and CARICOM to perfect their as yet incomplete customs unions through the coordination and harmonization of policies that indirectly affect the growth and operation of broader markets and competition within them. These include exchange policy, some types of monetary and fiscal policies, and policies dealing with competition, the attraction of foreign investment and, in general, the unification of relevant economic legislation and administrative regulations.

In all its various spheres, convergence represents a challenge that has been gaining in consistency and immediacy as subregional integration schemes move towards more advanced stages of the process or begin to broaden their scope. The proliferation of bilateral agreements has also given a great deal of momentum to regional integration, although it has also led to a fairly disorganized set of conditions relating to competition in the region. The recent commencement of the FTAA negotiation process lends greater urgency to the objective of forming a fully integrated regional market, since the agreements that may be reached within that context could undermine the *raison d'être* of the regional integration process if it fails to advance beyond its present stage. On the other hand, it has also been argued that current conditions are conducive to convergence, since the countries' economic policies share a common orientation.

At this juncture a number of different courses of action may be proposed. The General Secretariat of LAIA has proposed one such approach for completing and modernizing its regulations and standards. The General Secretariat is aware of the limitations of the Association's existing rules of origin and system of safeguards and has drawn up specific proposals for refining them based on WTO rules and the particular requirements of intraregional trade. Member countries have shown little interest in actually supporting this initiative, however, and appear to prefer to rely on the regulations established under subregional and bilateral arrangements. Moreover, it would be very difficult to bring the rules set forth under existing bilateral and subregional agreements into line with the types of regulations being proposed by LAIA, should they be approved. The countries' unwillingness to support such an initiative is based not only on the fact that the existing rules have been tailored to fit each agreement, but also on the fear that the country granting concessions might be inhibited from expanding upon them or extending them to other countries.

Another approach would be, as an outcome of the FTAA negotiations, to substitute a common hemisphere-wide set of rules for existing piecemeal regulations, since the various negotiating groups do cover all the key areas that would be involved in setting up a broadly-defined free trade area. A fully institutionalized and implemented FTAA could eliminate the need for free trade agreements among smaller groupings even if the institutional arrangements for these groups' customs unions and common markets were to remain in effect. After all, the formation of a hemisphere-wide free trade area does not necessarily mean that it would not be desirable for a more homogeneous group of countries to participate in a regional common market having more ambitious objectives in terms of the achievement of a balanced, integrated form of development. This line of reasoning would only be strengthened further if the FTAA talks were to fail to achieve their stated objective. In any event, it is clear that the more progress the various regional components can make in the meantime, the more it will help to strengthen the region's negotiating position.

A third option, and there may well be a number of others, would be for the countries to decide to consolidate all their various regulations within the context of LAIA or the proposed South American Free Trade Area if the FTAA negotiations should prove unsuccessful. The experience gained in the FTAA talks would pave the way for this type of initiative, especially since the region's economic complementarity agreements would be fully operational by then and since the remaining asymmetries among the countries of the region are relatively minor in scope.

4. Selected trade and trade policy issues

(a) Trade and industrial policies in the wake of the Uruguay Round: how East Asia compares with Latin America

The economic literature of recent decades has helped to publicize the East Asian Governments' successes in the area of economic policy, which have enabled them to rectify a number of different market failures and thus increase the pace of capital formation, technical progress and structural economic change. In other words, State intervention has permitted a faster rate of economic growth than could have been achieved with *laissez-faire* policies. For this and other reasons, the Latin American countries have looked to the East Asian countries in an effort to learn from their experiences.

Because of the recent financial crisis in the economies of East Asia, however, radical changes have had to be made in the regulations that used to protect a number of their markets from international competition. Specifically, countries that had to resort to borrowing from multilateral financial institutions will have to speed up their deregulation and liberalization of product and factor markets in order to fulfil the conditions stipulated by those institutions.

A number of other factors have also made it less likely that the countries of the region could use selective industrial or trade policies similar to those successfully applied by their East Asian counterparts. First of all, the globalization of the region's markets is pushing national firms into fierce competition on both the domestic and external fronts in an arena in which the ground rules are laid down by the major transnational corporations. Given this globalization of the production and financial sectors, the tendency that is gradually taking hold in WTO and in other forums is to use multilaterally agreed criteria as a basis for the harmonization of national policies and standards. Nor will the new types of regimes that the countries have accepted at the multilateral level as an outcome of the Uruguay Round –or those that may result from pluri-lateral, subregional, regional or hemispheric agreements– allow the countries to adopt selective industrial or commercial policies as broad in scope as those applied in the past by the East Asian countries.

The new round of multilateral trade negotiations scheduled to begin in late 1999 could also impose greater constraints with regard to the use of selective policies. And even if this round of negotiations were not to take place after all, the member countries of WTO have already committed themselves to start talks before the year 2000 on, among other matters, regimes for the protection of intellectual property and the further liberalization of trade in agricultural products and services. By the same token, WTO will need to assess the headway made by the working groups created in 1996 in addressing issues in the areas of trade and investment, competition policy and public-sector procurement.

Many experts feel, however, that the manoeuvring room available to the region's Governments in terms of their non-traditional export promotion policies has by no means disappeared altogether. Developing countries need to concentrate on designing and implementing policies in this area that are compatible with the rules established in the Uruguay Round and in other international agreements with a view to improving the countries' productive and technological capabilities.

(b) Environmental barriers to Latin American shrimp exports

Recent studies indicate that the trade liberalization policies implemented during the 1990s have helped to boost the region's foreign trade in goods and services, although imports have risen more steeply than exports. In order to stimulate the growth of exports, the Governments of Latin America and the Caribbean have introduced export promotion instruments aimed at altering their countries' export profiles while, however, taking care to maintain their natural resource-based comparative advantages. The new types of exports being developed include fishery products, and Chile, Ecuador, Argentina, Peru, Mexico, Brazil and Colombia are, in that order, among Latin America's largest exporters of these items. Shrimp is one of the products on which such countries as Ecuador, Colombia and Honduras have focused their export diversification efforts.

The United States is one of the world's largest importers of fishery products and is the market of preference for many of Latin America's fishery exports. In recent years, however, the United States has taken steps to limit imports in an effort to force exporters to use production processes that comply with its legislation regarding endangered species and other environmental laws. This has sparked a number of conflicts between trade and environmental interests. The first such dispute concerned the ban imposed by the United States Government on imports of tuna that had been caught using techniques that threaten the survival of the world's dolphins. Later, it also moved to restrict shrimp imports because shrimp trawlers often catch sea turtles in their nets by accident. (Sea turtles are protected by federal laws in the United States under which the sale of all such products are prohibited.) A number of different studies have identified this practice as one of the main factors that is pushing this species towards extinction.

Concern about the serious harm to sea turtles caused by shrimp trawling has prompted various environmental groups, including the Earth Island Institute, to demand that the United States Government ban these imports in order to force exporters to change their fishing methods. Other regulations have also been established for shrimp farms (aquaculture) because, without proper management, they too cause environmental damage (such as the destruction of adjacent wetlands), and a great deal of pressure is therefore being brought for a ban on imports of cultivated shrimp by the United States as well.

Environmental protection is a legitimate objective for all countries, regardless of their stage of development. The possibility that environmental standards may act as major barriers to international trade and lead to the imposition of new conditions on access to industrialized markets is nonetheless a cause for concern. As a means of contributing to the analysis of this issue, information is presented regarding the United States ban on shrimp imports and on the legal arguments used in the WTO tribunal considering this unilateral measure, together with some preliminary findings of an ongoing ECLAC research project regarding what kinds of steps have been taken by two Latin American countries (Colombia and Ecuador) in order to adjust to the United States environmental policy.

PART ONE

THE INTERNATIONAL ECONOMY

Chapter I

TRENDS IN THE WORLD ECONOMY AND THEIR IMPACT ON LATIN AMERICA AND THE CARIBBEAN

A. INTRODUCTION

Over the last decade, the Governments of Latin America and the Caribbean have adopted fiscal and monetary austerity policies to control the macroeconomic imbalances produced by the debt crisis of the 1980s; in addition, they have implemented policies to liberalize and deregulate domestic markets and programmes to privatize State assets, with a view to reorganizing the system of incentives for the private sector, improving the workings of markets and helping to raise the international competitiveness of production units located in their territory. Previous ECLAC documents have pointed out that for these measures to generate sustainable growth in the region, it is also necessary for the countries to improve their participation in dynamic trade flows and their access to technology, foreign direct investment and financing.[1]

Despite all this, the financial crisis that has directly affected some of the most successful economies in the developing world, those of East and South-East Asia, has shown that (i) the factors influencing the position of the region's countries in the world economy are largely beyond the control of its Governments, since the reactions triggered by systemic crises cause all countries perceived as "emerging markets" to bear the same costs of access to capital markets, even if the structural conditions in individual countries are different; and (ii) good linkages to the global economy and solid macroeconomic fundamentals are not enough to prevent the devastating effects of external shocks.[2] The high degree of interdependence between national economies, the unconstrained mobility of capital and the imbalances and weaknesses of the world economy amplify any upheavals, so that the crisis confined initially to a few countries, spreads through commercial and financial channels to other countries and regions (see ECLAC, 1998b).

The growth enjoyed by the world economy between 1994 and 1997 can be attributed to the economic policies adopted by countries and to the virtuous interaction that took place between international trade and financial liberalization and the globalization of markets.[3] On the other hand the scale of the recent crisis has highlighted the systemic risks

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1 According to a recent ECLAC document, better linkages to the world economy should be reflected in an enhanced ability to take advantage of growth cycles in international and regional trade, and to weather adverse cycles and financial instability, by diversifying products and markets, seeking investment and partnerships abroad, applying internal stabilization mechanisms, and achieving better linkage between exports and other production activities (ECLAC, 1998a, p. 16).

2 A United Nations report says that: "One of the ironies of the crisis is that it has turned the virtue of international openness into a potential source of vulnerability" (United Nations, 1998, p. xii).

3 For analysis of certain aspects and bibliographical references, see ECLAC 1996, pp. 19-36, and ECLAC 1997a, pp. 23-32.

that globalization entails.[4] Systemic financial crises involve a large number of factors, agents, markets and interactions, which makes it difficult to produce an accurate forecast of their severity, scope and duration and therefore prevents remedial action being taken in the markets at a sufficiently early stage. Furthermore, the expectations of market agents play a key role in generating, prolonging and propagating a crisis.[5] In these circumstances, the actions of the very financial institutions that ought to be taking the lead in providing help to countries in crisis may themselves end up by making matters worse.[6]

B. THE WORLD ECONOMY: WORLD TRADE AND OUTPUT DURING THE PERIOD 1997-1998

The severity and scale of the Asian financial crisis, which began in July 1997 with the devaluation of the Thai currency (baht), took even experienced analysts by surprise.[7] In just a few months, the currencies of several Asian countries lost between 40% and 80% of their value, and other economies that had been weakened by domestic problems, such as those of Brazil and Russia, but also Japan's, experienced strong pressures in the same direction.[8]

The spectacular contraction of the economies of East Asia, which had been growing rapidly until that time, has had a major effect on a number of markets for goods and services, given the extent to which these economies are integrated into world trade. In the previous few years, all regions had increased the percentage of their exports going to Asia.[9] As is pointed out in a publication by the United Nations Conference on Trade and Development (UNCTAD), the dynamic Asian economies have become not only major competitive suppliers on global markets for a wide range of products, but also increasingly a "locomotive" for the world economy through their large and rising demand for imports, financed by inflows of private capital (UNCTAD, 1998, p. 27).[10]

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4 An International Monetary Fund (IMF) document maintains that the financial crises of recent years differ from those of earlier periods in their scale and scope (IMF, 1998a, p. 74). A subsequent document analyses the similarities and differences between the external debt crises of the 1980s, the Mexican crisis of 1994-1995 and the Asian crisis. The conclusions reached are that each crisis was preceded by a large influx of capital into the countries affected, access to international markets on favourable terms, and a rapid rise in borrowing associated with increased exposure to interest and exchange rate movements (IMF, 1998b, p. 59).

5 For example, a number of analysts have drawn attention to the destabilizing effect of the risk ratings given by private institutions to countries and organizations that issue financial instruments. These institutions –the main ones being Standard & Poors and Moody's– rate countries and organizations for foreign investors on the basis of their assessment of how likely it is that they will meet the liabilities they have accepted. The categories range from triple A, which is the highest rating and is held by the most highly industrialized economies such as Germany, the United States and France, to triple C, which is the lowest, passing through a combination of double and single letters and pluses and minuses.

6 The timing of currency devaluations in the four countries in crisis (Indonesia, Malaysia, the Republic of Korea and Thailand) shows that, for the market, recourse to IMF meant a weaker currency. IMF has been much criticized for acting on the basis of incomplete diagnoses, for requiring that policies be applied without regard to the specific origin of the difficulties being faced by the individual countries concerned, and for the insensitivity of its officials towards the effects of these policies on the markets (Feldstein, 1998; UNCTAD, 1998). Other analysts, such as Jeffrey Sachs, are even more critical, arguing that IMF is part of the problem and not of the solution, since it encouraged premature liberalization of capital accounts, an error which IMF itself later acknowledged to be one of the causes of the Asian crisis. Sachs also criticizes the Fund's support for the policy of raising interest rates to protect national currencies (Sachs, 1998).

7 As an IMF document points out, at each stage most market agents failed to anticipate the crisis (IMF, 1998b, p. 61). Again, the document points out that in 1996, given the macroeconomic conditions obtaining at the time, it was difficult to foresee that the Asian economies would suffer from the turbulence that later ensued (IMF, 1998b, p. 63).

8 By January 1998, the Indonesian currency (rupiah) had lost around 81% of its July 1997 value, the Malaysian currency (ringgit) 46% and the Thai currency (baht) 55%, while between October and December 1997 the currency of the Republic of Korea (won) lost 55% of its value (IMF, 1998a, p. 2). In October 1997, around US$ 8 billion left Brazil (ECLAC, 1998c, p. 24).

9 In 1996, more than 30% of United States exports went to Asia, and the proportion was even higher in some specific sectors: for example, 40% of United States agricultural exports were to that region (UNCTAD, 1998, p. 33).

10 In 1996, the total merchandise imports of seven Asian countries (Brunei, Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam), which make up the Association of South-East Asian Nations (ASEAN), amounted to more than US$ 372 billion, putting ASEAN in third place in world trade, after the European Union and the United States, and before Japan, which was in fourth place (UNCTAD, 1998, p. 28).

1. World output and its main components

The direct impact of the Asian crisis on the world economy was not heavily felt in 1997, since despite the fall in growth rates that took place in the last quarter of 1997 the Asian countries affected still showed an average rate of 5% for the year as a whole, although this was lower than the rate of 6.4% recorded in 1996. The growth rate of the developing countries as a whole declined slightly, but with an average of 5.4% they grew much more quickly than the industrialized countries, mainly because of the performance of China (8.8%) and Latin America (5.3%), which posted one of its highest rates in over two decades (UNCTAD, 1998, table 1, p. 5; ECLAC, 1998b, pp. 13-14).

The moderate average growth rate (2.7%) recorded by the industrialized economies in 1997 was mainly the product of good growth in the United States (3.9%) and export-led economic recovery in the European Union (EU) (2.5%). The Japanese economy, which had expanded by almost 4% in 1996, grew by less than 1% (UNCTAD, 1998, table 1, p. 5). In 1998 the Japanese economy has been confronted with a major recession owing to its close ties to the most severely affected Asian economies, and gross domestic product (GDP) is expected to show negative growth of between 1.2% and 2% (ECLAC, 1998h, p. 6).

In 1998, the decline in demand from Asia is expected to affect growth in Europe, mainly owing to the effects on trade. Nonetheless, given how small a component extra-European trade accounts for in the growth of economic activity in the European Union,[11] and given the expansion being seen in the internal market, European output is expected to rise by around 2.8% over the year. Falling stock markets have meant reductions in interest rates and increases in bond values. Where Europe is concerned, however, institutional investors dominate both markets, which should limit the "wealth" effect of these factors on the economy as a whole (ECLAC, 1998h, pp. 2-3).

In 1998, the United States was in its eighth year of uninterrupted growth, which has lasted since March 1991, with stable prices and the lowest levels of unemployment seen for 28 years.[12] After expanding by almost 4% in 1997, the United States economy experienced rapid rates of growth in the first and third quarters of 1998, although the second quarter was affected by a strike at the General Motors company. This growth has been driven by private consumption and in part by investment, mainly in capital goods (United States Department of Commerce, 1998). Strong private consumption has meant an increase in imports of goods and services and a trade deficit, which already stood at more than US$ 124 billion at the end of September and could reach more than US$ 220 billion by the end of 1998.[13] There are some worrying aspects, such as (i) the high degree to which private consumption is dependent on stock market gains (see box I.1)[14] and (ii) the possibility that share prices may be inflated owing to company restructuring, mergers and acquisitions.[15]

The United States economy has benefited from the effect that the Asian crisis has had in depressing

11 According to data from the World Trade Organization (WTO), demand from Asia as a whole (China, Japan and all the other countries) absorbed less than 10% of European exports in 1996.

12 In April 1998 the unemployment rate was 4.3%, and since 1994 it has held below 6%, the rate which has been defined as the point of equilibrium between wage pressures and other price pressures (IMF, 1998c, p. 94).

13 In October 1998 the United States Congress set up a commission to study the causes and consequences of the country's trade deficit; one of its tasks will be to assess the impact of the deficit on the industrial structure, on wages and on the number and quality of jobs (Trade Deficit Review Commission). The commission was created as part of the law approving the new United States contributions to the IMF (*Americas Trade*, 1998).

14 In September 1998 the personal savings rate in the United States stood at less than 0.2%, which reveals that stock market gains have replaced savings from earned income (*Oxford Analytica Daily Brief*, 5 November 1998).

15 Since May 1998 a number of articles in *The Economist* have drawn attention to the danger that the bubble in which the United States economy is operating could burst. See in particular the issues for August 29th-September 4th 1998; October 17th-23rd 1998; November 21st-27th 1998; November 28th-December 4th 1998.

Box I.1

CONSUMPTION AND THE "WEALTH" EFFECT IN THE UNITED STATES

During the 1990s, economic growth in the United States, when measured either by the increase in wealth or by the growth of family incomes, has been propelled to a great extent by stock markets gains. In mid-1998 Alan Greenspan, Chairman of the Federal Reserve Board, said that around US$ 12 billion had been added to the wealth of Americans between 1994 and 1997 as a result of gains deriving from increased share prices (*The Economist*, 1998b, pp. 57 and 58). This increase in wealth has been paralleled since 1985 by falling household saving rates. Again, there is evidence that families are using a substantial part of their wage savings to buy financial assets, and that wealth is being accumulated in share assets (Hurst, Ching Louh and Stafford, 1998).

Household consumption is determined by expected income over the course of a lifetime from both capital and labour. Changes in financial wealth, whether they derive from a change in interest rates or from asset price movements, alter the income from capital and thus affect aggregate consumption. The magnitude of the "wealth" effect depends on the value of accumulated savings in relation to income, and on people's willingness to use accumulated wealth to finance current spending. A number of studies have concluded that the impact of the "wealth" effect produced by stock market gains differs sharply from one country to another. In the United States, an increase of one dollar in wealth from share price gains tends to raise consumption by between 3 and 5 cents.[a] However, analysts believe that these effects take some time to be felt, with time lags that can vary from one to three years, and consequently that gains made in 1997 and early 1998 could contribute to the financing of household consumption for some time to come.[b]

Now, since inequality in the distribution of wealth is quite pronounced, and the distribution of shareholding wealth even more so, it might be concluded that the share price effect would benefit only a small part of the United States population. There are, however, indications to the contrary. In fact, certain studies suggest that between 1983 and 1992 there was a tendency for direct and indirect ownership of shares to become more widely spread, although still highly concentrated: in 1983, 55% of shares were owned by 0.5% of shareholders, a percentage which fell to 36.8% in 1992 (Poterba and Samwick, 1995).[c]

According to *The Economist* magazine, almost 50% of United States families now own shares, as against 25% in the period preceding the 1987 stock market crisis. This figure is consistent with the finding, obtained from another source, that between 1989 and 1994 the proportion of households owning shares rose from 27.9% to 34.5% (Hurst, Ching Louh and Stafford, 1998, p. 269). Although the data used in this latter study do not enable firm conclusions to be drawn, they show that the distribution of wealth increased in the period 1989-1994, which means that, when the reserves accumulated in pension funds are factored in, the growth in net wealth was large enough to produce a substantial "wealth" effect on aggregate consumption, which could extend throughout the period 1995-2000.

[a] The "wealth" effect is less pronounced in Canada, Japan and other countries in the Organisation for Economic Co-operation and Development (OECD).
[b] "International", *Oxford Analytica Daily Brief*, 5 November 1998.
[c] Concentration is higher if only direct ownership is considered, given that in 1992 0.5% of shareholders owned almost 60% of shares (Poterba and Samwick, 1995, p. 328). The authors did not find any strong evidence that a "wealth" effect deriving from share price gains had been having any impact on consumption.

the prices of primary commodities –including energy– and manufactured goods, and hence reducing inflationary pressures considerably.[16] Nonetheless, the leading role that the United States has taken on in sustaining the expansion of world trade and the inability of other industrialized countries replace it in this role in the medium term are a source of deep concern, given the consequences that a sharp fall in economic growth there could have for growth in Latin America and Asia.

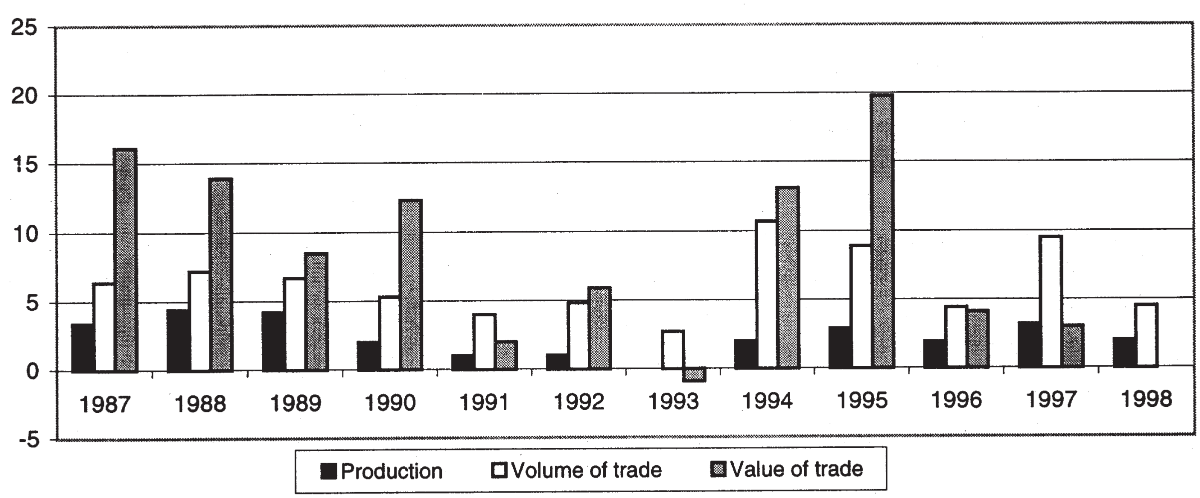
16 For an analysis of the repercussions of the Asian crisis on specific products, see UNCTAD (1998, annex to chapter II), and IMF, 1998a, pp. 125-130.

2. World trade in 1997-1998

According to the World Trade Organization (WTO), the volume of merchandise exports grew by 10% in 1997, one of the highest rates seen since 1976, but the WTO secretariat estimates that in 1998 this growth rate will fall by half, to 4% or 5%. In dollar terms, the value of exports will remain unchanged or diminish slightly, owing to the fall in prices for primary commodities and manufactured goods, although prices have tended to fall less for the latter than for the former (see figure I.1).[17] In 1998 dollar prices for internationally traded goods are expected to decline for the third consecutive year, which could mean that average prices for merchandise exports as a whole will return to the level seen in 1991, the lowest of this decade (WTO, 1998e).

As far as 1999 is concerned, predictions are difficult, but forecasts for growth in world trade have been revised downwards. The consensus among analysts seems to be that the most likely outcome is for a moderate increase in the volume of trade over 1998. Clearly, any increase in the value of world exports in dollar terms is dependent on recovery in the prices of primary commodities and on the behaviour of the dollar. The final outcome must depend to a great extent on tendencies in the international capital markets, economic recovery in the Asian countries, particularly Japan, and the sustainability of growth in the European countries and the United States.

Figure I.1
GROWTH IN PRODUCTION, VOLUME AND VALUE OF WORLD EXPORTS OF GOODS, 1987-1998
(Annual percentage variation)



Source: World Trade Organization (WTO), The state of world trade, trade policy and the World Trade Organization. Annual Report - WTO, Geneva, 1997; World Trade Organization (WTO), "WTO secretariat releases 1998 annual report", press release (PRESS/117), Geneva, 26 November 1998.

17 In March 1998, WTO was predicting that the effects of the Asian crisis would be limited and that the 1998 rate of growth in the volume of exports would be no more than 25% lower than the 1997 rate (WTO press release, 19 March 1998, on the WTO Website [http://www.wto.org]).

In the first nine months of 1998, Asian exports fell by 7% and imports by around 16%. The imports of the five Asian countries most affected by the financial crisis (Indonesia, Malaysia, Philippines, the Republic of Korea and Thailand) fell by 30%, while their exports dropped by 3%.[18] Japanese exports fell by 8.5% and imports by 19%, so that the country's trade surplus increased yet further (WTO, 1998e, pp. 4-5). The value of intraregional trade fell by around 25% from the 1997 figure. The collapse of regional markets explains why Korean exports have recovered much less strongly than did Mexican exports after the 1994 financial crisis. Before the 1997 crisis, almost half of all Korean exports went to other countries in Asia. Moreover, prices for the industrial products in which the Republic of Korea specializes (memory chips, computer monitors, hard disks, chemical products, plastics, textile fibres and iron and steel products, among others) were falling even before the crisis.[19]

As mentioned earlier, United States imports grew strongly in the first nine months of 1998. This growth has been put at 10% in volume terms, which is almost double the rate of growth in world trade, whereas exports grew by no more than 3%.[20] By contrast, Europe and Japan have continued to run trade surpluses, although in the first half of 1998 EU exports to third countries fell and imports rose. Intra-European trade increased by around 3.5%, which is lower than the rate of growth in imports from third countries. The more pronounced growth of European trade was due to the depreciation of European currencies against the dollar (WTO, 1998e, p. 5).

Despite the severity of the financial crisis and the harsh adjustment measures taken by the Governments of affected countries, however, the WTO secretariat has not found evidence to show that international trade liberalization policies have suffered at the multilateral, regional or unilateral levels, even if trade protection measures aimed at restraining increases in what are regarded as unfairly-competing imports have been intensified (see chapter III). WTO is looking for Governments to maintain this commitment to trade liberalization as preparations to begin the new round of multilateral trade negotiations go ahead (see box I.2).

C. THE EFFECTS ON LATIN AMERICA AND THE CARIBBEAN

In December 1998, ECLAC estimated possible growth in Latin America at around 2.3%, factoring in the effects of policies to adjust demand, chiefly in Brazil and Chile; the fall in prices for products exported by the region, mainly petroleum and cereals; and the effects of El Niño in Ecuador, El Salvador and Peru, and those of Hurricane Mitch in Central America (particularly in Honduras and Nicaragua) (ECLAC, 1998i, unnumbered table, p. 2).[21] The 1998 growth estimates for Latin America and the Caribbean that had been produced by ECLAC and other institutions were revised downwards in the light of events during the year.[22]

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18 Despite the devaluation of the Korean currency, the Korean International Trade Association (KITA) expects the value of exports to contract by 5% to 10% in the second half of 1998, which would be the first overall reduction since 1958 (*The Economist*, 1998, pp. 68-73).

19 The United Nations Conference on Trade and Development and *The Economist* warn of the dangers of believing that currency devaluation is in itself enough to produce export growth (UNCTAD, 1998; *The Economist*, September 12th-18th 1998, pp. 68-73).

20 According to WTO, in the first nine months of 1998 the prices of imports into the United States dropped by an average of 6%, while export prices fell by 3%; imports into the United States rose by 4% in value, while the value of exports dropped slightly. Consequently, the difference between export and import growth is even greater in real terms (i.e., in terms of value net of price fluctuations) than in nominal dollar value terms (WTO, 1998e, p. 5).

21 The World Bank has estimated that Latin America will grow by 2.5% in 1998 and only 0.6% in 1999 (see the Website of the World Bank, Group of Economic Prospects).

22 In September 1997, before the effects of the financial crisis had made themselves felt, ECLAC put 1998 growth at 4.3%. At the end of June 1998, the ECLAC secretariat forecast growth of 3%, suggesting that the Asian crisis had taken a little over 1% off regional output growth (ECLAC, 1998c, pp. 13-15).

Box I.2

THE NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS

At the second session of the WTO Ministerial Conference, held in Geneva between 18 and 20 May 1998, the ministers attending decided on a work schedule to be followed until the third Meeting, which will take place in the United States between 30 November and 3 December 1999. Under the direction of the WTO General Council, the representatives of Governments are to begin the process of implementing existing agreements fully and preparing for the third Ministerial Meeting. The work schedule of the General Council will include the following:

(a) Recommendations concerning:
- (i) Issues, including those brought forward by Members, relating to implementation of the existing agreements and decisions;
- (ii) The negotiations already mandated at Marrakesh, to ensure that such negotiations begin on schedule;
- (iii) Future work provided for under other existing agreements and decisions taken at Marrakesh;

(b) Recommendations concerning other possible future work on the basis of the work programme initiated in Singapore;

(c) Recommendations on follow-up to the High-Level Meeting on Least-Developed Countries;

Recommendations arising from consideration of other matters proposed and agreed to by Members concerning their multilateral trade relations (WTO, 1998e).

In the third session of the Ministerial Conference, the General Council is to submit recommendations, on the basis of consensus, for decisions concerning the further organization and management of the work programme arising from the above, including the scope, structure and time-frames that will ensure that the work programme is begun and concluded expeditiously.

The first task to be undertaken by WTO is implementation of the Marrakesh agreements, which will involve executing the "implicit" work programme, namely, putting into practice the commitments made at the conclusion of the Uruguay Round, according to which new negotiations are to be commenced at the sectoral level, chiefly as regards services and agricultural products, in accordance with a timetable agreed upon in advance. The impossibility of reaching consensus on all important issues in the Uruguay Round negotiations meant that it was necessary to put together a programme "implicit" in the different agreements, which enabled progress to be made without the need to begin formal negotiating rounds. This programme covers four sets of issues: (i) pending matters; (ii) special review of the implementation and functioning of certain mechanisms provided for in the WTO agreements; (iii) periodic review of the implementation and functioning of these mechanisms; and (iv) implementation of the commitment to begin new negotiations for gradual liberalization of trade in services in the year 2000, and for ongoing reform of trade in agricultural products by the end of 1999.[a]

At the first session of the WTO Ministerial Conference, held in Singapore in December 1996, three working groups were set up: one in charge of examining the relationship between trade and investment; one to study issues raised by members in relation to the interaction between trade and competition policy, including anti-competitive practices, with a view to identifying any areas that might merit further attention within WTO, and a third with responsibility for carrying out a study on the transparency of public procurement practices, taking national policies into account, and, on the basis of this study, producing material for inclusion in an appropriate agreement (ECLAC, 1997a, box I.1, p. 33).[b]

The main difficulty involved in drawing up the work programme is to strike a balance between the interests of all WTO Members, since there are disagreements between them as regards the characteristics of the new negotiations, their scope, and what new issues should be included. The developing countries want to keep the traditional round format, in which all issues are dealt with at the same time, and which does not end until balanced agreements have been reached on all of them (single agreement). The preference of the United States is for negotiations by subject area, to be conducted individually, while the European Union is giving its backing to negotiations that deal simultaneously with agriculture, services and other issues as an integrated whole, all subject to the same timetable, and proposes that negotiations begin and end within the space of three years at most.[c]

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[a] For further details on each of these subjects, see ECLAC, 1996, pp. 148-153.
[b] The working groups submitted their reports in December 1998 (see these reports on the WTO Website).

Growth in the volume of regional trade fell from almost 14% in 1997 to around 8% in 1998, owing to the decline in world demand (which mainly affected Chile and Peru), to fiercer competition from Asian exporters (which affected Brazil and Mexico), and to the climatic phenomena already mentioned (see chapter III and table III.2). As detailed in chapter III, growth in the economies in 1997 and some of 1998 led to a worsening balance of trade, and this in turn exacerbated current account deficits.[23]

The deterioration of the international environment is likely to affect the region through three channels: (i) radical decline in flows of short-term international capital and more expensive international financing, (ii) large falls in the prices of primary commodities and (iii) a slowdown in the growth of world trade, due to lower demand in Asia.

As was pointed out earlier, the spectacular fall-off in Asian demand has affected the prices of primary commodities, both mineral and agricultural (see box I.3). In addition, petroleum and copper have continued their downward trend, with nominal prices reaching their lowest levels in several decades (see figure I.2). The high degree to which most Latin American countries are dependent on what is still a small number of products considerably increases the vulnerability of their external sectors to falls in the prices of these goods (see table I.1 and box I.3). Obviously, if exports represent a high proportion of GDP, in the region of 35%, and more than 40% of these exports are accounted for by a single product, it is not hard to work out that a drop of 10% in the price of that product will lead to a fall of almost 1.5% in national income, assuming that the volume exported remains stable.

If the countries are to be able to make up for price declines by increasing export volumes, demand must obviously keep expanding. As has already been pointed out, however, before the Asian crisis global export growth was dependent on economic expansion in the United States and East Asia and, to a lesser extent, on growing demand in Latin America. The adjustment programmes applied in Asia and some Latin American countries have meant a large decline in demand from these countries, leaving the United States the main factor in determining whether global demand expands or contracts. Only a few Latin American countries send any considerable proportion of their exports to Asia (see table I.2), but the United States is a major importer from all the countries in the region. Chile and Peru, which have been successful in diversifying their exports into Asian markets, have been the most affected by the decline in Asian demand. When the economic circumstances of the Asian countries improves, however, these diversification programmes should have beneficial effects for the economies of Chile and Peru.

23 In 1998, by contrast with 1997, the region had to resort to some US$ 22 billion from international reserves and compensatory capital to finance the current account deficit (ECLAC, 1998i, p. 10, ECLAC Website [http://www.eclac.org]).

Box I.3

CHANGES IN THE PRICES OF SOME PRIMARY COMMODITIES

With the exception of a small group of products, primary commodity prices have fallen substantially since the financial crisis began. According to IMF, between November 1997 and November 1998 primary non-petroleum commodity prices fell by an average of 13%, with a drop of 13% for food products, 17% for beverages (this decline being strongly influenced by the prices of tea and coffee), 15% for agricultural raw materials and 15% for metals. Furthermore, in the same period the price of crude dropped 38%, while that of petrol fell 32%.[a]

Since the beginning of the 1990s the rate of growth in the consumption of primary goods has been higher in most of the developing countries of Asia than in the rest of the world. For example, between 1992 and 1996 consumption by the developing economies of Asia accounted for approximately 66% of the increase in oil consumption.[b] These economies also account for a substantial share of international demand for some basic metals and certain foodstuffs (grains, fats and oils). When specific markets for primary products are analysed, it is found that the crisis has had a direct impact on the demand for aluminium, tin, zinc, lead, refined copper, nickel, natural rubber, cotton, wool and hides. However, it appears to have had less of an impact on prices for crude oil, woods, steel, meat, maize and soya derivatives.

Other factors have affected prices on the supply side. In the past two years there has been a large increase in the production of certain agricultural goods: in particular, grain production has increased by 9.5%, while consumption has grown by only 5.5%. Production of the main vegetable oils has increased by almost 9% over the same period, the highest level of output being reached in the 1997/1998 season. Sugar production also increased considerably in 1997, with growth of 7.2%, as against a 4.5% increase in demand in the same year (World Bank, 1998).

The oil price fell again in the third quarter of 1998, as a consequence of: (i) lower demand due to the Asian crisis and a mild winter in the northern hemisphere; (ii) increased production by the Organization of Petroleum Exporting Countries (OPEC); and (iii) a rise in oil stocks at the different stages of the selling chain. In 1996 crude oil accounted for more than 50% of Venezuelan exports, and it also represented a major share of exports from Ecuador (31%), Colombia (21%), Mexico (11%) and Argentina (10%).

The price of copper also fell back substantially. Between 1992 and 1996, the share of the Republic of Korea and another four Asian countries in world copper consumption rose from 5.5% to more than 8%, and this share fell because of the crisis. The price dropped despite increased demand for refined copper from the United States and Europe owing to a substantial upturn in the automotive and construction sectors. This price trend has also been influenced by an increase in the world supply of copper. In 1996, copper accounted for almost 40% of Chilean exports and 18% of Peruvian exports (see table I.1).

The fall in the price of Arabica coffee chiefly reflects the production situation in Brazil. After a substantial drop in coffee production during the 1997/1996 season by comparison with the 1996/1995 season, due to the effects of El Niño in the main producer countries, the Association of Coffee Exporters in Brazil announced that they expected to produce 35,200,000 sacks in the 1998/1999 season, as against 22,000,000 sacks in the 1997/1998 season. In 1996, coffee accounted for 14% of Colombian exports, and a substantial proportion of the exports of the Central American countries: Costa Rica (14%), El Salvador (33%), Guatemala (23%), Honduras (28%) and Nicaragua (19%).

Since October 1997 the price of bananas has remained stable, although it increased somewhat during the second half of the year, mainly because of a decline in supply from Ecuador and Central America. In 1996 bananas accounted for around 20% of Ecuadorian exports, while this percentage was 23% in the case of Costa Rica and 16% in that of Honduras.

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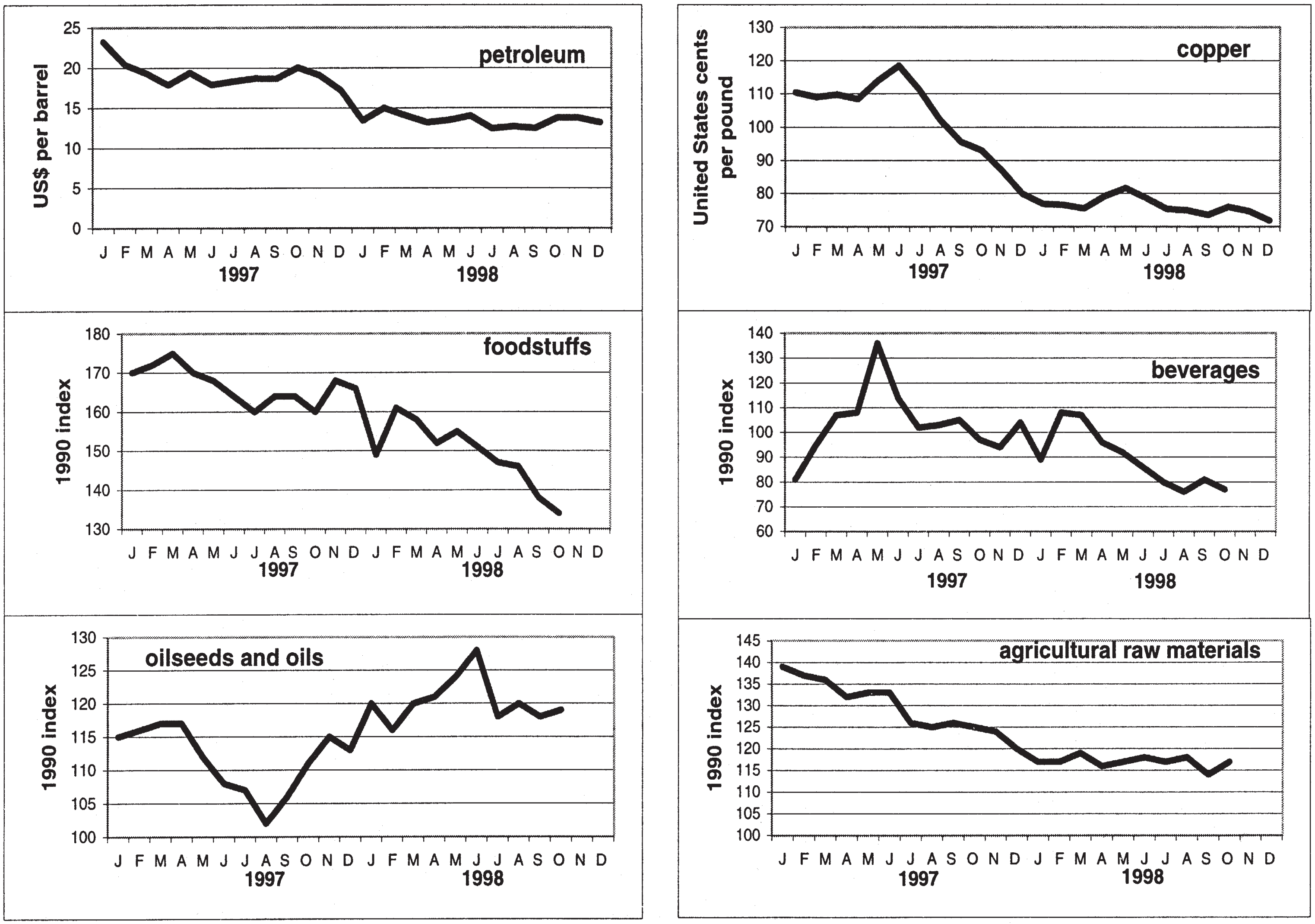
[a] See table 2, "Price indices for primary commodities excluding petroleum, 1995-1998", on the IMF Website [http://www.imf.org]. Between June 1997 and January 1998, the IMF primary commodities price index fell by 11% in terms of special drawing rights, and by around 14% in dollar terms (IMF, 1998b, p. 125, note 1).

[b] Between 1992 and 1996 the Republic of Korea, together with other less developed Asian countries (Indonesia, Malaysia, Philippines and Thailand) increased their share of world petroleum consumption from 5% to 6.5%. See IMF, 1998a, p. 125.

Figure I.2
INTERNATIONAL COMMODITY PRICES, 1997-1998



Source: United Nations Conference on Trade and Development (UNCTAD), *Monthly Commodity Price Bulletin*, various issues.

Table I.1

MAIN COMMODITIES AS A PERCENTAGE OF THE EXPORTS OF LATIN AMERICAN COUNTRIES IN 1997

Commodity		Commodity as a percentage of total exports		
		Between 5% and <10%	10% - 20%	Over 20%
Ores	Iron and steel		Brazil (12.7)	
	Copper		Peru (16.1)	Chile (42.2)
	Zinc	Peru (8.5)	Bolivia (15.7)	
	Tin	Bolivia (8.0)		
	Gold	Peru (9.5)		
		Bolivia (8.7)		
Petroleum	Petroleum and petroleum products	Mexico (9.5)	Argentina (10.9)	Venezuela (82.9)
				Ecuador (29.4)
				Colombia (23.5)
Foodstuffs	Meat	Nicaragua (6.1)	Uruguay (13.3)	
	Shrimp	Nicaragua (9.0)	Ecuador (16.7)	
	Bananas	Guatemala (6.5)	Honduras (14.0)	Ecuador (25.4)
				Costa Rica (23.2)
	Wheat	Argentina (5.1)		
	Rice	Uruguay (9.4)		
	Maize	Argentina (5.1)		
	Sugar	Nicaragua (8.0)	Guatemala (10.9)	
	Coffee	Peru (5.9)	Colombia (19.6)	El Salvador (38.1)
		Brazil (5.2)	Nicaragua (18.5)	Honduras (28.0)
			Costa Rica (13.8)	Guatemala (25.1)
Food products	Fishmeal		Peru (15.3)	
	Soya			Paraguay (43.3)
	Oil cakes and oilseed meal	Bolivia (9.2)		
		Argentina (8.8)		
		Brazil (5.1)		
	Vegetable oils	Argentina (8.2)		
Raw materials	Cotton	Paraguay (6.1)		
	Wool	Uruguay (8.1)		

Source: ECLAC, on the basis of official figures.

Table I.2

PARTICIPATION OF ASIA IN TRADE FLOWS OF LATIN AMERICA AND THE CARIBBEAN, 1990-1997

Country	Imports				Exports			
	1990	1995	1996	1997	1990	1995	1996	1997
Argentina	11.6	12.3	12.0	13.1	10.0	10.2	11.0	10.8
Barbados	10.1	11.9	10.3	12.8	0.4	1.4	0.9	1.1
Bolivia	11.7	16.0	15.9	15.4	0.8	0.8	0.7	0.8
Brazil	10.6	13.9	14.6	15.2	16.7	17.1	16.3	14.5
Chile	13.7	18.0	17.1	17.1	26.3	34.8	34.6	35.0
Colombia	10.3	13.6	10.2	11.9	4.6	5.8	4.3	4.3
Costa Rica	12.0	7.1	7.8	…	2.5	3.5	3.2	3.4
Ecuador	12.9	13.9	10.0	10.8	5.7	10.9	11.9	10.8
El Salvador	5.1	8.9	7.8	6.5	1.2	2.1	1.3	1.2
Guatemala	9.7	7.6	6.7	6.9	4.4	7.6	2.6	2.9
Honduras	10.4	5.7	6.5	5.0	6.8	7.4	4.1	4.3
Jamaica	8.2	10.8	8.7	…	1.0	2.5	2.5	…
Mexico	7.6	10.2	9.5	10.1	6.7	2.5	2.9	2.3
Nicaragua	11.6	9.1	10.8	6.8	9.1	2.6	0.6	0.9
Panama	9.8	10.3	10.8	12.0	0.9	1.4	1.6	1.6
Paraguay	30.2	30.3	20.3	19.6	3.8	7.5	2.5	3.5
Peru	9.5	16.9	15.0	15.0	19.1	26.9	26.1	24.5
Saint Lucia	9.7	9.5	10.3	…	0.0	0.2	0.2	…
Trinidad and Tobago	8.6	9.2	9.5	7.9	1.4	0.6	0.4	0.2
Uruguay	6.7	8.9	8.6	10.0	7.3	11.6	11.2	9.8
Venezuela	6.9	8.4	6.9	7.2	4.3	1.9	0.9	0.7
Latin America and the Caribbean	**9.8**	**12.4**	**11.6**	**12.1**	**10.5**	**9.7**	**8.9**	**8.2**

Source: ECLAC, on the basis of official figures.

Chapter II

THE LARGE ECONOMIC SPACES

With the selection of the 11 countries that will participate in the third stage of Economic and Monetary Union (EMU) and the formation of the European Central Bank (ECB), the member States of the European Union took the final steps toward monetary unification, to be formalized in early 1999.[24] The first steps were taken in 1985, when the European Commission (the executive organ of the European Union), under the chairmanship of Jacques Delors, designed and put into effect the initiative of the single market, Europe 1992.

In the mid-1980s, the movement toward formation of a single European area had a strong influence on the strategies of the other industrialized countries and many developing countries for improving their linkages with the global economy. In particular, the Government of the United States initiated a change in its traditional opposition to preferential agreements when in 1987 it signed a free trade agreement with Israel and subsequently in January of 1988 a broader agreement with Canada. The process accelerated in June of 1990 when the Presidents of the United States and Mexico announced their intent to negotiate a free trade agreement. In October of that same year, Canada joined the talks, and on 17 December 1992, the text of the North American Free Trade Agreement (NAFTA) was signed by the Presidents of the three countries. Lastly, just before NAFTA took effect, in December of 1994, the first Summit of the Americas was held in Miami, where the Presidents and Heads of Government of 34 countries of the Americas (excluding Cuba) committed to an extremely ambitious programme of inter-American cooperation, which included the formation of a Free Trade Area of the Americas (FTAA).

Concurrently, starting in 1993, the Asia-Pacific Economic Cooperation (APEC) forum, in which three Latin American countries (Chile, Mexico and, starting in 1998, Peru) participate, was gradually transformed into a forum for the liberalization of trade and investment, although with its own characteristics.

The countries of Latin America and the Caribbean must prepare themselves for this new international arena, in which they are major players, since they are involved in one form or another in the three proposals for large free trade areas. Due to its size and scope the plan to form a European monetary union will have a significant impact both on internal conditions in Europe and on the international monetary system.[25] The political clout and the economic expression of the future EMU will inevitably, although gradually, modify the power structure, functioning, policies and framework of alliances of the international monetary system.[26]

24 On 1 June 1998, the European Central Bank was established, with headquarters in Frankfurt, Germany. The Executive Board was composed of Willem F. Duisemberg, Chairman, and Christian Noyer, Vice-Chairman, plus Eugenio Domingo Solans, Sirkka Hamalainen, Otmar Issing and Tommaso Padoa-Schioppa.

25 For bibliographic references, see Obstfeld (1997).

26 The importance of the euro as a currency of denomination in international trade should increase, given the economic impact of the European Union. The international monetary system is currently dominated by the dollar, which accounts for more than 60% of international reserves, 80% of bank loans and 40% of securities issues (see SELA, 1998a).

On the other hand, there is an important component of institutional learning that must be emphasized. The practice of European integration enables the countries of Latin America and the Caribbean to learn about the institutional and economic aspects of macroeconomic integration, while the negotiations within APEC provide the countries of Latin America that participate in this forum a knowledge of new working and negotiation methodologies that can be utilized in other negotiation forums. Moreover, the experience gained in the FTAA working groups has also served to enrich and generate externalities for the negotiating activity of the region's countries.

To contribute to this process of knowledge and learning, this chapter briefly describes some of the events that have occurred recently in these four large economic areas in formation. Recent developments in Latin American and Caribbean integration are analysed separately in chapter VII.

A. EUROPEAN UNION

The countries of the European Union continue to move ahead with their schedule of major changes: the introduction of a single currency and the formation of the single European area, formalized in the Agenda 2000, presented on 16 July 1997 by the chairman of the European Commission to the European Parliament (ECLAC, 1997a, p. 36). Thus the European Union is facing the dual challenge of deepening economic integration and expanding the economic area to include 10 countries of central and eastern Europe.

According to analysts, the economic consequences for Latin America and the Caribbean of the creation of the euro may take two forms: one, due to its effect on growth in the European Union; the other, through the international value and role of the euro.[27] Therefore, it is anticipated that the impact will initially be minor, but will increase as the EMU process is strengthened and the euro has greater acceptance as a store of value. Most probably, the effect will be positive in the medium and long term.[28] It is hoped that EMU will have to grow at a faster rate than the rate observed in recent years, since in the framework of monetary integration, the countries will have greater incentives to institute economic reforms enabling their economies to be more dynamic, in a climate of greater transparency and internal competition. A market the size of all the countries of the European Union, unified and growing, should have a positive impact on exports from Latin America and the Caribbean.

On 25 March 1998, the European Commission submitted to the European Council and European Parliament its recommendation for the 11 countries of that region that met the requirements as to interest rates and inflation, exchange rate stability, and budget deficit, and were thus considered ready to start stage three of EMU.[29] Subsequently, on 2 May 1998, the European Council decided unanimously that

27 For a more detailed analysis, see Zahler (1997) and Ramírez (1998).

28 There is a consensus as to the positive effects that the growth of the European capital market will have on the international financial system, which will expand the region's opportunities to take in funds and supplement its internal savings. However, the creation of the euro will not necessarily mean greater stability in foreign exchange fluctuations or in the general behaviour of capital flows in other regions.

29 The Maastricht Treaty defined the convergence requirements that the countries of the European Union would have to meet for admission to the Economic and Monetary Union, and in January of 1994 it formed the European Monetary Institute, the entity in charge of overseeing convergence and laying the groundwork for the European Central Bank. The first three requirements refer to the inflation rate (it must not exceed by more than 1.5% the inflation rate of the three members with the lowest inflation), interest rates (long-term interest rates must not exceed by more than 2% the long-term interest rates of the three countries with the lowest inflation) and exchange rates (they must be stable and be within the margins of normal fluctuation stipulated in the mechanism of the exchange rates of the European monetary system for at least two years). The fourth requirement, regarding fiscal policies, sets limits for fiscal deficits and government debt: the general deficit of the Government must not exceed 3% of gross domestic product (GDP) and the public debt must not exceed 60% of GDP at the start of the Economic and Monetary Union.

11 member States (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain) met the requirements to adopt the single currency, the euro, on 1 January 1999.[30]

The legal and institutional situation of the central banks was also analysed, especially their independence and the compatibility of their regulations with the provisions of EMU. Eight countries (Belgium, Finland, Germany, Greece, Ireland, Italy, the Netherlands and Portugal) have legislations that are currently compatible with the Maastricht Treaty. In four countries, Austria, France, Luxembourg and Spain, legislation has been proposed that, if promulgated, will assure adequate compatibility. For constitutional reasons, the legislative changes proposed in Sweden cannot be adopted until the end of 1998; moreover, the legislative bill and the Maastricht Treaty are still thought to be incompatible in some respects.

If we consider the characteristics of the 11 countries selected, EMU will constitute a zone of more than 300,000,000 inhabitants, which will represent 19.4% of world output and 18.6% of international trade, versus the 19.6% of world output and 16.6% of international trade corresponding to the United States, and the 7.7% of world output and 8.2% of international trade corresponding to Japan.

The European Central Bank and the national central banks of the member countries of the European Union will constitute the European System of Central Banks, which will formulate monetary policy in stage three of EMU.[31] The Administrative Council of the System (to be composed of the members of the Executive Board of the European Central Bank and the governors of the central banks of the countries that will make up EMU in its third stage) will be in charge of making monetary policy decisions. Management of that policy will be concentrated in a supranational body, the Executive Board of the European Central Bank, which will be responsible for formulating and implementing the monetary policy of the euro zone, by virtue of its own authority and by coordinating the activities of the central banks of the countries participating in EMU.

As to fiscal policy, most budgetary decisions will be under the responsibility of the national Governments, although the community authorities will have the power to monitor government spending. At the meeting of the European Council held in Amsterdam in June 1997, the Stability and Growth Pact was signed, which sets forth the bases of the supervision in fiscal matters that will be exercised during stage three of EMU.[32] In early March of each year, the national authorities will submit a report on their public finances, on which the Council will make a ruling in early May. If there is found to be an excessive deficit, mandatory recommendations will be made and financial sanctions will be imposed on the countries that do not adopt the recommendations.

30 As to the budgetary situation of the member States, the Commission indicated that only three countries have a public debt less than the 60% reference value. However, the trend in recent years, together with the information on the 1998 budgets and the convergence programmes of the countries, have made it possible to adopt a positive stance as to the fiscal situation. Denmark and the United Kingdom exercised their right not to participate in EMU as of 1 January 1999, while, according to the Commission, Greece and Sweden failed to meet the necessary requirements. However, Greece could be incorporated in stage three of the Economic and Monetary Union on 1 January 2001 (European Union, 1998a and 1998b).

31 The European System of Central Banks is composed of the European Central Bank and the national central banks of all the countries of the European Union. The central banks of the countries that are not EMU members may conduct national monetary policies but do not participate in the decisions regarding monetary policy for the euro area or its implementation (see the website of the Central European Bank [http://www.ecb.int]).

32 See Regulation 1466/97 of 7 July 1997 regarding heightened oversight of budgetary situations and oversight and coordination of economic policies and Regulation 1467/97 of 7 July 1997 regarding acceleration and clarification of the excessive deficit procedure, in the *Official Journal of the European Communities*, No. L 209, 2 August 1997.

B. NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

NAFTA is the first experiment in economic integration negotiated between two industrialized, high-income economies (Canada and the United States) and a semi-industrialized economy (Mexico), which has an average per capita income level of less than 21% of the NAFTA average.[33] Although it is a free trade agreement, the term is applied in the broad sense of trade in goods and services, investment and technology. Unlike in the European Union, the institutional apparatus of the NAFTA is fairly small and inter-governmental in nature.[34]

At present, the course of the NAFTA is centered primarily on negotiations between the United States and Mexico. The main reason for this is that the Canadian and United States economies are already highly integrated; moreover, NAFTA was preceded by the Free Trade Agreement between Canada and the United States, which took effect in January of 1990, four years before NAFTA took effect.

In Mexico, it will be necessary before the year 2003 to eliminate tariffs on all manufactured products and most agricultural products imported from the United States, as part of the tariff elimination commitments.[35] In the first three years of existence of NAFTA, the average tariffs applied in Mexico to products originating in the United States dropped nearly 10% to just under 3%, while the tariffs applied in the United States to Mexican products dropped 2.07% to approximately 0.65%. Nearly 80% of the products manufactured in the United States enter Mexico duty-free.[36]

In 1997, Mexico imported a total of US$ 71.4 billion and became the number-two market for the United States, surpassing Japan. Moreover, the United States accumulated a trade deficit with Mexico of nearly US$ 15.4 billion, a reduction of US$ 1.7 billion compared to the 1996 deficit (Office of the United States Trade Representative, “Foreign Trade Barriers (Mexico)”, p. 281 [http://www.ustr.gov]).

The second round of accelerated tariff elimination occurred during 1997, and at the meeting of the Free Trade Commission held on 29 April 1998 the ministers of trade of the three member countries agreed to eliminate tariffs by 1 August of that same year, for a value of approximately US$ 1 billion. The round of accelerated eliminations resulted in two parallel agreements, one between the United States and Mexico and the other between Canada and Mexico. The lists of products ranges from toys and textiles to chemical and iron/steel products.[37]

At the meeting of the Free Trade Commission, the ministers also agreed on a broad revision of the work programme implicit in the Agreement, with a view to redefining mandates or simply eliminating some of the 20 committees and working groups that coordinate the course of NAFTA, in areas such as rules of origin, agricultural subsidies, technical standards, trade and competition, government purchases, services and

33 These differences contrast with those of the European Union, where in 12 of the 15 member States per capita income is equal to or greater than the European Union average. Moreover, in the only three countries whose per capita income is below average (Spain, Greece and Portugal), the percentage is above 65%. However, in the countries of central and eastern Europe, per capita GDP ranges from 17% to 40% of the European Union average (ECLAC, 1997a, p. 36).

34 The NAFTA Secretariat, composed of Canadian, United States and Mexican sections, is a unique organization, established by the Free Trade Commission, pursuant to the provisions of article 2002, Chapter 20, of the Agreement. The Secretariat is responsible for administration of the dispute settlement provisions of the Agreement. It is also responsible for providing assistance to the Commission and support for various non-dispute- related committees and working groups (see the website of the NAFTA Secretariat [http://www.naftasec-alena.org/english]).

35 A tariff elimination timetable was established based on the tariffs in effect in July of 1991 (Rich, 1997).

36 See the website of the United States Trade Representative [http://www.ustr.gov].

37 The tariff elimination affects only trade between Mexico and the other trading partners because, based on commitments between Canada and the United States, all reciprocal trade covered by their agreements is free of tariffs (see the website of the United States Trade Representative, “Request for Comment on Articles to be Considered for Accelerated Tariff Elimination Under the North American Free Trade Agreement”; “Implementation of the Second Round of Accelerated Tariff Eliminations under Provisions of the North American Free Trade Agreement” [http://www.ustr.gov]).

investment, sanitary and phytosanitary measures, clothing and textile products, and financial services. The results of the revision are to be submitted to the ministers before the end of 1998, at the Ministerial Meeting soon to be held in Canada (*Americas Trade*, 30 April 1998).

In July of 1997, the Office of the United States Trade Representative submitted a broad report evaluating the first three years of operation of NAFTA, to comply with a clause of the relevant law.[38] The conclusions were generally not very enthusiastic as to the main concern of the United States Congress, namely, the Agreement's effect on job creation in the country. According to estimates in the report, the positive net effect ranged from 90,000 to 160,000 new jobs. However, the report was cautious in presenting the results, due to the difficulty in separating the effect of NAFTA from other economic and institutional factors acting on the United States economy. The report was taken as a reference in the United States Congress when the Administration submitted a bill asking for fast track negotiating powers to negotiate the formation of FTAA; the bill had to be withdrawn in November of 1997 because it did not have sufficient votes for approval.

The fourth annual report to the Congress of the United States on the impact of NAFTA on automotive exports from the United States to Mexico states that, although it is difficult to separate the impact of the Agreement from other economic factors that might be affecting United States exports, it is unlikely that United States automotive exports would have increased by nearly 750% from 1993 to 1997 without NAFTA. According to the report, the increase in Mexican imports of automobiles was due to the reduced production plans of the companies located in Mexico, which started to offset lower production with imports.[39]

In recent years, some trade disputes have arisen between the United States and Mexico, and between Canada and the United States. One of the most important disputes resulted from the decision of the United States not to grant national treatment to Mexican land transportation services, a provision that should have taken effect on 17 December 1995 for trucks, and 1 January 1997 for buses. Based on environmental protection and safety concerns, the United States does not permit Mexican trucks or buses to enter its territory.[40] In early September 1998, the Government of Mexico requested a meeting of the Free Trade Commission to settle the dispute, thereby initiating the second stage of the NAFTA dispute settlement mechanism.[41]

The main mechanisms for settlement of disputes under the NAFTA are set forth in chapters 11, 14, 19 and 20 of the Agreement. Disputes as to investments are dealt with in chapter 11; chapter 14 establishes a mechanism for settling disputes over financial services; chapter 19 provides for reviews by binational panels of final determinations regarding antidumping matters, countervailing duties and existence of damage; and chapter 20 refers to disputes over the interpretation or application of NAFTA, including disputes connected with the provisions of chapter 14 on financial services.[42]

However, the Government of Mexico has announced its willingness to take the conflict over land transportation to the NAFTA Free Trade Commission. Moreover, the Government of the United States filed

38 North American Free Trade Agreement Implementation Act, 1993, section 512.

39 See the website of the United States Trade Representative, "Fourth Annual Report to Congress on the Impact of the North American Trade Agreement on U.S. Automotive Exports to Mexico (And on Imports from Mexico)" [http://www.ustr.gov].

40 The Government of Mexico reacted by not granting national treatment to distribution services (small package delivery) from the United States (*Inside U.S. Trade*, 1998a, p. 3).

41 "Mexico pursues the NAFTA dispute settlement mechanism regarding the opening of cross-border transportation services", website of the Mexican Ministry of Commerce and Industrial Development [http://www.naftaworks.org].

42 See the website of the NAFTA Secretariat [http://www.naftasec-alena.org/english]).

a complaint with the World Trade Organization against Canada –subsequently resolved in favour of the United States– for charging an 80% tax on income from advertising contained in editions in Canadian territory of magazines sold both in Canada and abroad, with ad copy prepared in the United States (ECLAC, 1997a, p. 50).

C. FREE TRADE AREA OF THE AMERICAS (FTAA)

Between December of 1994, the date of the first Summit of the Americas (Miami), and April of 1998, when the second Summit was held, in Santiago, Chile, four trade ministerial meetings were held: in Denver, Colorado, United States, June 1995; in Cartagena, Colombia, March 1996; in Belo Horizonte, Brazil, April 1997; and in San José, Costa Rica, March 1998.

At the First Trade Ministerial Meeting, in Denver, a programme for preparation of negotiations toward the formation of the FTAA was agreed. The Denver Declaration reiterated that the FTAA "would build on existing subregional and bilateral agreements in order to broaden and deepen the hemispheric economic integration and bring the agreements together". It was emphasized that markets must be opened by achieving high levels of discipline in each agreement existing in the hemisphere, and that those agreements must remain consistent with the provisions of the World Trade Organization. Moreover, in Denver six working groups were formed, on market access; customs procedures and rules of origin; investment; standards and technical barriers to trade; sanitary and phytosanitary measures; subsidies antidumping and countervailing duties; plus a working group on the smaller economies. At the Second Trade Ministerial Meeting, held in Cartagena in 1996, four other groups were formed, on services, intellectual property rights, competition policy, and government procurement. At the Third Trade Ministerial Meeting (Belo Horizonte, 1997), the terms of reference for a working group on dispute settlement were defined.

Over the past few years, the working groups have examined the national legislation in each subject area, prepared an inventory of rules and procedures, exchanged information on the scope of the disciplines achieved in each subregional integration agreement in the respective matters, and made recommendations for future negotiations.

At the Third Trade Ministerial Meeting (Belo Horizonte), a consensus was reached on some important points: (i) that the negotiations should start at the second Summit of the Americas in Santiago, Chile; (ii) that, in principle, no sector would be excluded from the negotiations; (iii) that the countries could negotiate individually and or in groups, and (iv) that it was necessary to form a committee to coordinate the negotiations and a secretariat to support the negotiating process.

Lastly, in the San José Ministerial Declaration, which came out of the Fourth Trade Ministerial Meeting, it was recommended that the Heads of State and Government should start the negotiations towards FTAA during the Second Summit of the Americas, in accordance with the objectives, principles, structure, venue and other decisions set forth in the Declaration. The Declaration also reaffirmed various basic objectives and principles, including the requirements that the agreement on FTAA would have to meet, namely that the agreement should be balanced and comprehensive and take into account the needs, economic conditions and opportunities of the smaller economies, and that the negotiations should be transparent and based on decisions made by consensus. The commitment to conclude the negotiations by the year 2005 and to make concrete progress towards attaining that objective before the end of this century was maintained.

An important principle was reaffirmed, namely, that FTAA could coexist with bilateral and subregional agreements, to the extent that the rights and obligations deriving from such agreements were not covered by or went beyond the rights and obligations of the FTAA agreement.

At the same Ministerial Meeting, a trade negotiations committee at the vice-ministerial level was formed, with a chairman and a vice-chairman; the committee in turn would select a chairman and a vice-chairman for each negotiating group. Nine negotiating groups were established on: market access; investment; services; government procurement; dispute settlement; agriculture; intellectual property rights; subsidies, antidumping and countervailing duties; and competition policy. Also formed were a consultative group on smaller economies; a committee of government representatives on participation of civil society, and a joint committee of experts from the public and private sectors on electronic commerce. An administrative secretariat for the negotiations was also formed.[43]

The decisions contained in the San José Ministerial Declaration were included in the Plan of Action of the Second Summit of the Americas, specifically in section III, on economic integration and free trade. In particular, in that Plan of Action, Heads of State and Government urged the trade ministers to make concrete progress in the negotiations by the year 2000 and to agree on specific business facilitation measures to be adopted before the end of the century.

In accordance with the schedule approved in San José, the first meeting of the FTAA Trade Negotiations Committee was held in Buenos Aires, from 17 to 19 June 1998. The purpose of the meeting was to define a work programme for the negotiating groups and to ensure that the negotiating groups would start their work by 30 September 1998.[44] That first meeting marked the start of a new stage in the process of creating FTAA and the end of the preparatory stage. The next meeting is to be held on 2 and 3 December 1998 in Suriname.

The main result of that first meeting was the approval of: (i) work programmes for the nine negotiating groups; (ii) the schedule of the first meetings of the negotiating groups; (iii) work programmes for the Consultative Group on Smaller Economies, the committee on civil society and the committee on electronic commerce, and (iv) rules and procedures for all of them. The Trade Negotiations Committee decided not to include business facilitation measures within the work programme of the various negotiating groups. Instead, the Chair, with the collaboration of the Tripartite Committee, was to prepare a document incorporating any proposals made by Governments on the matter and any proposals that came out of the business forums, and that document would be analysed at the next meeting of the Committee.

The negotiating groups began their work in the first week of September 1998 and must submit a report on activities scheduled to September 1999.

The terms of reference of some negotiating groups turned out to be broader and more precise than the terms of reference originally proposed in the draft prepared by the Committee Chair. This is the case with the negotiating groups on investments; services; government procurement; intellectual property rights; competition policy; and subsidies, antidumping and countervailing duties, which are still operating as

43 Meetings of the negotiating groups are to be held at a single location that will be rotated according to a predefined schedule: from 1 May 1998 to 28 February 2001 in Miami, Florida, United States; from 1 March 2001 to 28 February 2003 in Panama City; from 1 March 2003 to 31 December 2004 in Mexico City, which will be the location of the negotiations until their conclusion, if they extend beyond 2004. The chairmanship of the FTAA process will rotate among different countries: from 1 May 1998 to 31 October 1999: Canada (Chair) and Argentina (Vice-Chair); from 1 November 1999 to 30 April 2001: Argentina (Chair) and Ecuador (Vice-Chair); from 1 May 2001 to 31 October 2002: Ecuador (Chair) and Chile (Vice-Chair). Finally, from 1 November 2002 to 31 December 2004, Brazil and the United States will be co-chairs, and that period will extend until the conclusion of the negotiations.

44 At the meeting in Buenos Aires, the member countries of subregional groups (the Southern Common Market (Mercosur), the Andean Community, the Central American Common Market and the Caribbean Community (CARICOM)), acted in concert, with a single spokesperson representing the respective groups.

technical groups that must examine suitable regulatory frameworks and the scope and coverage of the negotiations and develop a better knowledge of the rights and obligations in each area.

The group on market access encompasses all matters pertaining to negotiations in the areas of tariffs and non-tariff measures, safeguards, rules of origin, customs procedures, standards and technical barriers to trade. This group and the agriculture negotiating group must work in integrated fashion. The greater precision of the terms of reference of these two groups shows the interest that the countries have in starting the negotiations toward formation of the FTAA with the elimination of barriers to trade in goods, whether tariff, non-tariff, technical or phytosanitary.

D. ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

At the fifth APEC Economic Leaders Meeting, held in Vancouver, Canada, in November 1997, the 18 Presidents and Heads of Government approved the decision of the trade ministers to advance the goals previously agreed to fully liberalize trade and investments within APEC, based on a voluntary process of early sector liberalization.[45] For that purpose, nine sectors[46] were identified for accelerated tariff elimination as of 1999, and six others for an immediately subsequent stage. The acceptance of partial negotiations by sectors, which was agreed at the Economic Leaders Meeting held in the Philippines, signified a change in the negotiation focus and the alteration of one of the fundamental principles of APEC: unilateral, concerted and voluntary liberalization that is applied between its members must be done on the basis of complete coverage of the full range of goods and services.

The nine sectors slated for early sectoral liberalization were: chemical products, fisheries, energy, forestry products, environment-related goods and services, jewellery, medical equipment, toys and, as the ninth sector, the telecommunications mutual recognition arrangement. The six sectors named for subsequent liberalization were: automobiles, civil aircraft, food products, rubber, fertilizers and seeds, and oil-seed products.

Subsequently, at the APEC Trade Ministerial Meeting held in June 1998 in Kuching, Malaysia, to review the progress in the execution of the decisions reached in Vancouver, there were signs of differences of opinion as to the sectoral liberalization exercise. The Government of Japan specifically opposed liberalizing the fisheries and forestry sectors according to the accelerated plan. The Japanese view was that given the voluntary nature of the forum, any economy had the right to exclude, any sector it did not wish to have participate.[47] Many countries also felt that if, in the future, the image of the APEC were predominantly that of a forum for sectoral negotiations, its credibility could be seriously undermined.

45 In the year 2010 for the developed countries and 2020 for developing countries, the goals proposed in the four prior meetings of APEC will have been met. At the first one, held in 1994 in Bogor Indonesia, a declaration was issued and a document was drafted on matters pertaining to liberalizing trade between its members. At the meetings in Osaka, Japan, and Subic Bay, Philippines, held in the two subsequent years, the Action Agenda for liberalization was set and individual action plans were approved, under which each country agreed to liberalize its trade and investments at its own pace (see ECLAC, 1996 and 1997a).

46 The Trade Minister of Malaysia, who chaired the Ministerial Meeting, stated in a press conference that, of the nine sectors identified for early liberalization, there was consensus only on telecommunications ("APEC ministers fail to reach deal on trade liberalization", *The Nikkei Weekly*, 28 June 1998, p. 28).

47 It is important to emphasize that the Bogor Declaration defined the basic APEC objectives of liberalization and facilitation of trade and investments, and that the Osaka Action Agenda defined the general principles and the framework for liberalization and facilitation. Pursuant to that Agenda, the Bogor commitments must be achieved by means of individual plans of action (unilateral liberalization and facilitation) and collective plans of action (coordinated within APEC and in multilateral forums) (APEC, 1998).

The Ministerial Declaration highlights the concept of flexibility, in the sense that the implementation of the commitments must be subject to the specific circumstances of each country. In general, it is admitted that flexibility means longer periods for such compliance, especially in the case of developing countries.

It should be noted that the early sectoral liberalization initiative originated with the Government of the United States, which already in 1996 had used APEC as a testing ground to reach an agreement of greater scope within the World Trade Organization (WTO). For example, the Information Technology Agreement (ITA) was proposed during the first WTO Ministerial Meeting in Singapore, after being raised as a sectoral liberalization initiative within APEC (ECLAC, 1997a, box I.1, pp. 33-34).[48] The new negotiation strategy adopted by the Government of the United States is a consequence of the difficulties that it has had in getting the United States Congress to grant it negotiating powers.[49] At the same time, the practice of conducting sectoral negotiations within WTO is worrisome to the developing countries that are APEC members, because they fear it might lead to unbalanced final results.[50]

Other APEC members, such as Chile and Mexico, have clearly stated that they will not participate in the approval or startup of this liberalization process, since the implicit negotiating approach distorts the basic principle of broad coverage that was to govern the APEC. From the viewpoint of those two countries, with the new course of negotiations there is a danger of starting down the wrong road of sectoral liberalizations, where special interests of some economies with greater negotiating power could predominate, which would bring about unbalanced results. At the same time, tariff elimination in the more complex sectors such as agriculture, would be deferred, and there would be no incentive for their liberalization. Moreover, only if negotiations are comprehensive will it be possible to identify possible benefits and seek trade-offs between different spheres of negotiation (such as liberalization of the services market in exchange for access to the agricultural products markets of the developed countries). Furthermore, sectoral liberalizations might not be compatible with a parity tariff system such as Chile's. Lastly, Chile and Mexico made no offers of tariff concession under the Information Technology Agreement.

At the Economic Leaders Meeting in Vancouver, the admission of Peru, Russia and Vietnam to APEC was approved, before the date that had been initially agreed. As of November 1998, the number of member economies will increase to 21. At that same meeting, it was resolved to freeze the admission of new members for a period of 10 years. Infrastructure matters were also discussed, a topic on which Canada proposed some recommendations to provide incentives for the participation of private capital in infrastructure financing.

With regard to the Asian crisis, a final press release from the Vancouver Meeting approved the emergency plan previously agreed in Manila to mitigate the economic turbulence that the economies

48 On 23 June 1998, an official of the Office of the United States Trade Representative stated in a press conference that the United States would not apply the voluntary tariff reductions agreed within APEC before their consolidation within WTO (*Inside U.S. Trade*, 1998b, p. 1).

49 Section 311 of the Uruguay Round Agreements Act grants the President of the United states the power to make changes in the tariffs of certain products. Those products include some or all products corresponding to four sectors that are subjects of negotiations within APEC: toys, forestry products, seeds and oil-seed products, medical instruments and equipment (SELA, 1998b). However, the President does not have powers to negotiate tariffs on jewelry or products connected with the environment or energy (*Inside U.S. Trade*, 1998b, p. 18).

50 The Declaration issued by the Chairman of the Ministerial Meeting in Kuching aluded to the importance that the Ministers placed on conducting a study of the impact of trade liberalization on the APEC economies, in which special consideration would be given to the current period of economic difficulties and the concerns expressed by various Ministers as to the possible harm from greater liberalization. The Ministers reaffirmed the need to reach a broad and balanced agreement as to the impact of liberalization, in which its benefits and the cost of the related adjustments must be weighed. Along those same lines, they emphasized the importance of selecting the sectors with a criterion that appropriately reflected that perspective (APEC, 1998).

of East-Asia were facing, along with the aid plan proposed by the International Monetary Fund (IMF) and the strict reforms it was recommending. Emphasis was placed on the importance of improving the capacity of the international system to prevent financial crises insofar as possible and to resolve them when they arose. In May 1998, the Meeting of Finance Ministers held in Kananakis (Alberta, Canada) reaffirmed the need for the countries affected by the crisis to continue to strive to re-establish macroeconomic stability, together with the IMF, the World Bank and the Asian Development Bank.

PART TWO

TRADE AND TRADE POLICY IN LATIN AMERICA AND THE CARIBBEAN, 1997-1998

Chapter III

TRADE AND TRADE POLICY IN THE LATIN AMERICAN AND CARIBBEAN COUNTRIES, 1997 AND 1998

A. INTRODUCTION

The rapid modernization of the Latin American and Caribbean countries' trade policies over the course of the 1990s has been partially responsible for the recent increase in their exports, but this process has not yet dislodged imports from their position as the most dynamic aspect of the region's linkages with the international economy. Between 1990 and 1997, the region's imports increased 40% more, in quantitative terms, than its exports.[51] At the end of 1997, the real value of imports was 35% greater than that of exports, in part because since 1995 the general trend in the terms of trade has been favourable to the region's exports.[52] Due to the high income elasticity of the region's demand for imports, which is associated with the restructuring of its production facilities and the increased percentage of imported inputs in local production, the main growth constraints affecting the region's imports are generated by each country's level of economic activity, ability to achieve a trade surplus on the services account, and ability to finance large deficits in its trade in goods and services (see chapter V).[53]

Of the 17 countries discussed in this chapter, only Ecuador, Mexico and Venezuela had trade surpluses, measured at current prices, in 1997 (see table III.1), and even these positive balances were far lower than in 1996. It should be noted that this build-up in merchandise trade deficits has occurred despite export growth rates of 10% or above, except in the cases of Paraguay and major oil-producers, such as Ecuador and Venezuela. The increase was the result of an upswing in the volume of shipments, since the prices of the countries' main export products –in particular oil, copper, wheat and other grains (except rice)– began to plummet in the second half of 1997, as shown in tables III.2a and III.2b (see chapter I). Furthermore, the prices of manufactured goods showed a drop of nearly 9% from their 1996 levels (ECLAC, 1998b, p. 110). The countries most severely affected by this situation were Argentina, Chile and Venezuela. On the other hand, higher banana, coffee, shrimp, fishmeal and beef prices benefited the Central American countries and, in the case of Ecuador, offset the downturn in oil prices.

The persistence of low commodity prices in 1998 (e.g., oil and grain) is expected to result in sharper increases in merchandise trade deficits, even though these low price levels did benefit commodity-importing countries. Preliminary data indicate that Venezuela is the only country with a positive trade balance for 1998,

51 Between 1990 and 1997, the volume index for regional exports rose from 100 to 196.7, while the corresponding figure for imports rose from 100 to 263.5 (ECLAC, 1998b, table VIII.1, p. 103).

52 Between 1994 and 1995, the unit value index for exports rose from 100.9 to 110.8, while the figure for imports rose from 102.2 to 106.5 (ECLAC, 1998b, table VIII.1, p. 103).

53 For each percentage point of increase in demand, imports rise by 2.6% (ECLAC, 1998b, p. 104).

although it is but a fraction of the country's 1996 surplus. Starting in July 1997, Mexico's deficits began to increase from month to month once again. During the first nine months of 1998, Mexico's trade deficit amounted to more than US$ 5 billion, with average monthly figures in the third quarter in excess of US$ 750 million. Brazil has succeeded in curbing the growth of imports, partly through the pragmatic enforcement of controls and partly as a result of the economic contraction triggered by strict adjustment measures –a phenomenon also visible in Chile.

In Central America, the catastrophic damage caused by Hurricane Mitch, whose economic impact cannot yet be fully assessed, caused the loss of precious human lives, destroyed decades' worth of accumulated social capital in the form of schools, hospitals and infrastructure, and diminished the productivity of the land, which is these countries' main productive resource. For Honduras and Nicaragua and, to a lesser extent, El Salvador and Guatemala, it will be very difficult to regain the production and export levels reached in July 1998. The growth rate for Central American exports in recent years had been the highest in the region, although it must be remembered that, owing to the civil wars that ravaged these countries until the beginning of the 1990s, they were starting from very low levels.

In general, the sharp drop in commodity prices, caused in part by problems of excess supply and a contraction of demand, demonstrated the vulnerability of the Latin American countries' export activity. Over the last few decades, various countries have made significant efforts to diversify their exports in terms of both products and markets. However, according to a study on the export markets and products of the countries belonging to the Latin American Integration Association (LAIA), only Argentina and Brazil have succeeded in diversifying their exports in terms of both export products and target markets; Mexico's and Uruguay's exports are diversified in terms of products, but are concentrated in a small number of markets: the United States in Mexico's case, and Argentina and Brazil in the case of Uruguay. However Mexico alone has diversified its exports into non-natural-resource-based manufactures, while Argentina's and Brazil's products continue to be based primarily on such resources. At the other extreme are Chile, Colombia and Peru, whose exports, though they are concentrated in a small number of products, cover more markets. Finally, countries such as Bolivia, Ecuador, Paraguay and Venezuela continue to display a high degree of vulnerability in this respect owing to the concentration of their exports in a small number of products and markets (Contador, 1997, pp. 3 and 4).

To change their export specializations while continuing to base their export profile on their endowments of natural resources and labour, the region's Governments have sought to develop programmes to support the private sector and improve the systemic competitiveness of their economies. To this end they have made use of policies and instruments consistent with the commitments they have made under the aegis of the World Trade Organization (WTO). Most of the countries have tried to assist exporters by means of tax, fiscal and credit incentives, which include access to imported inputs on preferential terms (drawbacks and temporary importation) and exemptions from value added tax (VAT), in combination with the provision of more flexible and effective instruments. Other countries, such as Argentina, Brazil, Ecuador and Mexico, have upgraded their institutional capabilities for the design and implementation of policies aimed at supporting, promoting and diversifying exports; as part of this process, they have sought to consolidate decision-making authority, which had previously been scattered among various government agencies, and to make the relevant programmes more coherent (see chapters IV and VIII).

The trade measures put into effect in 1997 and 1998 by the region's Governments have attested to their commitment to trade liberalization while at the same time allowing them to gain more practical experience with the use of quota-based protective measures and to provide more effective support to the private sector in its efforts to overcome problems that limit exporters' access to industrialized and developing markets, including those of countries within the region itself. In various countries, such as Argentina, Brazil, Chile and Mexico, the public sector has worked in coordination with the private and professional sector to identify export barriers in importing countries beforehand in order to avoid long and expensive proceedings such as the recent investigation concerning alleged dumping by Chile in the United States. Following the example of the United States, which publishes an annual report on barriers to its exports, Canada, Japan and the European Union have begun to gather information on market access problems (ECLAC, 1998d). Along the same lines, the Latin American and Caribbean countries are planning to conduct a survey of external barriers to trade and investment in order to provide the public and private sectors with detailed information on market access conditions, as well as to contribute to a more vigorous defense of commercial interests and the development of an active trade agenda.

B. MERCOSUR COUNTRIES AND CHILE

1. Merchandise trade and the trade balance

In 1997, the value of the exports (in current dollars) of **Argentina**, **Brazil** and **Chile** rose by 10% while **Uruguay** posted an increase of 13%; in contrast, Paraguay's registered sales decreased (see table III.1). According to ECLAC estimates, the upswing in the value of the first four of these countries' exports was the result of an increase in quantity that exceeded the average growth rate for the volume of international trade, since the prices, in the aggregate, of products exported by those countries increased at a rate of less than unity (see table III.2a and chapter I).

Argentina was severely affected by the downward trend in commodity prices, which checked the steadily rapid rate of expansion that Argentine exports had enjoyed from 1992 to 1996.[54] In 1997, imports grew more than expected (28%), and this translated into a trade deficit of US$ 4,153 million dollars (see tables III.1 and III.2b). Imports of capital goods rose considerably (37%), but there was also a sharp increase in imports of consumer durables (30%). The aggregate value of farm exports rose slightly (1.6%) but fuel sales were down. Therefore, the small increase in total 1997 exports can be attributed to the upswing in sales of manufactures, 60% of which went to Mercosur, with the Brazilian market playing a particularly important role in this respect.[55] Sales to Mercosur rose 13.5%, which was slightly more than the aggregate figure, and subregional sales consequently represented 36% of Argentina's total exports.

During the first half of 1998, commodity prices continued on their downward trend, and the value of Argentine exports was nearly 4% above the figure recorded for the first half of 1997. Imports rose 12% during the same period. As to the origin of these goods, imports from Brazil registered an above-average increase (16%). An expansion of close to 17% in sales of industrial manufactures was chiefly accounted for by shipments of motor vehicles to Brazil. ECLAC estimates indicate that the growth of Argentine imports in 1998 was a function of an increase in quantity (see table III.2b).

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54 The drop in export prices was concentrated in commodities and fuels and was especially pronounced in grains. Also, the fall in wheat, corn and oil prices extended into 1998, with values clearly below those of previous years.

55 There was a 65% increase (to US$ 2.5 billion) in vehicle exports; nevertheless, the automotive sector's trade deficit deepened because of increased purchases of parts and finished goods.

Table III.1

LATIN AMERICA AND THE CARIBBEAN: MERCHANDISE TRADE BALANCE, 1997-1998

(Millions of dollars)

Countries	Exports		Imports		Trade balance	
	1997	1998 [a]	1997	1998 [a]	1997	1998 [a]
Mercosur[h] and Chile						
Argentina	26 235	13 531	30 388	15 761	- 4 153	- 2 230
Brazil [b]	52 986	39 460	61 352	43 271	-8 366	-3 811
Chile [g]	16 923	12 579	18 218	15 027	-1 295	-2 448
Paraguay [b c]	2 643	877	4 037	1 705	- 1 394	- 828
Uruguay [d]	2 730	1 89	23 478	2 308	-748	-416
Andean Community						
Bolivia [d]	1 272	819	1 894	1 409	-621	-643
Colombia	11 681	5 462.5	14 409	9 507	-2 728	-4 045
Ecuador [e]	5 190	2 166	4 667	2 520	597	-354
Peru	6 814	2 527	8 552	4 222	-1 738	-1 695
Venezuela [e]	23 711	8 820	12 311	6 083	11 400	2 737
Mexico [b e]	110 431	86 671	109 808	91 851.5	623	-5 180
CACM[i] and Panama						
Costa Rica [f]	4 282.5	1 960	5 067	2 238	-784.5	-278
El Salvador	2 416	1 353	3 739	1 970	-1 323	-617
Guatemala	2 386	1 508	3 852	2 179	-1 466	-671
Honduras	1 447	974	2 048	1 124	-601	-150
Nicaragua	704	371	1 454	812	-750	-441
Panama	658	341	2 992	1 429	-2 334	-1 088

Source: National Institute of Statistics and Censuses (INDEC), Argentina; Department of Foreign Trade Operations of the Secretariat of Foreign Trade, Ministry of Commerce, Industry and Tourism (DECEX/SECEX/MICT), Brazil; Central Bank of Chile, *Informe económico y financiero*, Santiago, Chile, 15 November 1998; The Economist Intelligence Unit, *Country Report (Paraguay)*, July 1998; Department of International Economics, Economic Research Division, Central Bank of Paraguay, September 1998; Central Bank of Uruguay, 1998, *"Boletín Mensual: Intercambio comercial de bienes del Uruguay":* (i) data as of December 1997; (ii) data as of August 1998; National Institute of Statistics, Bolivia; National Planning Department (DNP) of the Macroeconomic Analysis Unit, *Indicadores de coyuntura económica*, vol. 8, June 1998, table 5.2, and vol. 10, September 1998, tables 5.2 and 5.4 (DNP Web page: http://www.dnp.gov.co); Central Bank of Ecuador; Central Reserve Bank of Peru; Central Bank of Venezuela; Banco de México (Web page: http://www.banxico.org.mx); Central Bank of Costa Rica; Central Reserve Bank of El Salvador; Banco de Guatemala; Central Bank of Honduras; Central Bank of Nicaragua; Central Bank of Panama.

[a] Preliminary figures for the first half of 1998.
[b] 1998 figures are for the period January-September.
[c] Registered exports and imports.
[d] January-August.
[e] On an f.o.b. basis for exports and imports.
[f] Includes value added by the *maquila* industry in the export processing zone (EPZ).
[g] January-October.
[h] Mercosur = Southern Common Market.
[i] CACM = Central American Common Market.

Table III.2a

LATIN AMERICA AND THE CARIBBEAN: INDICES OF MERCHANDISE EXPORTS, FOB

(Indices 1995 = 100)

	Value			Unit value			Volume		
	1996	1997	1998[a]	1996	1997	1998[a]	1996	1997	1998[a]
Latin America and the Caribbean	**111.8**	**124.6**	**122.8**	**99.5**	**97.2**	**88.9**	**112.4**	**128.1**	**138.1**
Argentina	113.6	125.1	125.5	102.0	96.3	87.8	111.4	129.9	142.8
Bolivia	108.7	112.1	106.6	83.9	83.0	75.3	129.6	135.1	141.6
Brazil	102.7	113.9	109.7	99.3	100.8	94.8	103.4	113.0	115.7
Chile	96.1	105.6	94.2	83.7	83.0	71.4	114.9	127.2	132.0
Colombia	104.2	114.3	110.8	100.6	103.9	93.5	103.6	110.0	118.5
Costa Rica	108.1	123.6	153.2	94.6	98.3	96.6	114.3	125.8	158.5
Ecuador	111.1	119.3	101.8	108.1	109.7	95.4	102.8	108.8	106.7
El Salvador	107.7	145.4	148.8	85.9	93.0	91.1	125.4	156.3	163.2
Guatemala	103.5	120.4	131.0	71.0	82.4	82.0	145.7	146.2	159.7
Haiti	107.8	140.6	156.6	96.0	101.8	97.7	112.3	138.1	160.3
Honduras	111.3	126.0	137.6	83.4	99.5	99.9	133.5	126.6	137.8
Mexico	120.7	138.8	147.3	100.6	94.4	89.0	120.0	147.1	165.5
Nicaragua	127.5	133.7	115.9	93.2	85.3	85.1	136.8	156.8	136.2
Panama	95.9	110.3	108.6	98.1	100.1	93.4	97.8	110.2	116.3
Paraguay	94.6	85.3	80.0	110.2	127.1	114.4	85.9	67.1	70.0
Peru	105.5	121.9	100.5	97.8	103.2	88.8	107.9	118.1	113.3
Dominican Republic	114.8	131.5	134.7	99.2	100.5	94.3	115.8	130.8	142.8
Uruguay	114.0	129.5	135.3	94.8	92.4	91.5	120.3	140.1	147.9
Venezuela	124.2	124.2	92.8	112.5	108.8	81.1	110.4	114.2	114.5

Source: ECLAC, *Preliminary Overview of the Economy of Latin America and the Caribbean, 1998* (LC/G.2051-P), Santiago, Chile, 1998. United Nations publication, Sales No: E.98.II.G.15.
[a] Preliminary figures.

In June 1998, **Brazil's** trade balance registered a slight surplus for the first time in 24 months.[56] In September 1997, the annualized deficit peaked at US$ 9.7 billion, after which it gradually declined, more on account of slow import growth than an increase in exports. In the first nine months of 1998, the value of imports diminished by almost 5% compared with the same period of 1997, and although the value of exports was only slightly above the figure for 1997, the cumulative deficit fell by 34%, from US$ 5,778 million to US$ 3,811 million (see table III.1). The decline in imports was due to various factors: (i) lower international oil and fuel prices, (ii) the slowdown in the Brazilian economy caused by its fiscal adjustment process, and (iii) a series of measures adopted by the Government in 1997 and 1998 to curb import growth, as discussed in more detail below.[57]

According to information gathered by the Centre for Foreign Trade Studies Foundation (FUNCEX), the recovery of Brazilian exports that began in the second

56 "Balança comercial e outros indicadores conjunturais", *Revista brasileira de comercio exterior (RBCE)*, No. 143, June/September 1998, p. 2.

57 According to the indicators of the Centre for Foreign Trade Studies Foundation (FUNCEX), the reduction in imports (excluding petroleum and petroleum products) was due to a decrease in the quantity imported.

Table III.2b

LATIN AMERICA AND THE CARIBBEAN: INDICES OF MERCHANDISE IMPORTS, FOB

(Indices: 1995 = 100)

	Value			Unit value			Volume		
	1996	1997	1998[a]	1996	1997	1998[a]	1996	1997	1998[a]
Latin America and the Caribbean	**110.8**	**131.8**	**139.1**	**100.4**	**94.5**	**90.2**	**110.3**	**139.4**	**154.3**
Argentina	118.5	152.1	160.7	97.7	90.3	86.2	121.3	168.5	186.4
Bolivia	111.8	134.2	144.6	98.5	94.2	89.5	113.5	142.4	161.6
Brazil	106.9	123.1	113.3	108.0	103.6	97.4	99.0	118.8	116.4
Chile	112.6	124.3	124.2	100.3	95.8	92.1	112.3	129.8	134.9
Colombia	99.0	111.5	114.8	96.9	89.6	86.0	102.2	124.5	133.5
Costa Rica	105.4	123.8	147.7	99.7	97.7	92.4	105.7	126.7	159.8
Ecuador	90.7	115.0	128.2	98.6	98.0	93.1	92.0	117.4	137.7
El Salvador	93.8	110.6	129.3	100.4	94.1	90.0	93.4	117.5	143.7
Guatemala	95.0	116.8	140.1	101.8	93.5	88.4	93.3	125.0	158.6
Haiti	96.5	99.2	92.8	102.8	100.7	94.0	93.9	98.5	98.7
Honduras	112.0	131.1	154.7	95.7	88.4	82.5	117.0	148.3	187.5
Mexico	123.5	151.6	172.0	97.9	91.9	89.0	126.1	164.9	193.2
Nicaragua	121.6	158.5	160.7	101.4	98.6	92.5	119.9	160.7	173.7
Panama	97.1	110.3	113.8	98.0	90.5	86.0	99.0	121.9	132.3
Paraguay	97.5	93.8	81.5	99.7	95.2	90.0	97.8	98.5	90.5
Peru	101.6	110.2	107.4	101.3	91.4	86.2	100.3	120.6	124.6
Dominican Republic	111.3	128.4	147.0	103.2	100.1	93.1	107.9	128.3	157.9
Uruguay	115.7	129.3	133.7	101.0	99.6	94.0	114.5	129.8	142.2
Venezuela	82.3	107.2	114.5	97.3	90.9	87.7	84.6	117.9	130.5

Source: ECLAC, *Preliminary Overview of the Economy of Latin America and the Caribbean, 1998* (LC/G.2051-P), Santiago, Chile, 1998. United Nations publication, Sales No: E.98.II.G.15.
[a] Preliminary figures.

quarter of 1997 was driven first by commodity sales –particularly soy and coffee– and then by sales of manufactures, in particular motor vehicles. Commodity exports climbed from US$ 11.9 billion to US$ 14.4 billion (21%) between 1996 and 1997. Nevertheless, the first nine months of 1998 saw a decline of almost 5% in the value of these exports, despite the fact that their volume held steady, due to the drop in prices, with a cumulative decrease of 19% for coffee, 20% for soybeans and 36% for soy meal (see tables III.2a and III.2b).

Chile's foreign trade performance suffered heavily from the effects of the financial crisis affecting the Asian economies, which pushed down the prices of copper and wood pulp and dampened foreign demand for forest products. As a result, the recovery in the prices of the country's main export products (except for copper) that had begun in late 1997 came to a halt, and prices declined by an average of 18% during the first half of 1998 (Central Bank of Chile, 1998a, p. 39). The increase in export value in 1997 was wholly attributable to an increase in the volume of sales, as shown in table III.2a. As a result, the surplus that had been registered up to September 1997 gave way to a deficit that could have exceeded US$ 3 billion by the end of 1998 if it had not been for the drastic measures that were taken to rein in aggregate demand. One of the factors contributing to this deficit was the strong expansion of imports that had been occurring until the outbreak of the international crisis, which then slowly subsided as a consequence of the internal adjustment measures that were adopted. The trade situation has been accompanied by a worrisome current account deficit that may lead to the 5.3% GDP figure for 1997 being topped by more than one point (Banco Central de Chile, 1998b, p. 43).

Growing demand in the other Latin American countries (i.e., those that do not belong to Mercosur) has not offset the losses experienced by Chilean products in almost all other markets.[58] The low prices of copper and other mining products caused the relative weight of these goods among total exports to decline from 48% to 40% on average between 1997 and the first half of 1998 and led to an increase in the proportion of agricultural and industrial products (Banco Central de Chile, 1998c, p. 1381). Among farm exports, fresh fruit and corn rose notably, while wine, furniture and furniture parts, and some automotive products (gearboxes and pickup trucks) showed the most growth among industrial goods (Banco Central de Chile, 1998a, pp. 33 and 35).

In 1997, **Paraguay's** exports were hurt by the measures that Argentina and Brazil took to curtail what is known as "shopping tourism" to Paraguay.[59] As a result, Paraguayan imports for re-export fell by almost 27% during the first nine months of 1998 in comparison with the same period of the preceding year. Exports, too, were affected by a number of factors, including the decline in Brazilian demand, lower cotton prices on the international market and the effects of El Niño. The combined effect of all this was a 20% downturn in the country's agricultural output.

The slump in Brazilian demand is expected to hurt **Uruguay's** exports in 1998 as well, particularly in the case of textiles. Growth in Uruguayan exports in 1997 was due to the positive performance of forest products, paper and printed matter, and machinery and electrical appliances, although sales of meat and other livestock products, which showed a notable expansion for the year, continue to be the main component of the country's export mix.[60] The country's output of rice (the main export to Brazil) was 20% lower than in 1997 due to adverse weather conditions, though prices rebounded considerably. Production of wool, meat, and hides and skins has experienced problems. According to figures up to August 1998, however, transport equipment, dairy products and tobacco all continued to show strength. As of that date, Uruguayan exports to Mercosur represented more than 50% of the total (Banco Central de Uruguay, 1998).

2. Trade policy

(a) Measures affecting imports

Argentina

In 1997, the Government of Argentina concentrated its efforts on refining the non-tariff measures used to control imports, on bringing the measures it employs to regulate imports of textiles and shoes into compliance with WTO rules, and on implementing specific aspects of the regulations established under Mercosur and other trade agreements. The former measures include: (i) approval of a pre-shipment inspection programme for imports

58 According to preliminary data from the Central Bank of Chile, the value of Chilean exports up to October 1998 was down 15% in comparison to the same period of the preceding year owing to the decline in exports to Asia, Mercosur, the European Union and NAFTA countries (the decreases were, respectively, 36.4%, 12%, 3.3% and 2.3%. A study by the Department of Commerce of the Ministry of Economic Affairs, Development and Reconstruction covering a basket of the 47 principal Chilean export products, which represent 80% of total shipments, indicates an increase of 7% in volume and a fall of 22.5% in prices (*El Mercurio*, "Se estabilizan importaciones provenientes de países asiáticos", 27 November 1998, pp. B1 and B4).

59 To prevent tax evasion in the sale within Argentina and Brazil of products bought in Paraguay by Argentine and Brazilian tourists, these two countries have tightened up their border checks of goods being brought in from Paraguay.

60 According to preliminary figures from the Central Bank of Uruguay, tourism revenues in 1997 exceeded the value of wool and meat exports.

under which merchandise is to be inspected in the country of origin,[61] and (ii) establishment of a range of values for imports of various products. With respect to textiles, clothing and shoes, labeling requirements were established for imported goods to be marketed on the domestic market.[62] Changes were also made in the specific minimum duties on textiles and shoes.[63]

Various measures were adopted with a view to bringing domestic instruments into line with Mercosur rules: adjustments were made in the Mercosur Common Nomenclature in line with the changes introduced by means of resolutions issued by the Mercosur Common Market Group aimed at making the tariff treatment of certain products compatible with the WTO bound tariff; various iron and steel products that cannot be provided by local industry were taken off the list of items subject to the final adjustment regime for customs union standards; and the total quotas (with a 100% tariff preference) of intra-Mercosur imports of other products subject to the same regime were broadened.[64] Under an agreement reached within Mercosur, at the start of 1998 duties on imports from outside Mercosur were raised by three percentage points for all the tariff items in the Mercosur Common Nomenclature until 31 December 1999, and the statistical tax was reduced from 3% to 0.5%.[65]

During 1997, the National Foreign Trade Commission (CNCE)[66] received eight new applications for safeguard measures, and 11 inquiries were launched to investigate allegations that industrial concerns had been harmed by dumping and the use of subsidies. Although the requests submitted in any given year are not necessarily resolved within that time frame, it should nonetheless be noted that this represented a decline in relation to 1996.[67] During the period 1995-1997, these investigations culminated in 195 decisions; 39 of these cases resulted in the definitive imposition of anti-dumping duties and in another 18, provisional duties were imposed; in 11 of the cases, complaints were withdrawn following the conclusion of pricing agreements, and in 46 instances the investigations were closed without imposition of any additional duties. In 1997, decisions relating to dumping practices affected a total of US$ 168 million in imports and those relating to subsidies involved a total of US$ 19 million.[68] Brazil and China were the countries involved in the greatest number of decisions adopted and applied in 1997 in connection with dumping practices.

Brazil

Since 1997, the Brazilian Government has adopted various administrative measures to check import growth, some of which involve a stricter regulation of financing (see ECLAC, 1997a, p. 60). In addition, in December 1997 the Secretariat of Foreign Trade (SECEX) increased the proportion of products subject to import licensing with the inclusion of a variety of agricultural products and white goods (such as washing machines and refrigerators).[69] Then, in March 1998, new rules to control the value of imports came into force under which customs officials are

61 See the Agreement on Preshipment Inspection (GATT, 1994).

62 Application of the Merchandise Identification Regime (stamps) to textile products originating in and coming from Brazil had been mandatory, but this requirement was then suspended. See *Informe Anual 1997*, chapter II, "Política comercial y comercio exterior argentino" on the Website of the National Foreign Trade Commission (CNCE) [http://www.mecon.gov.ar/cnce].

63 In July 1993, the Argentine Government issued resolution No. 811, imposing specific duties on some 200 tariff items as a response to increased imports of textile products, which had reached US$ 342 billion in 1992 (Casaburi, 1997, p. 47).

64 High-density polyethylene and tyres.

65 See the Website of the National Foreign Trade Commission (CNCE).

66 CNCE is the agency responsible for investigating unfair international trade practices –dumping and subsidies– and for studying requests for application of safeguard measures.

67 Nineteen dumping and subsidy investigations were opened in 1996 (see CNCE Website).

68 Though the amount involved may be fairly small relative to total Argentine exports, it represented 51% of the total imports of similar products (see CNCE Website).

69 The Agreement on Import Licensing Procedures is part of the Uruguay Round agreements (GATT, 1994).

authorized to determine whether or not imported goods are within a price range that is in keeping with international prices.[70]

Under the rules applying to motor vehicles that were approved in December 1995, the tariff on automobiles was lowered from 63% to 49% on 1 January 1998.[71] Tariffs on products on Mercosur's common external tariff list were also reduced.[72]

In September 1998, the Chamber of Foreign Trade (CAMEX) adopted three sets of measures to restrict imports; the regulations needed to put these measures into effect were later enacted by the relevant bodies: (i) consumer protection measures were extended to include imported products, which must now meet the same quality standards as those required of domestic products; (ii) customs valuation rules were made stricter to prevent the entry of under-invoiced goods; and (iii) mechanisms for dealing with unfair trading practices were upgraded in order to simplify and expedite the procedures involved in establishing safeguards, countervailing duties and anti-dumping duties.[73] As a result of this decision, the proportion of imported foods and other products affecting human health that are subject to sanitary inspection was raised from 20% to 80%.[74] In addition, quality certification by the National Institute of Metrology, Standardization and Industrial Quality (INMETRO) will be required for imports of 23 products.[75]

Brazil also has a flexible tariff-modification mechanism for some products, most of which are capital goods not manufactured in the country. The corresponding list –known as the "ex tariff" list– contains products that the Department of Foreign Trade Operations (DECEX) temporarily removes from the relevant tariff item; during this period the import tax on the product can be substantially reduced and these imports cease to be subject to "non-automatic" import licensing requirements. If a product is taken off this list, then the usual taxes come back into effect and a non-automatic import license is again required. This instrument is used frequently by the Brazilian Government.[76]

Chile

In contrast with the policies of the countries belonging to Mercosur, Chile has decided to move ahead with its unilateral liberalization process. After a lengthy national debate, a law was passed on 28 October 1998 under which a five-point tariff reduction is to be phased in over a period of five years, starting on 1 January 1999. In other words, the 11% tariff in force since 1991 is to be reduced to 6% by the year 2003.[77] In addition, the law provides that price

70 See the customs valuation rules in, "Agreement on Implementation of Article VII of the General Agreement on Customs Tariffs and Trade of 1994" (GATT, 1994).

71 In a meeting held in December 1998 in Rio de Janeiro, the member countries agreed that at the end of 1999 Mercosur would establish a common import duty of 35% on automobiles produced outside the region and would eliminate tariffs on automobile and automobile parts trade between member countries (*El Mercurio*, "Argentina y Brasil establecen arancel común para autos", p. B9, December 11, 1998).

72 Tariffs were lowered from 35% to 32% for electrical appliances; from 39% to 36% for shoes and slippers; from 31% to 29% for electrical appliances (white goods); and from 55% to 45% for trucks and buses (see the Website of the Ministry of Industry, Trade and Tourism [http://www.mict.gov.br]).

73 Starting in October 1998, anti-dumping procedures have to be initiated within a maximum of 15 days, and temporary measures may be adopted 60 days after the investigation is opened. Pursuant to Inter-ministerial Rule No. 21 as established by the Ministry of Industry, Commerce and Tourism and the Ministry of Finance (*Diario oficial*, 14 October 1998), a working group called the Consultative Committee on the Defense of Trade (CCDC) was created in order to examine questions related to dumping and subsidy investigations.

74 Rule No. 772 of the Health Monitoring System (SVS) (*Diario oficial*, 30 October 1998), which approves procedures to be adopted in respect of imported products and raw materials subject to sanitary controls.

75 Circular No. 40 of the Secretariat of Foreign Trade (SECEX) (*Diario oficial*, 30 October 1998) stipulated that starting on 16 November 1998, imports of certain products would be subject to non-automatic licensing procedures and to certification of compliance with measurement standards as defined by the National Institute of Metrology, Standardization and Industrial Quality (INMETRO).

76 See, for example, DECEX, Communiqué No. 20, 8 July 1997, on the Website of the Ministry of Industry, Trade and Tourism, Secretariat of Foreign Trade. [http://www.mict.gov.br/secex/decex/scx120.htm]. The Agreement on Import Licensing Procedures is part of the Uruguay Round agreements (GATT, 1994).

bands applying to agricultural products and the tariffs on motor vehicle parts that enjoy special treatment under the relevant statute are to be brought into line with the new tariff rates.

Advocates of across-the-board tariff rates in Chile have argued that the uniform tariff has been undermined by trade agreements and by a number of specific instruments such as agricultural price bands whose end result is to afford differential protection to certain sectors of the economy.[78] When the preferences entailed in the various agreements are added up, the result shows that the average ad valorem tariff actually being applied is around 7% or 8% (Valdés, 1998). The proposal submitted on this issue included special support for the groups that would be affected the most by the tariff reductions, such as the farm sector and small and medium-sized enterprises (SMEs), and made a commitment to establish safeguard mechanisms and improve existing anti-dumping instruments.[79] The tariff reduction programme is also premised on the idea of renegotiations and possible compensatory measures for countries with which Chile has tariff preference agreements.[80]

Since the beginning of 1997, Chile has been using a WTO-compliant system of customs valuation for its trade with Canada and Mercosur, but the Government has decided to take advantage of the additional five-year period allowed for a revision of its overall system (WTO, 1997a). In addition, in December 1997 a new law came into effect which modifies the rates of taxes levied on alcohol depending on the percentage of alcohol content. In the case of whiskey, for example, this change will translate into a tax reduction from 70% to 53% within three years.

Uruguay

WTO reports indicate that tariffs continue to be Uruguay's main instrument of trade policy, where tariff levels and structure are determined by the schedule for convergence with the Mercosur common external tariff. In 1998, tariffs for outside countries varied from 0% to 23%.[81] Uruguay's tariff structure, as in most of the other countries in the region, is progressive, inasmuch as the average tariff is higher on final goods (13.2%) than on semi-manufactured goods (11.7%) and raw materials (9.2%). This pattern of protection will remain in force even after Uruguayan tariffs have finished the process of converging with the common external tariff. In addition, effective protection (protection for the value added in each sector) will be increased thanks to the implementation of special importation regimes that permit tax exemptions under, for instance, the Forestry Act and the Industrial Development Act (WTO, 1998d).

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77 Law 19.589, published in the *Diario oficial y* on 14 November 1998. The decrease in tax revenues resulting from the reduction will be offset by taxes on tobacco (starting in 1999), gasoline (starting in 2000), and government stamps and seals, which represent taxes on legal procedures and are used in credit operations (starting in 2002) and by a portion of the funds freed up by the elimination of other tax instruments, such as simplified drawbacks and deferred payments of tariffs on capital goods.

78 The tariff differentiation based on these agreements is expressed at the country level as well as the sectoral level and stems from the preferences granted to such countries and the influence they exert as suppliers of the products concerned. For example, a recent study showed that mining and manufacturing were the most heavily "protected" sectors in terms of the country's total trade flows, although agricultural and food products paid a higher percentage of tariffs in trade with countries with which agreements have been signed (Cámara de Comercio de Santiago, 1998).

79 The safeguards bill was sent to the National Congress by the executive branch on 23 November 1998. This bill supplements Act 18.525 on anti-distortion mechanisms which is currently being discussed in the Senate. Anti-dumping legislation is in the process of being reviewed for the purpose of bringing it into line with WTO rules, as indicated in the evaluation of Chile's performance prepared at the end of 1997 as part of the overall review of WTO trade policy (WTO, 1997a).

80 In response to the bilateral accord signed between Chile and Canada, the Governments of Chile and of the Mercosur countries agreed to Additional Protocol No. 35 on Economic Complementarity, under which the preferences applied to various products have been brought into line with the terms of access that Chile had granted to Canada (LAIA, 1998f).

81 These tariffs include a 3% increase in the common external tariff agreed on by the members of Mercosur that went into effect on 31 December 1997 (see chapter VII).

Minimum export prices are used as a contingency measure, much like the system of benchmark prices (eliminated in 1994), which was used to provide protection from the unfair trade practices of other countries. Currently, the minimum export price system covers 117 tariff lines, including sugar, textiles and clothing. Since the Ouro Preto Protocol came into force and Uruguay's commitments in relation to the Mercosur adjustment regime were defined, minimum prices can no longer be applied to goods imported from a Mercosur member country. The setting of these minimum export prices and their alignment with the customs union form part of the commitments undertaken by the Uruguayan Government in 1995. The Government may, however, maintain this system of minimum export prices for imports from third countries until January 2000 in order to give domestic enterprises the time they need to retool.[82]

The Uruguayan Government has passed WTO-compliant legislation on dumping and countervailing duties, but did not put any of those measures into effect in the period from 1992 to 1998.[83] Also, although Uruguay signed the safeguards agreement and made it national law, the issuance of the corresponding regulations are still pending.

(b) Export promotion measures

Argentina

During 1997, as one of the specific measures it adopted to backstop exporters, the Federal Administration of Public Revenues (AFIP) established a more flexible regime for rebating VAT under its advance drawback system. New lines of credit were also established for exports under a new loan programme started up by the Banco de Inversion y Comercio Exterior (BICE) for exporters of manufactured goods, services and industrial plants or works designed to serve markets outside the region. In addition, as part of the programme to ensure compliance with quality standards, 260 new enterprises received quality certification from the National Institute of Industrial Technology (INTI) and the Argentine Accreditation Organization.[84] In addition, requirements concerning the content of hormonal or anabolic substances in meat exports to the European Union were established.[85]

Brazil

With a view to improving the international competitiveness of Brazilian business, in September 1998 the Government launched the Special Exportation Programme (PEE), whose goal is to double the value of exports by 2002.[86] Under this programme, 55 sectors have been identified whose exports represented 88% of the value of exports in 1997, and quantitative goals have been established for their export performance. The Special Exportation Programme is intended to correct the current fragmentation of regulatory power and decision-making authority in relation to export promotion initiatives, which are divided up among various agencies according to the area of foreign trade in question. In order to manage the programme, a core structure has been created for monitoring and management functions which brings together representatives of various public-sector agencies (represented by 11 managers for designated subject

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82 Decree No. 357/97 of 19 September 1997. For further details, see WTO (1998d).

83 The WTO report, however, notes that Uruguay may not have felt the need to use anti-dumping measures, given the protection provided by the use of reference and floor prices for exports. Hence, it is to be expected that a reduction in the use of these instruments may lead to an increased application of anti-dumping measures and countervailing duties. Two anti-dumping investigations were begun in September 1998 (WTO, 1998d).

84 See *Informe Anual 1997* on the Website of the National Foreign Trade Commission (CNCE).

85 Within the context of customs and other foreign trade regulations, operating rules were approved for the EPZs in Corrientes, Chaco and La Rioja and for the production procedures to be followed in Tierra del Fuego (see CNCE Website). For a critical analysis of export promotion policy in Argentina, see Cleri (1998).

86 PEE restructures the previous foreign trade programme, which had been launched in January 1997. For a critical analysis of Brazil's export promotion programme, see Motta Veiga (1998).

areas) and of the private sector (represented by 55 sector managers). Although this programme is based on an active policy stance, it is not aimed at “picking winners”, but rather at creating an effective mechanism for identifying bottlenecks that affect exports in the selected sectors. The country’s export effort will be concentrated in 11 areas: financing, trade promotion, an export “ culture”, tax concessions, public administration, market access, logistics, investment in export activities, relationships with trading companies, quality control and technology.[87]

Another measure to promote exports was the creation in March 1997 of the Brazilian Export Credit Insurance Board, or Seguradora Brasileira de Credito a Exportaçao (SBCE), a partnership between the government banking system (the Banco do Brasil), four private Brazilian insurance companies (BRADESCO, BAMERINDUS, Sul América and Minas-Brasil) and a French firm, to offer lines of insurance to cover all of an exporter’s commercial risks. This form of financial support was supplemented by a loan programme for exports created in April of the same year. Authorization was given for equalization operations to bring national interest rates into line with international rates (with equalization up to 100%) for new products (see ECLAC, 1997a, p. 60).[88]

In 1998, the Government of Brazil instituted regulations to cover new lines of financing for pre-shipment operations in order to supplement the programme of export incentives (PROEX) funded by the Treasury and administered by the Banco do Brasil, which until then had provided financing only for post-shipment operations.[89] In April 1997, the National Monetary Council adopted new rules to help the export sector carry out interest equalization operations, up to a ceiling of 85% of the total value of the operation, using Treasury funds.[90] In June, the Brazilian central bank authorized exporters to use PROEX funds for certain types of loans (advances against exchange contracts).[91] In September 1997, the central bank simplified the bureaucratic procedures applying to exchange contracts for export operations under US$ 10,000. Finally, on 21 November 1997, the Export Promotion Agency (APEX) was created in order to coordinate the relevant policies.[92]

Chile

Chile’s export promotion initiatives currently follow three lines of action. The first consists in broadening the scope of the work being done to analyse the country’s export pattern, which is still concentrated in terms of both products and enterprises;[93] the second addresses the need to consolidate the existing export base; and the third is directed towards developing new businesses. To meet the new challenges arising in this area, the Export Promotion Bureau (Prochile) has developed an institutional modernization strategy under which it would be converted into a public corporation and the role of the private sector would be increased (Ministerio de Economía, Fomento y Reconstrucción, 1998, pp. 24 and 25). In response to the Asian crisis, Prochile has followed a strategy that focuses on strengthening Chile’s commercial presence in Asia through the use of instruments designed to deal with the various conditions that Chilean exporters face in Asian markets and with all phases of the marketing

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87 “Programa Especial de Exportação: inovações para uma política harmonizada,” *Balança comercial*, *Revista brasileira de comercio exterior RBCE*, No. 144, October/December 1998, pp. 2-4.

88 Provisional Measure MP 1601 of 11 November 1997 (*Diario oficial*, 25 November 1997) established the Guarantee Fund for the Promotion of Competitiveness.

89 Provisional Measure MP 1623 of 13 January 1998.

90 Resolution CMN No. 2381 of 25 April 1997.

91 Export insurance programmes and international interest-rate equivalence programmes for exports are permitted by the Agreement on Subsidies and Countervailing Measures (GATT, 1994).

92 Decree No. 2.398 of 21 November 1997 (*Diario oficial*, 24 November 1997).

93 See also Macario (1998b) and Silva (1998).

process (Office of International Economic Affairs, Ministry of Foreign Relations, March 1998).

In addition, various important export promotion instruments were modified in order to make them WTO-compliant and to help finance the scheduled tariff reductions. In accord with a protocol of understanding supplementary to the Tariff Reduction Act, a proportion of the funds that will be freed up when the Government dismantles such export promotion instruments as simplified drawbacks and the deferred payment of tariffs on capital goods will be used to offset the decrease in government revenues caused by the tariff reduction and to provide support for small and medium-sized enterprises (SMEs) and the farm sector, which will be hit the hardest by the reduction in tariff protection. As for the simplified drawback, the maximum rate of 10% on exports is to be gradually reduced between 1999 and 2003, and it and the present 5% rate are to converge at a level of 3% in the year 2003.

Under its bilateral agreements with Canada and Peru, the Government of Chile has pledged to refrain from subsidizing its exports after the year 2002. By the same token, under its agreement with Mercosur, products enjoying tariff preferences will not be able to make use of general drawbacks from the sixth year on.

Uruguay

Support for the export sector is included in the productivity-enhancing measures contained in the new investment law,[94] which broadens the coverage of the old industrial development law. At the end of 1997, the Uruguayan Government reformed the drawback regime so that it would be easier to use and work function more like the temporary customs clearance mechanism. At the same time, the application of the latter mechanism was broadened, and both instruments were placed under the administrative authority of the Technological Laboratory of Uruguay (LATU) (SIC, 1998a).[95] These mechanisms must still be harmonized with the other trade instruments in use within Mercosur, however.

In August 1997, the Uruguayan Accreditation, Standardization, Certification, Calibration and Testing System (SUANCCE) was created. Under the supervision of the National Committee for Standardization and Accreditation, SUANCCE will have the power to issue its own rulings concerning compliance with quality standards in accordance with international practices.

(c) Measures applied in importing countries

Chile

On 12 June 1997, pursuant to a complaint brought by the United States salmon industry, the United States Department of Commerce and the International Trade Commission launched a dumping and subsidy investigation to examine the practices of Chilean exporters.[96] The plaintiff accused Chilean exporters of maintaining a dumping margin of 41.78% over a “reconstructed value” and claimed that Chilean salmon producers had received subsidies under 28 different Chilean government programmes.[97] Since the subsidization allegations involved government programmes and could be extended to include other export industries as well, the Chilean Government decided to become a party to the case. It was

94 Act No. 16.906 of January 1998.

95 Decree No. 431/97. Temporary customs clearance, which allows the importation of merchandise under a regime of exemptions contingent upon re-exportation within a specified time period, is a system widely used by exporters. In 1997, around 20% of imports of inputs (excluding oil) made use of this instrument (Vaillant, 1998, p. 50).

96 This investigation concerned the sale of fresh Atlantic salmon, either whole or filleted.

97 Some of the programmes mentioned were technological assistance programmes of the National Fund for Technological and Productive Development (FONTEC) and the Technological Research Institute (INTEC), the international promotion support services provided by Prochile, financial programmes of the Production Development Corporation (CORFO), assistance from the Fundación Chile, and chapters XIX and XVIII of the Central Bank on external debt conversion mechanisms (see “Situación final de la acusación de subsidio y dumping contra la industria del salmón chileno” on the Website of the Office of International Economic Affairs [http://www.direcon.com/Salmonjul.html].

represented in this matter by the Office of International Economic Affairs of the Ministry of Foreign Relations, which was responsible for the coordination of its defense before the United States Commerce Department and chose to base that defense on an aggregate approach rather than on the figures for individual companies. The latter involves analysing each individual firm's use of the available subsidies, whereas, when the former method is used, the investigation attempts to evaluate the industry as a whole, which permits the Government to centre its argument around an overall defense of the country's practices.[98]

Four days after the complaint was lodged, the International Trade Commission initiated the preliminary phase of the investigation, whose purpose is to determine whether there was harm or a threat of harm to local industry. At the beginning of July, the Commerce Department formalized the decision to begin a dumping and subsidization investigation of the Chilean salmon industry, but resolved to eliminate from the investigation nine of the 28 programmes named in the complaint. Based on information provided by the Chilean Government, the Commerce Department arrived at the preliminary conclusion that there was evidence of dumping and harm to local industry, and hence decided to open the investigation, which focused on five companies (whose sales represented 50% of the total value of the exports in question).[99] From January to April 1998, a number of Commerce Department officials visited Chile to check the accuracy of the information that had been provided. In its final decision, issued in June 1998, the Department of Commerce ruled that Chilean salmon exports were not receiving countervailing subsidies, but that dumping was in fact occurring.[100] On 14 July, the International Trade Commission, in a two-to-one ruling, upheld the Commerce Department's dumping ruling and imposed a 4.54% tariff on Chilean salmon coming into the United States market.

C. ANDEAN COMMUNITY COUNTRIES

1. Merchandise trade and the trade balance

In 1997, as in the previous few years, **Bolivia** posted a negative balance on its merchandise trade account, and the growth rate for the value of imports outpaced the rate for exports (see table III.1). Agricultural exports rose 13.6%, bringing their share of total exports to 14% (the highest level in recent years), with the main products being soy, cotton, chestnuts and coffee. Manufacturing exports grew fairly slowly (1.7%) due to the downturn in tin (-10.4%) and gold exports (-7.6%). Exports of agro-industrial products increased by 7%, bringing this subsector's share to 37.5% of total exports.[101] The 1.6% expansion of exports from the mining and quarrying sector was the result of the increase in zinc exports (31.8%), which more than offset the reduction in sales of fuels and

98 The Office of International Economic Affairs formed a working group of more than 35 individuals from different government agencies and hired a law firm in the United States. For the details, see the document mentioned in the preceding footnote and Banco Central de Chile (1998d).

99 According to the Office of International Economic Affairs, the information submitted in the case was equivalent in volume to more than 10 telephone books (see the preceding footnote).

100 The Department of Commerce decided to open investigations into 19 of the 28 programmes that were the subject of subsidy complaints. Only six of the programmes that were investigated were found to be grounds for countervailing measures, but they totalled less than the 2% benefit that is considered the *de minimis* threshold. The other programmes were not found to be grounds for countervailing measures, or no benefit was found to exist. With respect to the allegations of dumping, margins of between 0.16% and 10.69% were set for the five companies, but under the *de minimis* rule, two of them were excused from any payment obligations; three firms had to pay surcharges of between 2.23% and 10.69% and the rest had to pay a surcharge of 4.57%.

101 The main categories are soy-based food products (animal feed, edible oil), wood products, gold jewellery, wearing apparel and "other".

natural gas caused by declining international prices and the rupture of the gas pipeline to Argentina.

The structure of Bolivian imports did not undergo any major changes, since imports of consumer goods (21% of the total), intermediate goods (39% of the total) and capital goods (40% of the total) grew at similar rates. In the first eight months of 1998, a growing deficit was registered due to the harmful effects of the Asian crisis on the price of Bolivia's main export products and the persistent growth of imports.

The value of **Colombia**'s exports in 1997 climbed by almost 10%, but the country posted a trade deficit of close to US$ 2.8 billion nonetheless. During 1998, Colombia's exports were affected by the sharp decline in the prices of some of its main traditional export products, including oil, coal and coffee. According to preliminary data from the National Bureau of Statistics (DANE), the value of exports up to August 1998 had fallen 3.7% compared with the same period of the previous year, despite the fact that the volume of shipments increased 13% (see table III.2a).[102] Exports of non-traditional products grew 4.3% in the same period. Imports have been notably stronger than exports and, as a result, the cumulative trade deficit for the first six months of 1998 was 50% above the total cumulative deficit for all of 1997 (see tables III.1 and III.2b).

Ecuador's 1997 trade figures featured a small increase in the value of exports (6%) and a large one in imports (27%) (see table III.1). The growth in exports was the consequence of larger volumes of bananas and shrimp, which also rose in price, while low oil prices reduced this product's share in total export value. The share of the overall of value of Ecuador's exports represented by oil, bananas and shrimp was 30%, 25% and 17%, respectively.

In the first half of 1998, the value of exports fell steeply as a consequence of low oil prices and reductions of banana and shrimp exports, the latter on account of El Niño and the general decline in commodity prices. Import growth rates remained high and, for the first time since 1987, this led to the build-up of a negative trade balance.

In 1997, **Peru**'s exports grew 15.5% thanks to the strength of non-traditional products (textiles, metal manufactures and machinery, chemicals, and iron and steel), although traditional exports also grew. Imports were up by 8.3% over their 1996 level, making for a reduction of 13% in the trade deficit. Nonetheless, in the first half of 1998, the trade deficit was almost three times as high as it had been in the same period in 1997 (US$ 581 million) due to a 27% fall in the value of exports. The main causes of this reduction were decreased fishmeal production and falling world prices for the country's main export metals (copper, zinc and gold).

The Venezuelan economy expects growth in 1998 of about 1% (compared to more than 5% in 1997) due to the weakening of international oil prices. The Government of **Venezuela** cut oil production by more than 15% (almost one half million barrels per day) in an effort to reduce the exportable supply and thus help to raise world prices for crude. Oil exports account for 80% of the country's foreign exchange earnings and 25% of its GDP. In 1997, exports grew less than 3%, while imports expanded almost 15%. Thus, between 1996 and 1997, the trade surplus fell from US$ 13.59 billion dollars to US$ 11.4 billion.

In the first half of 1998, non-traditional exports totalled US$ 2,370 million, for an averaged increase of 3.2% over the same period of the previous year. Most of this increase was accounted for by chemicals, food products, beverages and tobacco, and electrical equipment. Preliminary projections for 1998 are not promising, since a reduction of more than 11% in

102 Between January 1997 and June-July 1998, the prices of Colombia's main commodity exports underwent significant declines: from US$ 1.444 to US$ 1.273 per pound for coffee; from US$ 23.40 to US$ 12.00 per barrel for oil; from US$ 34.10 to US$ 30.80 per ton for coal; from US$ 2.90 to US$ 1.90 per pound for nickel; and from US$ 354.80 to US$ 292.40 per troy ounce for gold (June 1998). As a result, the terms-of-trade index, which was 1.00 in 1997, fell to 0.96 in July 1998. (See "Las exportaciones han caído 3.7% este año", *El Tiempo*, 6 October 1998.)

export value is expected, together with an upswing of more than 28% in imports, which would lead to an even larger decrease in the trade surplus by the end of 1998. Be that as it may, Venezuela is likely to be the only Latin American country registering a merchandise trade surplus for the year.

2. Trade policy

(a) Measures affecting imports

Bolivia

In 1998, the country's tariff structure remained unchanged (5% on capital goods and 10% on all other goods), except in the case of books, pamphlets and other printed matter, whose 2% tariff was eliminated in July of that year. Currently, the Government is in the process of drafting legislation on WTO-compliant anti-dumping measures, countervailing duties and safeguards.

Colombia

In January 1998, the Colombian Government established procedures and criteria for the adoption of general safeguard measures, transitional safeguards for products included in the agreement on textiles and clothing, and special safeguard mechanisms for farm products consistent with WTO agreements.[103]

On 16 October 1998, the Foreign Trade Council restricted imports of polyester fibre from the Republic of Korea and Thailand because the sharp decline in the prices of Asian textile products had triggered an increase in imports and put Colombian textile firms in a difficult position. Under these restrictions, textile imports may not exceed the level recorded the year before. Previously, on 31 July, the Council had adopted safeguard measures in respect of texturized polyester yarns or thread from China and the Chinese Province of Taiwan.[104] On the same date, a safeguard measure was also adopted for imports of smooth polyester yarn or thread from the Chinese Province of Taiwan under which a quota of 232.5 tons was set for a period of 12 months (see ECLAC, 1997a, p. 72).

Limitations on imports have also been placed on such products as processed poultry meat or poultry cuts coming from the United States due to the distortions created in the domestic market by the low prices of these items.

Ecuador

In March 1998, in an effort to deal with the budget deficit, the Technical Customs Committee decided to modify the structure of import duties by means of a number of provisions that were to remain in effect until the end of 1998. Accordingly, a 2% tariff came into effect for imports that had been exempt from duty until that time; the 5%, 10% and 15% tariff rates were raised four points and the 20% and 35% rates were increased five points. These surcharges are not applied to goods coming from other countries in the Andean Community or to LAIA countries with which Ecuador has trade agreements.

At the beginning of 1998, the Unfair Trading Practices Division was created in the Ministry of Foreign Trade, Industrialization and Fishing. This Division will be responsible for dumping, subsidy and safeguard investigations based on regulations that were to enter into effect in April 1998.

103 Decree No. 152 of 22 January 1998 (*Diario oficial* 43221 of 23 January 1998).

104 Import quotas of 800 tons for products of Chinese origin and of 1,532 tons for products from the Chinese province of Taiwan were set for a period of 12 months.

Peru

On 1 January 1998, the new international nomenclature, the Harmonized Commodity Description and Coding System (HS), entered into force, and the tariff schedule based on the common tariff nomenclature was approved.[105] Peru made sizeable reductions in its tariff structure in April 1997, and the Government is assessing the possibility of continuing to reduce tariffs gradually in order to improve the competitiveness of the country's businesses.[106] Peru, unlike the other Andean countries, does not use price bands for sensitive products but instead levies specific duties on a group of 20 tariff items (see ECLAC 1997a, p. 78).[107] The previous year's list of prohibited imports remains in force.[108]

The rules on safeguards applicable to third countries are currently under discussion. The Peruvian Government advocates the adoption of national regulations rather than those of the Andean Community, although it accepts the idea that the procedure for the assessment of harm or damage should be common to all the countries in the Community. Peru has provisionally applied anti-dumping measures to shoe imports from China,[109] to imports of calcium carbide from Argentina[110] and Brazil,[111] and to imports of woven labels from Chile, among others. In late December 1997, an investigation was launched on bus imports from Brazil in view of the possibility that they were subsidized under Brazil's export incentives programme.

Venezuela

The Venezuelan tariff structure is governed by that of the Andean Community's common external tariff, which has four steps: 5%, 10%, 15% and 20%. Some products are dealt with outside this structure, such as motor vehicles, which are subject to a 35% tariff, and those agricultural products for which price bands are used. The latter include some 13 agricultural products and substitutes (such as milk, corn, pork, poultry, soy and oilseeds).

In April 1998, the Venezuelan Government imposed a 15% surtax on certain (non-staple) products from countries with which Venezuela does not have bilateral agreements.[112] This increase, which applies to selected goods carrying tariffs of between 15% and 20%, was scheduled to remain in place until the end of 1998. On the same date, the rate for customs service fee was also raised from 1% to 2% of the value of the merchandise.[113] Subsequently (in June) further modifications in the tariff structure were introduced.[114]

In September 1997, the customs service began to apply minimum reference prices to the textile sector in order to check the increase of textile imports and help the domestic textile industry to compete with

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105 Supreme Decree No. 119-97-EF.

106 A 12% tariff for industrial equipment, machinery and inputs, and 20% for motor vehicles, electrical appliances, liquor, cigarettes and luxury articles.

107 In August 1998, the 5% specific duty on wheat imports (Supreme Decree No. 083-98-EF) was lifted.

108 Used clothing, used tires, pesticides, arms and live cattle and cattle products coming from countries affected by BSE, or "mad cow" disease (France, Ireland, Portugal, United Kingdom and Switzerland).

109 Resolution No. 004-97-INDECOPI/CDS of 6 March 1997.

110 Resolution No. 007-97-INDECOPI/CDS of 7 May 1997.

111 Resolution No. 001-98-INDECOPI/CDS of 24 February 1998.

112 (Decree 2484, 16 April 1998). The measure covers, among other things, imports of alcoholic beverages, beauty products, seafood, ornamental flowers, candy, electronic calculators, toys, vacuum cleaners and blenders.

113 Decree 2483 of 16 April 1998.

114 Tariffs on hydraulic brake fluid and certain plasticizers were reduced from 15% to 10%, while tariffs were raised for 36 headings, including aluminium oxides and waxed paper (from 5% to 10%), railroad equipment (not rolling stock), cement-mixing trucks and fire engines, bumpers, instrument panels and bicycle tyres (from 5% to 15%), and paintings and sculptures (from 5% to 20%) (*Veneconomía Semanal,* vol. 16, No. 28, 10 June 1998).

imported products.[115] Venezuela does not have legislation covering safeguards, subsidies, dumping or countervailing duties, but a bill on safeguard measures drafted by the Anti-dumping and Subsidy Commission is currently in the pipeline.[116]

(b) Export promotion measures

Bolivia

Pursuant to the Executive Branch Organization Act, in September 1997 the Ministry of Foreign Trade and Investment was created. This ministry's duties include developing foreign trade regulations and policies for the promotion of Bolivian exports and helping them to become more competitive in foreign markets. In February 1998, the Bolivian Promotion Centre was founded to backstop private firms in foreign markets, identify export opportunities, provide private firms with technical assistance and promote technology transfer. The Government is also considering new export legislation that would provide more impetus for investment in capital goods used in the production of exportables and would permit the creation of an appropriate institutional framework for the promotion of exports.

At present, the General Export Regime is defined by Act 1489 of 1992, which establishes, among other things, tax neutrality for exports. Under these provisions, domestic taxes can be rebated using the tax credit-debit system and drawbacks can be issued on import duties paid on raw materials and inputs incorporated into export goods; the corresponding percentages are set annually and vary from 1% to 4% according to the cost structure of the industry concerned. In addition to the General Regime, there are two special regimes: the Temporary Clearance for Export (RITEX) regime and the Export Processing Zone (EPZ) regime. In 1997, Executive Decree 24480 introduced operational improvements designed to make RITEX more efficient by authorizing firms to clear raw materials and intermediate goods through customs without paying import duties or domestic taxes for a period of up to 120 days, within which time the merchandise must be produced and exported.

The regulations required to govern the operational aspects of the country's EPZs were also enacted. These operation of these zones is based on the principle of customs and tax segregation, with the idea being that investment can be increased under this regime.

Colombia

Colombian trade policy, as indicated in the document approved by the Foreign Trade Council of the Ministry of Foreign Trade entitled "Política de Comercio Exterior", seeks to internationalize the Colombian economy over the long term. To this end, the Colombian Government has adopted a policy position supporting open regionalism, without prejudice to its Andean Community commitments. In pursuit of its ultimate objective, Colombian trade policy not only deals with export of goods but also devotes special attention to services exports. In addition, it is thought that in order to increase productivity it will be necessary for the Government to address related matters, such as infrastructure, research and the accumulation of human capital. A particularly important role is played in this respect by foreign direct investment and international technical cooperation as well (Ministerio de Relaciones Exteriores, 1997).

With this same objective in mind, the Government decided to use a gradual approach in dismantling the tax reimbursement certificate (CRT) system and to create a strategy to improve business productivity and competitiveness.

The newly elected Administration in Colombia has reaffirmed its commitment to raising the competitiveness of the export sector through an efficient channeling of funding for infrastructure,

115 See the *Gaceta oficial* No. 36.531 in relation to textiles and No. 36.532 in relation to dressmaking.

116 Anti-dumping and Subsidy Commission, No. 066-98, 16 February 1998.

education and sectoral development policies. The objective is to boost exports from the current level of US$ 11.5 billion to US$ 25 billion by the year 2002.[117] To this end, on 15 October 1998 the Government announced it was taking steps to streamline its customs procedures, which currently involve eight steps and take an average of 20 days but are to be reduced to a single, shorter stage.[118]

Ecuador

In June 1997, the Foreign Trade and Investment Act was promulgated. Under this law, the Ministry of Foreign Trade, Industrialization and Fishing is assigned the tasks of promoting foreign trade and investment, and advancing the process of regional integration. This move was intended to put an end to the overlapping and excessive dispersion of administrative functions in the areas of foreign trade and investment, which had been spread over various government agencies. The law also provided for the creation of the Council on Foreign Trade and Investment (COMEXI), whose main job is to design and coordinate foreign trade policy. This body, headed by the President of the Republic or his representative, is made up of five ministers and the presidents of the five national federations of the country's various chambers of commerce. In addition, the Ecuadorian External Promotion System was created. This system is formed by the Export and Investment Corporation (CORPEI) and its foreign network, the Trade Service, which is staffed by diplomatic officials serving abroad. CORPEI is to replace trade promotion mechanisms with more efficient –and WTO-compliant– instruments (see ECLAC, 1996, p. 78).[119]

Peru

Peru's Export Promotion Commission (Prompex) was created in April 1996 and is an independent association in which private firms may participate. Its functions include promoting and publicizing the country's export products, taking measures to diversify and consolidate markets, helping small and medium-sized enterprises to develop their export capacity and promoting the creation of export companies (see ECLAC, 1997a, p. 80).

In September 1997, a document was approved that sets out the operational rules for the country's Export, Processing, Industry, Marketing and Services Centres (CETICOs),[120] and in May 1998 a law was passed authorizing the creation of a new CETICO in Loreto.[121] The vehicle repair section has been expanded at both the Tacna and Ilo CETICOs.

Venezuela

The export promotion instruments upon which the Venezuelan Government relies the most are temporary customs clearances, drawbacks, tax rebates and the special regimes applying to the country's EPZs.[122] In 1997, a new trade bank, the Banco de Comercio Exterior (Bancoex), entered into operation and began offering financing for export firms. In addition, the Ministry of Development and the Foreign Trade Institute were merged to form the Ministry of Industry and Commerce.

(c) Measures applied in importing countries

Colombia

A number of the measures applied by importing countries were favourable to Colombian exports. One

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117 See "Exportar más, una obligación", *El Tiempo*, 13 October 1998.

118 For a review of Colombia's export promotion policy, see Ochoa (1998).

119 Ecuador promotes exports by means of drawbacks, EPZs, a *maquila* regime, temporary importation procedures and international trade fairs. Of the five EPZs that have been approved, only one is in operation.

120 Supreme Decree No. 112-97-EF.

121 A CETICO was created in Loreto by virtue of Act No. 26.953 of 22 May 1998.

122 The Government of Venezuela does not consider the latter to be an export promotion instrument.

of the main such measures was the re-certification of the country by the United States based on its efforts to combat drug trafficking.[123] A significant development in relation to the use of export barriers was the United States' decision to ban shrimp imports, a measure that prompted a number of countries to have recourse to WTO dispute settlement procedures (see chapter IX). On 28 April 1997, Colombia submitted a request for consultations with WTO concerning the safeguard measure taken by the United States against imports of Colombian brooms. This request is still pending.[124]

The European Commission is studying the possibility of extending the Generalized System of Preferences for the Andean countries for a period of several years. In October 1998, new quotas for banana exports from Latin American countries to the European Union's markets were set. According to the proposal submitted by the banana industry's management committee, Colombia will provide 23.03% of total European banana imports from Latin America.

D. MEXICO

1. Merchandise trade and the trade balance

Mexico's strategy of maintaining close trade links with the United States is reflected in a number of special features in relation to its trading patterns that distinguish it from the rest of Latin America and the Caribbean. In the first place, Mexican exports represented more than 38% of the region's total exports in 1997. In addition, according to WTO, in 1996 Mexico was one of the world's 10 largest exporters of automotive products. Nonetheless, the country's cumulative 1995 trade balance of more than US$ 7 billion fell to slightly over US$ 6.5 billion in 1996 and to only US$ 623 million in 1997, although it should also be noted that Ecuador, Mexico and Venezuela were the only countries in Latin America to post a trade surplus that year.

In July 1997, Mexico's monthly trade account began to show a systematic and increasingly large deficit for the first time since January 1995. In the first nine months of 1998, the cumulative trade deficit on the merchandise trade account was over US$ 5 billion, with negative monthly balances averaging over US$ 750 million in the third quarter.

In 1997, the total value of export goods (including *maquila* products) rose 15%. The value of *maquila* exports rose 22%, while the non-*maquila* sector saw a 10% increase; these trends were in sharp contrast to those registered in 1996, when the non-*maquila* sector had posted a larger increase than the *maquila* sector had. *Maquila* imports climbed 20%, as against 25% for the non-*maquila* sector. Imports of capital goods were up 38%, but those of consumer goods increased by 40%.

Exports to the United States have climbed sharply, particularly from 1994 to 1996; their growth rate slackened in 1997 and 1998, but was still above the average rate for exports as a whole. The share of the United States in Mexico's trade flows has held steady at around 85% of exports and 75% of imports. Moreover, since 1995 Mexico has consistently run a surplus with the United States, although the balance on this account showed a 27% decline in the first nine months of 1998.

123 The new Colombian Administration reported that it will request an extension of the Trade Preferences Regime for the Andean Countries (ATPA), which benefits Andean countries working to combat the drug traffic. It also indicated that it will ask that Colombia be included in the initiative to extend the preferences granted under NAFTA to the countries of the Caribbean Basin.

124 See the WTO Website [http://www.wto.org].

Trade with LAIA and Central American countries is also favourable to Mexico. It has been building up trade deficits with all the European countries, however, as well as with the Asian countries (including China and Japan). The value of Mexico's exports, measured in current dollars, to the European Union diminished between 1992 and 1994 and then leveled off at around US$ 3.5 billion in 1995 and 1996, after which it rose slightly, to just under US$ 4 billion, in 1997.[125] Imports remained high, however, at between US$ 6.2 billion and almost US$ 10 billion during those years. The country's largest deficits were with China, Germany, Italy, Japan and the Republic of Korea.

In the nine months of 1998, despite the problems faced by the Asian countries, Mexico ran much larger deficits than it had during the same period of the previous year, and its deficit with the European Union rose by 45%.

2. Trade policy

(a) Measures affecting imports

According to information from the Ministry of Commerce and Industrial Development (SECOFI), the tariff structure for Mexican imports includes 75 headings subject to controls and 11,266 headings that have been deregulated, which represent 4.8% and 95.2% of the value of total imports, respectively.[126] The simple average of tariff rates is approximately 11% for capital and intermediate goods, and there is little dispersion for these categories (between 5.5% and 6.6%). More protection is provided for consumer goods, with a simple average rate of 24.9% and a tariff spread of 11.6%. Between 1990 and May 1998, the number of deregulated items rose from 11,019 to 11,266, and the share of such imports grew from 86.4% to 95.2% (SECOFI, 1998, p. 119).

In 1997 a total of seven investigations into allegations of unfair trading practices (dumping and subsidization) were initiated at the international level, and 55 decisions were issued; this was a significant reduction in comparison to 1993, 1994 and 1995, when there was an average of 132 decisions per year.[127] Of the total number of investigations carried out between 1987 and 1997, 91% concerned allegations of dumping, 8.5% related to subsidies, and only one investigation (0.5%) dealt with safeguards (SECOFI, 1998, table A.2, p. 66).[128] Of the 188 investigations conducted in the last 10 years, 82 led to the imposition of a countervailing duty and 100 did not (53% of the dumping investigations). Of the 18 subsidy investigations that were opened, eight resulted in the imposition of countervailing duties.[129]

Thus, up to 31 December 1997, countervailing duties were imposed in 90 cases; in 48 of these instances, the extra duty was in excess of 50% and in 19 it was 200% or more (SECOFI, 1998, figure A.4, p. 69).[130] During the last 10 years, the countries requesting the greatest number of investigations were the United States (58), China (37), Brazil (22) and Venezuela (10), whereas upon which countervailing duties were imposed most frequently, in proportional terms, were China (in 89% of the investigations

125 As a result, Mexico's exports to the European Union increased at an average annual rate of 2.5% between 1991 and 1997, while its total exports rose at a rate of 18% (data from the Ministry of Commerce and Industrial Development (SECOFI).

126 There are also 33 controlled headings and 5,267 headings not subject to export tariffs. The former represent 0.6% of the total value of exports (SECOFI, 1998, p. 119).

127 In 1993 a total of 83 investigations were initiated (SECOFI, 1998, table A.1, p. 65).

128 In those 10 years, 82% of the investigations dealt with intermediate goods (mainly basic metals, chemicals, petroleum products and rubber and plastic products) (SECOFI, 1998, tables A.8 and A.9, pp. 72-74).

129 However, in 147 of the 206 investigations into allegations of unfair trading practices, countervailing duties were imposed in at least one phase of the inquiry (SECOFI, 1998, table A.5, p. 69).

130 In addition, in the course of the initial anti-dumping inquiry, provisional duties were imposed in four instances (SECOFI, 1998, table A.6, p. 69).

dealing with its products), Venezuela (in 70% of the cases) and Brazil (59%).[131] Only 38% of the investigations conducted in respect of United States products resulted in the imposition of countervailing duties (SECOFI, 1998, table A.7 and figure A.5, pp. 70 and 71).

In Mexico, investigations of unfair international trading practices are handled by the International Trade Practices Unit (UPCI), which recommends that the Minister of Commerce and Industrial Development impose countervailing duties when it is has been demonstrated that the dumping or subsidization (or both) of imports of a product harm or threaten to harm domestic production. The Unit also provides technical assistance to the Minister in determining whether an area of the country's production activity faces harm or threat of harm because of a substantial increase in imports, and in that event proposes the application of safeguard measures.[132]

(b) Export promotion measures

The Mexican Government has moved forward in its efforts to promote exports through various innovative programmes. The Joint Export Promotion Commission (Compex) is made up of both public- and private-sector representatives is active in such areas as the coordination of efforts to streamline administrative procedures and the mitigation of technical obstacles hampering the relationship between the Government and the private sector.[133]

Between September 1996 and June 1997, 87.5% of the country's manufacturing exports (around US$ 64 billion) were made by firms benefiting from export promotion programmes. During this period, 104,361 certificates of origin were issued for products having a total value of more than US$ 8 billion. These certificates facilitate exports by taking advantage of the tax exemptions or reductions provided for in the various preferential schemes and agreements negotiated with other countries.[134] In addition, US$ 31 billion in exports were made under programmes allowing temporary customs clearance for inputs used in the production of export items (known as "Pitex programmes"); 6,135 companies now benefit from these programmes.[135]

In April 1997, SECOFI published a number of decrees designed to carry forward the deregulation and administrative streamlining process and to backstop export firms. One of these decrees provided for the establishment of foreign trade enterprises; its aim is to provide incentives for the provision of comprehensive services to assist in the development of exportable supply (e.g., promotion, transportation logistics and marketing) in order to bring more firms, especially smaller ones, into the export sector. Another of these decrees, which established a series of programmes allowing for temporary customs clearance for items to be used in connection with comprehensive export services (Pitex-Services), allows VAT-and duty-free importation of machinery, equipment and other devices used in export-related services, such as

131 In November 1998, the Governments of Mexico and the People's Republic of China agreed to establish an institutional cooperation and consultation mechanism to combat the under-invoicing that had been detected in bilateral trade flows. The agreement allows SECOFI to examine a series of anti-dumping measures taken against imports of machinery and appliances, tools and organic chemicals coming from China. As a result of the review, countervailing duties on 624 tariff items were eliminated, although 1,360 tariff items being imported from China will continue to be subject to such duties; these items include such products as textiles, clothing, shoes and toys (see "México y China acuerdan reforzar el combate a la subfacturación y a la elusión de medidas antidumping" on the SECOFI Website [http://www.secofi.gob.mx/comsocial/645.html]).

132 See the UPCI Website using the link from the SECOFI Web page [http://www.secofi.gob.mx].

133 See the SECOFI Website [http://www.secofi.gob.mx/compexl.htm]. For an examination of the main programmes and instruments for the promotion of Mexico's non-oil exports, see Máttar (1998).

134 During 1997, *maquila* enterprises exported more than US$ 40 billion and directly created more than a million jobs (see SECOFI/Publicaciones/Actividades 1996-1997 on the SECOFI Website [http://www.secofi.gob.mx/lab97-14.html]).

135 See "Reformas de programas PITEX y Maquila para adecuarlos al Tratado de Libre Comercio de América del Norte" on the SECOFI Website [http://www.secofi.gob.mx/comsocial/641.html].

loading, unloading, warehousing, exploration, design, containers, packaging and process engineering.[136]

In November 1998, the official government gazette published a listing of the changes to be made in the Development Programme for Export-Oriented *Maquila* Industries of 1997-1998 and in the above-mentioned Pitex programmes. These reforms, which will go into effect in 2001, are needed in order to make these programmes NAFTA-and WTO-compliant. The reforms do not affect the right to import inputs on a temporary basis without payment of duties or VAT, but 60 days after exportation the exporters must pay duty on the inputs coming from countries with which Mexico does not have trade treaties. The mechanism for the temporary transfer of merchandise imported duty free remains in place, and the regulation exempting temporary machinery imports from the VAT will remain in place indefinitely, although the same duty as applies to non-temporary imports will have to be paid at the time of entry.[137]

(c) Measures applied in importing countries

As of the end of 1997, anti-dumping duty orders had been applied to Mexican products in 15 cases: seven by the United States, two by Australia, two by the European Union and one each by Canada, Guatemala, India and Peru (SECOFI, 1998, table A.20, p. 91).

E. THE COUNTRIES OF THE CENTRAL AMERICAN COMMON MARKET (CACM) AND PANAMA

1. Merchandise trade and the trade balance

In 1997, in line with the trend of the last few years, Costa Rica posted a trade deficit equivalent to 7% of GDP, as compared with 4% for the previous year. Exports grew 9%, thanks to the momentum provided by the EPZ regime. Favourable changes were observed in the prices of coffee and non-traditional export products, in particular melons (26%), shrimp and pineapple (46%), yucca (36%) and fish. Indeed, fishery exports (dried, fresh and frozen fish and shrimp) were up by 65%.[138] Imports increased 13%, largely due to the general growth of the economy. The strongest increases in imports were in capital goods (23.7%), raw materials (18%) and construction materials (13.5%). Raw materials represented the greatest share of total imports (44%), partly because of the production sector's dependence on imported inputs. After raw materials, the next-largest share of total imports corresponded to consumer goods (27%).

Capital goods represented 20% of total imports. This category's share of imports is in part determined by long-term investment decisions and projects involving technological change. The arrival of Intel (Integrated Electronics), the microchip maker, in Costa Rica in 1997, for example, will have a decisive impact on the performance of such imports.

In 1997, El Salvador's trade deficit was US$ 1,323 million, representing a decline of US$ 111 million from the previous year, although the deficit is believed to have increased in 1998. The positive performance

136 See SECOFI/Publicaciones/Actividades 1996-1997 on the SECOFI Website [http://www.secofi.gob. mx/lab97-14.html].

137 Under the PITEX programmes, *maquila* enterprises will be allowed to import all inputs and machinery necessary to produce products for export to Canada or the United States from any part of the world duty-free until 2001 (see "Reformas a programas PITEX y Maquila para adecuarlos al Tratado de Libre Comercio de América del Norte" on the SECOFI Website [http://www.secofi.gob. mx/comsocial/641.html]).

138 According to an ECLAC study (1998a, p. 193), the growth of Costa Rica's exports was primarily attributable to the upswing in international prices (12%), since volume expanded by only 5%.

of exports in 1997 is attributable to strong coffee and sugar prices, though the volume of exports also increased. In addition, favourable trends were seen in the exports of other products, such as shrimp (12%) and *maquila* products (21%). As a result, traditional exports (coffee, sugar, shrimp) represented 25% of total exports in 1997, with non-traditional exports representing 31% and *maquila* exports 44%.

The trend in Salvadoran imports is due to (i) increasing trade liberalization, in accord with the Central American timetable for tariff reductions; (ii) the recovery of the manufacturing industry, transport and construction; and (iii) the appreciation of the exchange rate. Imports of consumer goods were notable in 1997 and accounted for 25% of the total, while intermediate goods constituted 35% and capital goods and *maquila* products represented 20% each.

Guatemala's 1997 trade deficit was approximately 7.6% of GDP. This figure, which was a two-point rise from 1996, was accounted for by the fact that exports rose less than imports (15% versus 22%). The increase in traditional exports, mostly coffee (30%) and sugar (20%), was due as much to the increase in volume as to international prices; oil exports increased 60% despite low prices on world markets owing to the output from new fields. The increase in imports was attributable to increased economic activity, the liberalization of the economy and, in general, the growth model, which has established a link between export of goods, import of inputs and the appreciation of the real exchange rate. The greatest import strength was seen in construction materials (24.1%) and in raw materials and intermediate products (24%). During the first half of 1998, exports increased 15% and imports 23%.

In contrast with the results for other countries, Honduras's trade deficit shrank from 2.9% to 2.2% of GDP from 1996 to 1997 thanks chiefly to the notable growth of the economy. The rise in coffee prices and the decline in fuel prices also were positive influences. The upswing in exports came from increased foreign sales of shrimp, melon and other products, which more than offset the 24% drop in the value of banana exports. The heading "other products," which includes manufactures and farm products (soap, textiles, cigars, cigarettes, palm oil, pineapples, melons and vegetables), represented 43% of total exports and expanded 22%.

The moderate rise in the value of imports was the result of the purchase of a smaller volume of fuels and lubricants, which also fell in price, and increased imports of machinery, electrical equipment and devices, food products and transport equipment.

Nicaragua's 1997 trade deficit stemmed from a decline in the pace of export growth, mainly because of the performance of non-traditional products. On the other hand, imports registered a 40% rise due to increased purchases of intermediate goods (36%) (mostly industrial inputs) and capital goods (35%). Imports of consumer goods were not as strong as the previous year, and purchases of fuels and lubricants were down (-9%).

In the first half of 1998, exports fell 16% as compared with the first half of 1997, mostly due to the effects of El Niño and weaker international prices for some products, such as beef. There were hopes that the situation would improve in the second half of 1998, but the catastrophic consequences of Hurricane Mitch in agricultural areas heavily affected the economies of Honduras and Nicaragua and, to a lesser extent, those of El Salvador and Guatemala.

The upturn in Panama's exports in 1997 was due principally to the higher sales figures registered by the Colón free zone (14%) and increased exports of fishery products (41%) and agricultural produce (fruit, sugar, melons, watermelons), except in the case of bananas, which declined. The higher value of imports was due to increased quantity, since prices fell.

2. Trade policy

(a) Measures affecting imports

Costa Rica

At the end of 1996, Costa Rica suspended the tariff reduction programme to which it had agreed with CACM, and in mid-1997, the subregion's Deputy Ministers of Economic Affairs decided to postpone those reductions for another five years (ECLAC, 1997a, p. 83). In August 1997, the Government of Costa Rica set up a timetable for tariff reductions in accordance with this last decision, with a floor of 0% and a ceiling of 15%.[139] This tariff structure should remain in effect until the year 2000, except for farm products, whose tariffs are to be rolled back in 2005. In 1998, the simple average tariff was 8%, compared with almost 10% in 1997.[140] Table III.3 shows the tariff reduction schedules for Costa Rica and El Salvador, updated to August 1998.

Up to July 1998, Costa Rica had submitted 104 safeguard clauses with respect to the CACM common external tariff for item ranging from meat and dairy products to laser disks.[141]

El Salvador

El Salvador's tariffs will be brought progressively closer to their target levels, which they are to reach in the year 2000, according to the CACM tariff reduction schedule. However, textiles, apparel and footwear are exempted for the time being and will not be incorporated into the rollback programme until 2005 in the case of both El Salvador and Guatemala (see table III.3).[142]

As of July 1998, El Salvador had applied 147 safeguard clauses to the CACM common external tariff which were to be eliminated by the start of 1999.[143] From January 1997 to June 1998, no new quantitative controls or related measures were applied to imports, nor were other countervailing measures taken. The 10% countervailing duty imposed by El Salvador on Costa Rican milk remained in force.

Guatemala

The tariff reduction schedule agreed upon by the Central American presidents on 20 November 1996 was not changed during the period from January 1996 to June 1998 (see ECLAC, 1997a, table IV.17, p. 91). In October 1998, Guatemala had a tariff of 0% on capital goods, raw materials and intermediate goods not produced in the subregion. The country's import duties will reach their target levels in the year 2000, except in the cases of textiles, apparel and footwear, which, as mentioned above, will be incorporated into the tariff reduction programme in 2005.[144]

Guatemala imposes *de facto* import quotas on seven products in its trade with countries outside the

139 *Gaceta oficial,* No. 161, Executive Decree No. 26.248-MEIC.

140 In addition to duties, there are four other taxes on imports (see ECLAC, 1997a, p. 84).

141 Safeguard clauses are an exception to the Central American common external tariff. In other words, they are tariffs that exceed the ceiling rate of the common external tariff. These clauses are applied individually by Central American countries and may deal both with tariff rates and the types of products on which they are to be imposed. In Costa Rica, the products subject to these clauses were: meat and edible by-products, dairy products, fresh or chilled potatoes, onions and shallots, frozen potatoes, corn, wheat flour, palm oil, corn starch, processed and prepared meats, sugar and molasses, processed potatoes, ice cream, tobacco, salt, coarse woven goods, corduroy, sacks, pumps, air conditioners, electric motors and generators, converters, electric batteries, laser disks, electrical resistors, relays, motor vehicles, and other instruments and devices.

142 Resolution No. 11-97 of the Ministerial Council on Economic Integration, 11 December 1997.

143 These safeguards apply to the following products: ducks, dairy products, yellow and white corn, rice, sorghum, corn starch, almond oil, vegetable oil products, sugar, refined salt, fertilizers, tensoactive substances, rosin oils and substances, plastic films, articles for use in transport or packing and plastic plugs, wood, thread, fabrics and wearing apparel, iron or steel sheets, iron or steel structural shapes, microphones, earphones, amplifiers, and recording or reproduction equipment.

144 Resolution No. 11-97 of the Ministerial Council on Economic Integration, 11 December 1997.

Table III.3

COSTA RICA AND EL SALVADOR: NATIONAL TARIFF REDUCTION SCHEDULE, 1997-2000[a]

(Percentages)

Type of goods	ID[b] base 1997		1998 1 January		1998 1 July		1999 1 January		1999 1 July		2000 1 January
	Costa Rica	El Salvador	Costa Rica	El Salvador	Costa Rica	El Salvador	Costa Rica	El Salvador	Costa Rica	El Salvador	Costa Rica
Capital goods		5	2	0	1	0	0	0	0	0	0
Raw materials	5	0	5	0	0	0	0	0	0	0	0
Intermediate goods with ID[b] of 10%	10	9	9	8	8	7	7	6	6	5	5
Intermediate goods with DI[b] of 15%	15	14	14	13	13	12	12	11	11	10	10
Final goods with ID[b] of 20%	20	19	19	18	18	17	17	16	16	15	15

Source: Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), August 1998.
[a] Updated to August 1997.
[b] ID: import duty.

zone.[145] The procedures involved in the imposition of countervailing and anti-dumping measures are set forth in the Central American Regulations on Unfair Trading Practices, which went into effect for Guatemala on 3 July 1996. Beginning 31 January 1997, an anti-dumping duty of 89.54% has to be paid on imports of Portland cement from Mexico. The case was submitted to the WTO for a ruling, and the panel's decision went against Guatemala, but in October 1998 Guatemala decided to exercise its right to appeal.[146]

Honduras

The tariff reduction schedule for Honduras has not been changed significantly (see ECLAC, 1997a, table IV.19, p. 95). Honduras had, up to July 1998, applied 25 safeguard clauses to the common external tariff (to eight digits).[147]

Nicaragua

Nicaragua's tariff reduction schedule forms part of its Fair Trade and Taxation Act (in force since 1 July 1997), which redefines the country's tariff policy, setting a ceiling of 10% as of 1 July 1999 for final consumer products and a floor of 0% for raw materials, intermediate goods and capital goods not produced in Central America. Under this statute the temporary protective tariff was combined with the stamp tax and became subject to a tariff reduction schedule that was to lower the rate to 0% by 1 January 1999, with the exception of items designated as State

145 At the chapter level, the safeguard clauses deal with poultry (chapter 02), milk and cream (chapter 04), plants (chapter 06), apples (chapter 08), corn (chapter 10), rice (chapter 10), wheat flour (chapter 11), corn starch (chapter 11), beverage components (chapter 21), peat (chapter 27), heavy oils (chapter 27), natural polishes (chapter 27), processed beverage ingredients (chapter 33), paper (chapter 48), textile remnants (chapter 63) and automotive chassis (chapter 87).

146 See the WTO Website [http://www.wto.org].

147 These clauses cover poultry; milk; cheese; potato flakes; plant oils; processed meat, blood or by-products; orange juice; manufactured wood products; used footwear; and unalloyed iron or steel wire.

goods, which would be subject to reduction by 2001 at the latest, and intermediate and capital goods not produced in Central America, which would be reduced at a later stage (see ECLAC, 1997a, pp. 98 and 99).[148]

There are 24 safeguard clauses that have been applied to the CACM common external tariff (corresponding to subheadings) that were to be eliminated at the beginning of 1999.[149]

Panama

With Panama's entry into WTO, the Government embarked upon a unilateral tariff reduction programme which also involved narrowing the tariff spread. Under this programme a ceiling rate of 15% was set, with some exceptions. The tariff structure, which includes 8,517 items, had moved from an average rate of 12.84% in September 1997 to one of 9.05% by August 1998. The use of reference prices was also eliminated, and preferential treatment consisting in the application of a 3% tariff on inputs was extended to all importers.

(b) Export promotion measures

Costa Rica

In August 1997, the Government of Costa Rica signed a regulatory instrument covering customs duty refinements and drawbacks, under which goods may be imported without paying any duty or tax on the condition that the merchandise be re-exported after processing.[150] The regime also provides for re-exports to the local market, in which case the applicable portion of the relevant taxes are to be paid, as determined by the percentage sold on the local market, upon entry of the product. The drawback regime, for its part, provides for the refund of taxes and duties paid to the Government on imports of inputs, containers or packaging that are subsequently incorporated into export products, provided that the export transaction occurs within 12 months of the date on which the merchandise was imported.

Subsequently, in September 1998, the Legislative Assembly approved a series of amendments to the EPZ law (Act No. 7830), including eligibility requirements that limit the regime to new projects involving start-up investments of at least US$ 150,000 in assets and a provision excluding firms devoted to the provision of professional services. In addition, the establishment of enterprises outside of the EPZs is regulated, and the allowable percentage for clearance into the country is reduced from 40% to 25%.

El Salvador

El Salvador's Export Reactivation Act provides a series of tax exemptions for exporters of non-traditional products, including an exemption from income tax and a system of drawbacks.[151] In addition, special lines of credit are earmarked for enterprises that export more than 50% of their production, provided that these exports are either non-traditional products or services rendered outside of Central America.

In 1998, the Legislature passed a new EPZ law applying to export activities targeting markets inside or outside the Central American area.[152] The Government of El Salvador is currently studying the observations submitted by production sectors that could be hurt by the law's implementation, since it

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148 The schedule for the reduction of the temporary protective tariff (ATP) is as follows: as of 1 January 1997, 10%; as of 1 January 1998, 5%; as of 1 July 1998, 5%; as of 1 January 1999, 0%. Under the Fair Trade and Taxation Act, the government stamp tax (ITF), which had been classified as an additional duty to be paid on all goods being cleared through customs, regardless of their origin or the applicable tariff item, was incorporated into the new ATP.

149 The safeguard clauses apply to the following products: poultry, unroasted coffee, corn meal, sugar, crackers and cookies, non-alcoholic beverages, beer, tobacco and air conditioners.

150 For a review of export promotion programmes in Costa Rica, see Monge (1998).

151 Non-traditional exports are defined as those other than coffee, sugar and cotton.

152 Export Processing Zone and Marketing Act, Decree No. 405.

permits the sale inside the country of goods produced in the EPZs as a means of making the EPZ regime more attractive to foreign investors. In September 1998, the Government submitted an investment bill to Congress that is intended to promote foreign investment by affording equal treatment for domestic and foreign investment.

Guatemala

Guatemala is being called upon to bring its export regime into compliance with WTO rules, specifically in regard to personal income tax exemptions, since this type of exemption is allowed only in the relatively less developed countries and, according to WTO, Guatemala ceased to belong to that category as of the middle of 1998.

Though there are no preferential financing mechanisms for exports, the Trade Association of Exporters of Non-Traditional Products (AGEXPRONT) has developed a project that would use public funds to finance SMEs that export non-traditional agricultural, crafts and hydrobiological products, furniture and forest products, manufactures, and clothing and textiles.

In an effort to attract foreign and national investment projects that would create jobs, in late 1997 the Ministry of Economic Affairs launched an investment promotion programme (PROGUAT) whose aim is to broaden and strengthen the production base and export structure in fields where there are possibilities for technology transfer and the incorporation of greater value added.

Honduras

As a result of the passage of a bill designed to stimulate production and competitiveness and to support human development, the Honduran Government rescinded duties on exports of shrimp, lobster and other mollusks and crustaceans that had been established in November 1987, duties applying to exports of beef and pork on the hoof, poultry and other animals that dated back to December 1979, and duties on sugar cane and sugar beets that had been enacted in December 1979.[153] In addition, under this law the tax on banana exports is to be gradually reduced starting in 1998, and financial support is to be provided for independent producers, thus giving them an extra incentive in addition to a minimum sales price.[154]

This law also extends the benefits of the EPZ regime to the country's entire territory. In terms of the taxes involved, these benefits include: (i) exemptions from income tax for an indefinite period for the administrative body and its users; (ii) exemptions from tariffs and other import fees for all merchandise brought into the EPZs; and (iii) exemptions from export, sales and production taxes within the EPZs, from municipal taxes on real estate and businesses, and from taxes on net assets.

Nicaragua

Article 23 of the Fair Trade and Taxation Act (Act No. 257 of July 1997) prohibits the application to exports or imports of any non-tariff restriction other than phytosanitary regulations, rules designed to protect public health and safety, environmental measures, measures taken in response to a national emergency, and WTO-compliant safeguards and reciprocity measures. Temporary import regimes covering all exports not destined for the Central American area and the drawback regime are defined by article 25 of the same law.[155] Exceptions to the drawback provisions apply to enterprises holding valid export contracts which receive incentives

153 Decree No. 131-98 of 20 May 1998.

154 The tax is to be reduced from US$ 0.18 to US$ 0.04 per crate between 1998 and 2000. The financial support is equivalent to US$ 0.50 per crate for the first three years and to US$ 0.30 for another three years.

155 Article 25 says: "There shall be a tax rebate rate in order to compensate exporters for the payment of import taxes and for other anti-export biases, starting 1 January 1998, of 1.5% of the f.o.b. value for all goods exported, including sales of raw materials, intermediate goods and capitals goods to EPZ enterprises".

provided for in the special regime for the promotion of exports and to exports of enterprises operating under the EPZ regime.

In February 1998, the implementing regulations governing the automation of customs clearance for imports and exports and other customs regimes went into effect, and in November of that year the corresponding law was enacted. Both the law and the corresponding regulations are intended to simplify and streamline customs procedures. At present a bill is being drafted concerning a temporary clearance regime for exports that may replace the export promotion act of 1991 entirely.

Panama

Act No. 23 of 11 January 1996 modified the export tax on bananas and provides for its complete elimination in 1999.

The Government of Panama has made an effort to promote foreign investment in the country and to open up reliable foreign markets for the country's production and commercial sectors. To this end, it conducted a study on existing inter-agency organizational patterns as they relate to the implementation of national foreign trade policy. The findings of that study underscore the need to restructure the Ministry of Commerce and Industry so that it would be capable of dealing with all commercial and industrial matters at the national and international levels, thus merging into one entity the various foreign trade functions that are currently scattered among a number of different institutions.

Under Act No. 53 of 1998, the Government of Panama has sought to integrate the institutional structure of foreign trade activity by assigning duties relating to foreign trade to the Ministry of Commerce and Industry and creating two vice-ministries: the Vice-Ministry of Domestic Commerce and Industry and the Vice-Ministry of Foreign Trade. The objectives of these measures are to consolidate initiatives aimed at attracting foreign investment and to promote the country's exportable supply and the cause of trade liberalization.[156] The law assigns the Ministry of Commerce and Industry new duties, including the design, coordination and execution of national foreign trade strategy, the representation of the Government in international forums and agencies concerned with international trade, and the task of serving as a liaison for such organizations.

(c) Measures applied in importing countries

Costa Rica

During the reference period –between July 1997 and July 1998– no anti-dumping or countervailing measures were taken against Costa Rican products. An anti-dumping investigation of a Costa Rican producer of steel rods has been opened, however, by Nicaragua. The 10% countervailing duty that El Salvador has imposed on Costa Rican milk continues in effect.

Guatemala

Exports of Guatemalan, Chilean and Mexican raspberries to the United States have been the object of allegations concerning health-related problems. In 1997, Guatemala was the second largest supplier of this product to the United States. As a condition for resuming its exports of raspberries to the United States, the latter has stipulated that Guatemala must implement a pilot plan for the maintenance of quality standards, health inspections and monitoring of production and processing facilities.

Honduras

During 1998 the United States imposed trade sanctions on Honduras under which it suspended some of the benefits of the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative in reaction to Honduras' failure to protect intellectual

156 Published in the *Gaceta oficial*, No. 23.593 of 24 July 1998.

property rights and royalties of United States firms in relation to various television programmes. The sanction, which took effect on 20 April 1998, consisted of the suspension of US$ 5 million worth of benefits pertaining to exports of cucumbers, watermelons and tobacco products. In addition, Nicaragua lodged a safeguard complaint against non-chocolate candy produced by Honduras in which it argued that harm was being caused to local industries.

Panama

On 28 November 1996, the United States applied a safeguard surtax on straw broom exports from Panama which is to remain in effect for at least three years. Panama had been assigned a duty-free quota of 41,000 dozen brooms as part of the Caribbean Basin Initiative. Exports above that amount are subject to a specific duty of US$ 0.32 per broom.

F. THE CARIBBEAN COUNTRIES

1. Trade in goods and services and the trade balance

Caribbean exports are concentrated in a few products, with some of the most prominent ones being petroleum and petroleum products (Trinidad and Tobago), bananas (the Organization of Eastern Caribbean States (OECS), especially Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, and Dominica), aluminium (Jamaica), bauxite (Guyana, Jamaica and Suriname) and sugar (Cuba, Dominican Republic, Guyana, Saint Kitts and Nevis, and Trinidad and Tobago). This concentration makes these economies more vulnerable to the effects of changes in the international situation and natural disasters. Manufacturing exports are limited to the Caribbean Community (CARICOM). EPZ (*maquila*) exports are the only products directed towards the United States and European markets, to which they have preferential access thanks to agreements such as the Caribbean Basin Initiative and the Lomé Convention. The bulk of the islands' service exports are accounted for by tourism, and exports of (offshore) financial services are based mostly in Aruba, Bahamas and some of the OECS countries.

The trade deficits registered by most of the Caribbean countries in 1997 were a reflection of weakness in the export sector as well as the strength of imports. Earnings from banana exports fell 15% for Belize, Dominica, Grenada, Jamaica, Saint Lucia, and Saint Vincent and the Grenadines.[157] Sugar exports fell 7% (Barbados, Belize, Guyana, Jamaica, Saint Kitts and Nevis, and Trinidad and Tobago), but the value of the Dominican Republic's sugar exports rose 21%.[158] Foreign sales of Jamaican bauxite fell slightly (6.4%), with a reduction in volume as well (from 3,918,000 to 3,641,000 tons), but this was offset by the increase in aluminium exports from 607 million to 653 million dollars, which was accompanied by an increase in export volume from 3,253,000 tons to 3,414,000 (ECLAC, 1998g, p. 49).

Tourism revenues rose 7% for the region as a whole, but the increase in trade registered on the services account was not large enough to offset the merchandise trade deficit. A sharp upswing in the number of tourists was seen in Cuba (17.5%), Trinidad and Tobago (22%) and Saint Vincent and the

157 According to data compiled by ECLAC subregional headquarters for the Caribbean, the value of Saint Lucia's banana exports fell from US$ 47 million to US$ 28 million between 1996 and 1997 due in particular to a decline in volume from 105,000 to 71,000 tons; in Saint Vincent and the Grenadines, banana exports fell from US$19 million to US$14 million, also as a result of a decrease in volume (ECLAC, 1998g, p. 49).

158 The value of Guyana's sugar exports fell from US$ 151 million to US$ 133 million between 1996 and 1997, with export volume dropping from 280,000 to 275,000 tons; sugar exports from Trinidad and Tobago slipped from US$ 44 million to US$ 38 million, with a reduction from 72,000 tons to 70,000 tons during the same period (ECLAC, 1998g, p. 49).

Grenadines (12.5%). Just the opposite occurred, however, in the cases of Montserrat, Guyana, Belize and the Bahamas, although the Bahamas still receives more visitors than any other island (ECLAC, 1998g, p. 41).

Cuba's trade balance for goods and services deteriorated considerably in 1997, mainly because of higher imports and the poor performance of sugar and nickel exports. In the case of sugar, there were reductions in both the volume shipped (-17%) and in prices, while in the case of nickel, the volume rose but prices fell. On average, the unit value of exports dropped 2.3%, and that of imports 0.8% (mostly because of lower oil and food prices). Growing revenues from tourism and significant foreign investments in the country succeeded in containing the overall deficit, however (ECLAC, 1998g, p. 43).[159]

Exports of goods from the Dominican Republic rose 14.5% in 1997 and imports rose 15%. Due to an increase of 18% in the trade surplus in services, among which tourism and remittances from abroad figure prominently, the country's current account deficit shrank 6%. In Haiti there was a notable reduction in the trade deficit, with exports climbing by 31%, while imports rose a mere 3%. However, since remittances from abroad diminished and transport, freight and other service expenditures rose, the current account deficit increased once again (ECLAC, 1998g, pp. 44 and 45).

2. Trade policy

(a) Measures affecting imports

A comparison of the trade policies of the Caribbean countries is facilitated by the fact that most of them belong to CARICOM, since this largely determines both the current content and future course of their trade policies.[160] Furthermore, all the Caribbean countries except the Bahamas are members of WTO and have therefore consolidated their tariffs at 50% and 70% for manufactures and at 100% for agricultural products.[161]

In general, the Caribbean countries make ample use of tariff and non-tariff measures. As will be discussed further below, phase four of the CARICOM common external tariff reduction programme was to enter into effect in 1998 for all the countries except Belize, which has until the year 2000.[162] This phase calls for tariffs to be brought down to a range of between 0% and 20%, except in the case of agricultural products, which are to carry a tariff rate of 40%. Barbados and Saint Vincent and the Grenadines had already completed this phase earlier, and most of the other countries expected to complete it in 1998 (see chapter VII). The Caribbean countries are particularly sensitive to the negative impact that trade liberalization can have on jobs and tax revenues, since it may raise their already high levels of unemployment further and depress fiscal receipts.[163]

159 Recent structural reforms have promoted the decentralization of foreign trade, and by 1997 close to 300 enterprises were authorized to engage in import and export activity (ECLAC, 1998b, p. 191).

160 In July 1997, Haiti became the fifteenth member of CARICOM, but the procedures to be used in order to assist the country in bringing its trade policy into line with the community regime are still under study. Tariffs on goods from the CACM itself were eliminated except for a few products in each country.

161 Haiti signed GATT in 1950, Trinidad and Tobago in 1962, Jamaica in 1963 and Suriname in 1978; most of the other countries have signed in the last 15 years.

162 Article 56 of the annex to the CARICOM treaty concerning the common market allows the least developed countries to suspend the application of CARICOM tariff provisions regarding imports from more developed countries with a view to promoting local industry.

163 As indicated in earlier studies, import duties are still an important source of revenue for the Governments of the Caribbean countries (see ECLAC, 1997a, pp. 125-130).

In almost all the countries, tariffs are ad valorem and levied on a c.i.f. basis. Guyana, however, applies specific duties based on weight, quantity, volume, or a combination of these factors, while the Bahamas uses excise taxes for cigarettes and other products.

Import licenses are required for many products. In some countries (such as Antigua and Barbuda, Belize, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, and Trinidad and Tobago) import licenses are required only for products coming from outside countries, while in others (such as Barbados, Guyana, Jamaica and Suriname), licenses are required for imports from CARICOM countries as well. Only a few countries –Barbados, Grenada, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago– apply import quotas, in most cases to certain agricultural products.

The countries of the subregion also levy stamp taxes and import surcharges of between 3% and 90% as a means of increasing their fiscal revenues. Bahamas, Barbados, Belize, Dominica, Jamaica, Saint Kitts and Nevis, and Saint Vincent and the Grenadines have stamp taxes. Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago apply import surcharges.

(b) Export promotion measures[164]

Some of the Caribbean countries are making an effort to increase the coherency of the incentives they offer to the private sector in order to diversify their exports. One such country is Suriname, and the United Nations Development Programme (UNDP) and the World Bank are providing support for this initiative. The Government of the Netherlands is also cooperating with the Government of Suriname in a project aimed at creating a local quality control institute. Other donors, such as the Government of Belgium and a European development fund, are collaborating to set up a training centre for small and medium-sized enterprises (SMEs). In addition, the National Development Bank is being restructured with assistance from the European Investment Bank so that it will be better able to serve the needs of SMEs.

Trinidad and Tobago has implemented a performance-based programme of tax and fiscal incentives for exporters that are moving into markets outside the CARICOM area. The country’s strong and innovative banking system provides a variety of lines of credit for exports, including financing for pre-shipment and post-shipment activities (Gordon, 1998, pp. 11-15). Barbados, which has one of the most successfully managed economies in CARICOM, also provides tax and fiscal incentives for exports outside of the CARICOM area. The most important institutions in this respect are the Central Bank of Barbados, the Small Business Association and the Export Incentives and Support Program.

The member countries of the Organization of Eastern Caribbean States (Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines) are in need of support for their efforts to promote the development of SMEs and to gain readier access to secure sources of financing. In Saint Lucia, the Ministry of Commerce and Industry has created a Small Business Development Unit in order to help small businesses prepare to operate in a more open economy.

164 This section is based on Gordon (1998).

Chapter IV

EXPORT PROMOTION POLICIES IN THE NEW INTERNATIONAL CONTEXT

Introduction

The countries of Latin America and the Caribbean are at a turning point with regard to export promotion policies. This is due, first of all, to the priority which until recently was accorded to macroeconomic and trade policy reform, and to the belief that the new policies, by reducing the anti-export bias and making it possible to achieve correct macroeconomic prices, would therefore be sufficient to stimulate exports. Although exports effectively increased due to the new policies and declining demand in domestic markets, the reforms were not sufficient to eliminate the anti-export bias. Currently, as a result of exchange rate appreciation and the recovery of domestic demand in several countries of the region, many Governments are searching for the best way of promoting the sustained growth of non-traditional exports. In addition, negotiations towards the creation of the Free Trade Area of the Americas (FTAA) have underlined the need for reformulating export promotion policies in most of the countries of the region.

At the same time, due to the globalization of world trade and its repercussions on the increasingly competitive situation which companies must face in both internal and external markets, the Governments and private sectors of the region have become more aware of the need for trade promotion systems designed to help companies face the challenges of the coming years.

The commitments undertaken by the countries of the region in the framework of the Uruguay Round have also pointed to the need for a new generation of export promotion policies. The new rules of multilateral trade, which provide developing countries with greater access to trading opportunities and an equitable system for settling disputes, have also had a major influence on the subsidizing of exports of non-agricultural products (see chapter VIII).

However, the need for new export promotion policies is far from being the same throughout the region. Some countries require major reforms in this area, while others, whose policies are already well advanced, only require minor changes to make them more efficient and compatible with the Uruguay Round agreements. In some Caribbean and Central American countries, for example, significant changes will have to be made –and in some cases are currently being made– in export promotion policy, whereas in countries such as Chile only minor changes are necessary, although they are bound to have a substantial impact on the exports of smaller companies. In Mexico, on the other hand, the current export promotion system is already highly efficient and fully compatible with the standards of the World Trade Organization (WTO).

This chapter contains a wide range of recommendations on the subject, which must be adapted to the specific needs of each country, in accordance with policy priorities. The first section lists the main reason for creating an export promotion policy. The second section presents several measures for reducing the anti-export bias, and the third describes a number of export promotion policies.

A. REASONS FOR AN EXPORT PROMOTION POLICY

The first aim of an export promotion policy is to overcome the anti-export bias. Although it has been on the wane over recent years in the countries of Latin America and the Caribbean, the bias still persists to one degree or the other, mainly in the form of import duties; it has also been reinforced by non-tariff duty barriers and by other obstacles commonly faced by exporters. Also, the absence of policies which stimulate competition in the domestic market often makes it more profitable for a company to sell its products at home rather than abroad.

Second, companies which are pioneers in exporting new products or to new markets generate positive externalities which benefit other domestic companies. When pioneer companies export, they incur higher costs than those which follow them, both because of the greater risk of failure and because they are often forced to test their products in several markets before meeting with success. This means that the companies which simply follow in the footsteps of the pioneer companies benefit from the positive externalities they generate and prevent them from reaping the full reward of their initiative. This means that private investment in pioneer exports will be sub-optimal unless a policy is created to stimulate these initial ventures.

Third, export activity leads to greater economies of scale, and this has become an increasingly important factor in the theoretical models of international trade developed over recent years. Although traditional theoretical models (based on assumptions such as perfect competition, constant returns to scale, perfect information and homogeneous products) can still be used to explain a large portion of world trade flows, they are less efficient with regard to some of the situations which are being created by the current growth of trade between countries having similar comparative advantages (Ethier, 1979; Brander and Spencer, 1985; Krugman, 1990, among others).

Ocampo (1993) maintains that the models of the new trade theory are of interest to developing countries, because they support the prediction that a liberalizing trade between developing nations will enable them to benefit simultaneously from traditional economies of scale and from economies of growth and specializaton. In fact, one of the causes of the sharp increase in trade –especially in non-traditional products– over recent years is the fuller use of economies of scale, and this has led to the creation of a wide range of trade agreements between the countries of the region (Devlin and Ffrench-Davis, 1998).

This is another reason to develop an export promotion policy, since these models stress the importance of external markets for developing countries, most of which have relatively small internal markets.[165] In other words, in industries where economies of scale are potentially significant, exporting companies should be given temporary assistance, since they can create major economies of scale by selling their products abroad.

Fourth, exporting offers companies excellent opportunities for acquiring experience, because it enables them to learn faster than if they confined

165 One of the policy recommendations which emerge from these new models for industrialized countries is known as the “strategic trade policy”, in which protectionist barriers are lifted at certain times for certain sectors, in order to allow national companies to achieve economies of scale and thus increase their productivity. The recommendation, modeled on industrial and trade policies which have been applied in recent decades in Japan, has been the subject of heated debate, particularly in the United States.

themselves to the domestic market.[166] Foreign markets subject exporting companies to intense competition and make greater demands on them than domestic markets, while giving them the chance to enlarge their knowledge of the standards applied in countries other than their own.

This was demonstrated in a survey carried out by ECLAC in Brazil, Chile, Colombia and Mexico, on companies which export manufactured products. It showed that the companies had undergone an important learning process, because exporting forced them to alter their production, organization and distribution methods in order to adapt to the best international practices (Macario, 1998a). In other words, exporting enables companies to learn about international standards and what they must do to comply with them, thus improving their productivity. Therefore, one of the most effective ways of increasing productivity is to support exporting companies, since they learn more quickly when they venture into foreign markets.

In conclusion, the main reasons for creating an export promotion policy are to eliminate the anti-export bias, to support for pioneer companies exporting new products or exporting to new markets, and to enable exporting companies to benefit from economies of scale and increase their learning opportunities.

B. POLICIES TO REDUCE THE ANTI-EXPORT BIAS

The anti-export bias is best countered by lowering import tariffs, which should be based not only on previous rates but on the current tariff levels of other economies. Second, non-tariff barriers and other obstacles to export –which still persist in most of the countries of the region– should be reduced to a minimum. However, since this problem is of a more general order than the specific field of export promotion, it will not be analysed here in detail.

Another general recommendation is to simplify export procedures. The first thing to be done, especially in countries which have just begun to reform their export promotion system, is to examine meticulously all the administrative steps required for exporting, in order to weed out the unnecessary procedures, thus retaining only those which are truly necessary, and make them simple and efficient. These improvements are not costly, but they require firm political determination, since there may be attempts to defend entrenched bureaucratic prerogatives.

The second measure is to concentrate all administrative procedures in a single location exclusively devoted to exports. This does not mean that all the trade, treasury and customs departments must be merged into a single administrative unit, but rather that the offices of all these agencies should be centralized in a single place, so that the necessary procedures can be carried out at once, without forcing the exporter to endure time-consuming bureaucratic procedures. Also, communication between the various government bodies is improved when the various offices which serve the exporter are located in the same place, and this reduces the amount of red tape and the need for making double and triple copies of each document.

Simplification of procedures means that the necessary steps should be as simple as possible; the necessary information should be easily accessible and transparent; the procedures should be swift; and whenever possible, approval should be automatic rather than discretionary. As we have said, all paperwork should be handled in a single place, and once the necessary improvements in procedures have been made, no further modifications should be made to the main instruments, so as to keep information costs to a minimum.

166 Krugman (1987) presents a model which stresses the importance of the learning curve in a country's productive specialization.

Other means of reducing the anti-export bias which fall more directly within the purview of the agencies involved in export promotion are those that provide exporters with access to inputs of competitive price and quality. Although these are not export promotion tools per se, they have that effect, because they eliminate some of the sources of the anti-export bias. Among the key tools for facilitating access are drawback systems and the suspension of import duties for exporters.

Access to competitive inputs is facilitated first and foremost by means of a drawback system, which enables the exporter to recover the import duties paid for imported inputs. This is not, as is sometimes claimed, an export promotion too per se, although it must operate as an authentic import duty refund rather than as an export subsidy (see chapter VIII). It is simply a mechanism for protecting the exporter from paying double import duties, in the country of origin and in the country of destination, meanwhile reducing the anti-export bias.

However, this mechanism should function swiftly and simply, with a minimum of red tape. The exporter should be clearly informed of the conditions which he must satisfy in order to benefit from it; the money allocated to the refund should, if possible, not be used to solve short-term problems of a fiscal nature, as has often occurred in the region. Lastly, as is currently being done in Mexico, mechanisms should be created for refunding import duties and other taxes levied on indirect exporters (companies that sell inputs to the direct exporters). Such mechanisms are essential for building backward linkages and increasing the beneficial effect of exports on the national economy as a whole.

Furthermore, in order to encourage a greater number of companies to become involved in exporting on a permanent rather than an occasional basis, there should be a system for temporarily exempting companies from the payment of import duties on inputs necessary for the production of export products. This is especially important for small and medium-sized companies, which usually have limited working capital. The temporary suspension of import duties has especially important advantages over the drawback system in countries with high rates of inflation and unpredictable exchange rates. It has been observed that a large part of the export success of the countries of South-East Asia (Rhee, 1985) and Mexico has been due to the temporary suspension of import duties.[167]

However, this type of system can only be effective if the Government is able to strictly control any abuses (for example, by companies which benefit from the exemption to import inputs for the production of goods for the local market). Furthermore, access to this instrument should be as automatic as possible, with a minimum of individual discretion in granting it. Companies which export regularly should be able to perform the necessary procedures easily. As has been seen in Mexico, where drawback formalities have been reduced compared with other countries, this encourages many more companies to take advantage of the related benefits.

The net result is that the anti-export bias in the countries of the region can be significantly reduced by simplifying the procedures required of exporters, and by setting up efficient drawback and import duty suspension systems for direct and indirect exporters.

However, countries wishing to make a greater effort to promote exports should consider two types of policies. The first are productive development policies, which have the effect of increasing firm productivity and export supply. Over the long term, these are the factors that are most important in creating permanent export capacity. The effectiveness of such policies is indicated by Chile's decision to give them priority in the framework of its new competitiveness policies (Macario, 1998b). The application of the new WTO rules regulating export subsidies, whether they

167 The temporary suspension of import duties is compatible with WTO standards, since it does not constitute an export subsidy, but only a tax exemption, the purpose of which is to avoid double taxation.

are appealable or not, will also contribute to the growing importance of development policies (see chapter VIII). However, these policies will not be dealt with here because they do not belong to the specific area of promotion policies.[168] The second type of policies are those specifically designed to promote exports: they are described below.

C. EXPORT PROMOTION POLICIES

The support programmes in the areas analysed in this section can be administered directly by the public sector, or, as is done in several countries of the region, by business associations or private sector organizations contracted through public bidding to manage funds for this purpose. However, regardless of the type of institutional arrangement which is chosen (in accordance with the institutional capacity of the government agencies, the business associations or the private sector) the exporters must receive support in the areas which are described below.

1. Information

Companies must obtain the necessary information before venturing into a foreign market. The exporting company must first obtain information on the export procedures and export promotion benefits in its home country. Next, it will need information on the potential foreign markets, on tariff and non-tariff barriers in the target countries, on the standards with which products must comply to be sold on the foreign markets, on prices, export contacts, distribution channels, legislation in the target country, terms of payment, and so forth. This information must be constantly updated to allow for changes in the parameters, particularly as the result of the many trade agreements being concluded in the region and other parts of the world.

The countries of the region where easy access has been provided to updated information on external markets are also those where the number of exporting companies has most sharply increased. The Government of Mexico, through its Ministry of Commerce and Industrial Development (SECOFI) and the Banco de Comercio Exterior (BANCOMEXT), and the Government of Chile, through its Export Promotion Office (PROCHILE) and the Association of Exporters of Manufactures (ASEXMA), have given dissemination of information top priority in their export promotion policies. But in other countries of the region it is almost impossible to obtain information on external markets, either from government agencies or business associations. In these countries, the companies must rely on their own efforts to obtain the information they need in order to begin exporting (see chapter VIII).

2. Support for participation in trade fairs

Participation in trade fairs is useful for companies that wish to export because it enables them to exhibit their products and find customers. They are also useful for companies that do not exhibit products, because they provide an excellent opportunity to make contacts, obtain information on the current trends in the international markets and learn of the latest developments in manufacturing techniques.

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168 For more details on productive development policies in Latin America and the Caribbean, see Peres (1997) and Ramos (1997).

Government support for participation in trade fairs has been widely used in the region to promote exports. Nevertheless, experience has shown that this approach does not always provide positive results, due to the lack of specific information on the characteristics of the fairs themselves. For example, many footwear trade fairs are held throughout the world. Some of these specialized in large-scale production deals with United States department store chains, which means that they are of little value for companies with low production outputs. This is why government financial aid should be carefully targeted, so that the right companies and products go to the right fairs, thus saving government funds and business managers' time.

One way of avoiding this risk and making better use of government money is to organize fairs by sectors in the home country, in order to present a full range of national products to international buyers. This approach –which has been used in Colombia, among other countries– has yielded excellent results for the participants, as it has enabled a large number of companies to get started in exporting.

Giving greater support to companies organized by sectors has also proven to be highly effective because, apart from the other benefits of participating in fairs, it encourages interaction and collaboration between the company managers who travel together. One example of this are the committees of companies organized in Chile by PROCHILE and various business associations, as well as the so-called export units which have been created in Colombia. Furthermore, the business trips can also provide an opportunity for visits to factories of special technological and organizational interest to the company managers (Ramos, 1997).

3. Export financing and insurance

Adequate financing support for exports is a key component of any export promotion policy. In order to obtain orders from foreign companies, it is extremely important to be able to offer the potential buyers financial terms comparable to those offered by firms in other countries. In fact, one of the reasons for which the companies in the region sometimes are not awarded contracts is that they are unable to provide financing to the importers. Although in some countries of the region, such as Brazil, Chile, Colombia and Mexico exporting companies receive financial support, either public or private, in most of the other countries financing agencies, where they exist, have practically no impact on exports.

This situation is even more serious in those countries in which most companies are not even able to obtain long-term loans for their domestic sales, owing to insufficiently developed local capital markets. Clearly, companies which have trouble obtaining credit to finance their domestic business will find it even harder to obtain loans for export, since it would be impossible to attach the property of the buyer in case of non-payment.

It should be made clear that such support does not mean that the loans should be subsidized, since this would run counter to WTO rules and would constitute an improper allocation of public resources. However, exporters must have access to loans for purposes of operating capital and customer credit at rates which are internationally competitive. The main problem is not the rates in themselves –as long as they are reasonable– but how to ensure the region's exporters access to export credit. This applies especially to small and medium-sized companies, since the large companies have less difficulty in obtaining credit, both at home and abroad. These loans can be granted using several methods, for example, financing through a major government bank specialized in this area of activity, such as BANCOMEXT, or the allocation of funds to a privately-owned bank, which deals directly with the exporters, as occurs in Chile.

Furthermore, there must be mechanisms for the insurance of exports, against both political and commercial risks. The cost implicit in the acquisition of the information necessary for insuring exports can be partially covered thanks to the increasing cooperation among the region's export insurance agencies.

4. Specific export promotion programmes

When a Government decides to increase its support for exports, it can choose from several options, which will be described below. However, it should be understood that even the most effective specific programme cannot make up for the failure to apply the policies described earlier. Therefore, the following proposals should be considered supplemental options, to be used after the basic requisites have been met.

The first option consists of a number of measures which have the effect of further simplifying export procedures. One example of this is the Cooperation Programme with Heavily Exporting Firms (ALTEX), which is designed to simplify administrative procedures for Mexican companies which export large volumes or a considerable portion of their total output.

Another similar option is to establish a programme which advises small and medium-sized companies on the administrative procedures which they must comply with in order to export their first shipments. This can prove especially useful in countries which will have to replace export subsidies with drawback of import duties in order to comply with WTO standards. It is highly likely that small and medium-sized firms will have more difficulty than large ones in learning to present the information required for the approval of the drawback.

There is a new line of activities more directly within the sphere of export promotion agencies which is gaining increasing importance, and consists in helping exporting firms to establish a permanent presence outside the country. This method can take various forms. Colombian companies, for example, can obtain assistance from the network of offices the Export Promotion Office (PROEXPORT) has set up outside the country; Mexican companies are similarly assisted by BANCOMEXT. Another method is that of PROCHILE, which offers credit and technical support to help business associations, organized by sector, set up offices outside the country.

Moreover, although the new rules which govern international trade under WTO (which will be analysed in chapter VIII) restrict most export subsidies, it is still possible to establish export promotion programmes. In fact, horizontal subsidies aimed at providing assistance of a pre-competitive type or to regions which are disadvantaged by comparison with the national average, are –like subsidies which encourage the use of technologies which protect the environment– not appealable.

Furthermore, it is still possible, under the *de minimis* clause, to carry out some specifically export-oriented projects. This clause calls for the termination of countervailing duty investigations against a developing country that is a member of WTO when the subsidy for the export of the product is not greater than 2% of its unit value. The same applies when the volume of the subsidized imports represents less than 4% of the total imports of the product in the importing country, unless imports of the product from developing countries collectively represent over 9% of the importing country's total imports of the product (GATT, 1994; Tussie, 1997).

This provides sufficient leeway for the use of mechanisms which, at low cost, support pioneer exports (of new products or to new markets). It is also possible to set up small projects in productive branches which are felt to have export potential, in order to create enterprises which have a demonstration effect for new export products, as in the case of the Chile Foundation, which promoted salmon exports in the 1980s.

Before proceeding to execute any of these programmes, it is important to ensure that they are in line with the following parameters, namely, that the support is:

(i) Moderate, in order to attract companies which are willing to share the cost of the project because they believe they have good chances of succeeding, rather than companies which simply want to take advantage of the subsidy;

(ii) Focused on exports to new markets or of new products, creating incentives for companies to take a qualitative leap forward in their export activity;

(iii) Temporary, for a relatively short period –for example, three years– pre-set in advance, so that the support is only for the initial activity and does not risk becoming a permanent subsidy without which the company is unable to survive or continue exporting;

(iv) Evaluated by independent bodies, so that it can be modified, if necessary, or abandoned if it is not producing results;

(v) Allocated and administered jointly by the State and the private sector (for example, by associations of exporters), or exclusively by private entities selected by public bidding;

(vi) Strictly compatible with WTO standards.

In conclusion, there is an urgent need to reduce the anti-export bias and create a free trade system for domestic companies, both of which are priority objectives for countries that wish to promote exports. None of the aforementioned programmes can completely eliminate the anti-export bias caused by levying import duties that are high by comparison with the average in the major markets, or by imposing other obstacles, such as non-tariff barriers, export restrictions, constraints on competition in the domestic market and overvalued exchange rates.

Chapter V

THE STRUCTURE OF LATIN AMERICAN IMPORTS IN THE 1990s

In the 1990s, the foreign trade of Latin America has been characterized by considerably greater growth in imports than in exports, which has translated into a continuous build-up of trade and current account deficits. Between 1990 and 1995, the region's exports grew in volume at an average annual rate of less than 8%, while imports grew at an annual rate of nearly 13% (ECLAC, 1998a, table I.1, pp. 42 and 43). Of the 16 Latin American countries studied here, only Ecuador and Venezuela have consistently had trade surpluses throughout the last eight years (see tables V.1 and V.2).

In the 1980s, in the midst of the international liquidity crisis, the countries of the region reduced their imports sharply as they strove to maintain a positive trade balance and cope with their external debt commitments. This recessive adjustment thus put a brake on imports, and its effect was reinforced by exchange rate devaluations and tariff and administrative controls.[169] In the late 1980s and early 1990s, the severe restrictions on imports were lifted, but the effect of this was not immediately reflected in the trade balance because of the recessionary macroeconomic situation that still prevailed in many countries (see table V.1).[170]

Imports have played a considerable part in the industrial restructuring of Latin America, as the region has been using imported inputs and capital goods in the technological modernization of its industrial base. This has been shown in various studies, in which it can be seen that the opening up of trade and the new regime of incentives and regulations associated with it have triggered a far-reaching process of industrial restructuring. Conspicuous features of this process have included changes in the productive specialization of the countries and a greater use of imported inputs in local production. Another feature has been a series of major changes in the equity structure of many industrial sectors in which local firms have been unable to compete with similar imported products.

For example, according to a recent analysis, Latin American manufacturing has been shifting its emphasis towards the food sector and industrial commodities and away from metal manufactures and machinery, capital goods and consumer durables. Hence, as shown by this analysis, industry has ceased to exhibit the high degree of vertical integration that it did in previous decades because, given the lower cost of importing parts, components and partially assembled inputs, that kind of structure is no longer profitable. In other words, many firms have significantly increased the ratio of imported elements they use in the production of consumer or capital goods by substituting equivalent imports for the parts and components that used to be produced in the country, either by the same firm or by other local enterprises. At the same time, in Argentina, Chile and

169 Between 1980 and 1985, real GDP grew on average by 0.6% a year and exports by 5.5%, while imports fell to an average annual rate of 5.9%. Between 1985 and 1990, GDP grew on average by 1.9% a year, exports by 5.1% and imports by 6.4% (ECLAC, 1998a, pp. 42 and 43).

170 In the early 1990s, the countries of Latin America completed or intensified their trade liberalization process by sharply reducing both tariffs and the dispersion of effective levels of protection (ECLAC, 1998a, table V.1, p. 151).

Table V.1

LATIN AMERICA: TRENDS IN THE TRADE BALANCE, BY COUNTRIES AND GROUPS OF COUNTRIES, 1965-1997

(Millions of dollars)

	1965	1970	1980	1990	1992	1993	1994	1995	1996	1997
Mercosur [a] and Chile	924.9	270.7	-8 773.4	18 375.5	10 026.2	4 567.0	-418.0	-9 103.4	-14 346.5	-18 358.4
Argentina	299.1	84.6	-2 520.1	8 274.9	-2 628.7	-3 658.5	-5 777.8	840.9	48.1	-4 086.3
Brazil	499.1	-105.9	-4 816.8	8 939.7	13 617.5	11 391.1	7 849.7	-7 590.3	-9 568.3	-12 596.3
Chile	83.7	303.5	-539.2	1 269.8	190.9	-1 473.2	-89.3	627.1	-1 830.8	-1 814.7
Paraguay	2.4	-11.2	-304.5	-389.9	-763.9	-962.8	-1 607.8	-2 216.6	-2 064.4	...
Uruguay	40.8	-0.4	-592.9	281.2	-389.7	-729.6	-792.8	-764.6	-931.1	-1 002.1
Andean Community	1 460.8	1 847.2	9 245.3	14 430.4	1 188.2	259.1	3 680.8	1 439.6	9 145.9	15 224.5
Bolivia	-4.9	66.3	381.6	229.1	-338.2	-422.0	-177.3	-336.8	-514.1	-704.0
Colombia	85.6	-115.2	-717.6	1 176.5	231.8	-2 386.1	-3 056.8	-3 710.4	-2 379.1	-3 924.2
Ecuador	-33.1	-83.0	265.5	909.5	534.8	407.9	152.0	70.9	1 029.4	638.4
Peru	-52.5	422.7	692.2	678.8	-797.6	-1 097.0	-1 577.7	-2 607.1	-2 721.3	-2 443.4
Venezuela	1 465.7	1 556.5	8 623.7	11 436.5	1 557.3	3 756.4	8 340.7	8 023.0	13 731.0	...
Mexico	-553.9	-1 255.3	-4 149.1	-3 309.0	-15 761.6	-13 355.6	-18 662.4	6 977.7	6 120.9	-1 948.0
CACM [b]	-140.8	-138.9	-1 557.0	-2 498.9	-4 109.6	-4 615.1	-4 605.2	-5 064.2	-5 028.8	-5 330.8
Costa Rica	-66.4	-85.5	-564.9	-821.9	-961.9	-985.1	-784.9	-483.3	-766.4	...
El Salvador	-13.7	14.7	-255.8	-492.5	-982.3	-1 143.4	-1 448.9	-1 642.2	-1 646.5	-1 608.8
Guatemala	-43.2	5.9	-72.9	-485.8	-1 165.9	-1 329.4	-1 144.7	-1 356.9	-1 115.5	-1 507.9
Honduras	4.6	-50.9	-195.2	-388.9	-320.3	-641.4	-721.8	-1 072.6	-1 077.6	-1 402.0
Nicaragua	-22.1	-23.1	-468.0	-309.8	-679.3	-515.9	-504.9	-509.2	-422.9	-812.1
Total	**1 691**	**724**	**-5 234**	**26 998**	**-8 657**	**-13 145**	**-20 005**	**-5 750**	**-4 109**	**-10 413**

Source: ECLAC, on the basis of official figures (see footnote 171).
[a] Mercosur = Southern Common Market.
[b] CACM = Central American Common Market.

Mexico a sharp decrease in local production has been observed in areas involving more value added, in-house engineering and technological development (Benavente et al., 1996).

Trade liberalization, the relative decline in the prices of imported products and the growth of the Latin American economies in the 1990s have prompted an upswing in imports of consumer and capital goods. By permitting the countries to renew their stock of capital goods, this trend has posed new challenges and opened up new opportunities for the region's producers and exporters. While it is true that some sectors and firms in Latin America have succeeded in meeting these challenges and taking advantage of these opportunities, the fact remains that the increased use of imported inputs makes it harder to adjust the countries' current account deficits without harming production and exports.

The purpose of this chapter is to trace the trends to be observed between 1990 and 1997 in the imports of the 16 countries of Latin America for which systematic information is available. The changes in the trade profiles of these countries will then be examined using the methodology developed by Guerrieri (1994).

Table V.2

LATIN AMERICA: TRENDS IN THE TRADE BALANCE, BY COUNTRIES AND GROUPS OF COUNTRIES, 1965-1997

(Percentages of total trade)

	1965	1970	1980	1990	1992	1993	1994	1995	1996	1997
Mercosur [a] and Chile	13.0	2.3	-11.4	20.2	9.1	3.7	-0.3	-5.0	-7.4	-8.5
Argentina	11.1	2.4	-13.6	50.4	-9.7	-12.2	-15.5	2.0	0.1	-7.2
Brazil	18.5	-1.9	-10.7	16.6	23.4	17.3	10.0	-7.6	-9.2	-10.7
Chile	6.5	14.0	-5.6	8.3	1.0	-7.5	-0.4	2.1	-5.8	-5.3
Paraguay	2.1	-8.0	-32.9	-16.9	-36.8	-39.9	-49.6	-54.7	-49.7	...
Uruguay	11.9	-0.1	-21.9	9.0	-10.7	-18.5	-17.2	-15.4	-16.3	-15.6
Andean Community	20.1	20.7	18.2	29.4	2.2	0.4	5.7	1.9	11.4	20.1
Bolivia	-1.9	17.2	22.6	14.2	-18.1	-22.3	-8.1	-13.8	-19.1	-23.3
Colombia	8.6	-7.3	-8.3	9.5	1.7	-13.8	-14.7	-15.4	-9.8	-14.6
Ecuador	-11.2	-17.9	5.7	20.1	9.7	7.4	2.1	0.8	12.1	6.6
Peru	-3.8	25.4	11.9	11.4	-11.2	-14.9	-16.3	-20.8	-20.7	-16.7
Venezuela	33.9	32.2	28.8	46.4	5.8	14.3	34.2	27.1	43.5	...
Mexico	-21.6	-34.2	-11.8	-5.9	-14.6	-11.4	-13.4	4.6	3.3	-0.9
CACM [b]	-8.6	-6.0	-14.8	-24.2	-30.7	-32.0	-29.5	-27.2	-25.5	-33.1
Costa Rica	-22.9	-15.6	-21.5	-22.0	-20.9	-20.2	-15.0	-8.2	-12.1	...
El Salvador	-3.5	3.3	-15.1	-37.6	-46.9	-44.4	-47.1	-45.5	-44.6	-37.3
Guatemala	-10.4	1.0	-2.4	-17.3	-31.0	-33.2	-27.6	-26.0	-21.5	-24.3
Honduras	1.9	-13.0	-10.7	-26.0	-17.9	-32.6	-37.1	-45.0	-38.9	-40.4
Nicaragua	-7.4	-6.2	-36.1	-32.2	-59.9	-51.9	-42.1	-33.7	-24.5	-38.2
Total	**9.1**	**2.7**	**-3.0**	**13.1**	**-3.0**	**-4.2**	**-5.5**	**-1.3**	**-0.9**	**-2.0**

Source: ECLAC, on the basis of official figures.
[a] Mercosur = Southern Common Market.
[b] CACM = Central American Common Market.

All the countries except Mexico were divided into three relatively homogeneous subregional groupings: first, the countries members of the Southern Common Market (Mercosur) and Chile; second, the countries of the Andean Community; and third, the members of the Central American Common Market (CACM). The External Trade Data Bank for Latin America and the Caribbean (BADECEL)[171] of ECLAC and the Standard International Trade Classification (SITC) were used as a basis for the product descriptions. Products were then classified according to the empirical categories developed by the International Trade Unit of ECLAC, which are based chiefly on Guerrieri (1990 and 1994) and Guerrieri and Milana (1990) (see technical notes in ECLAC, 1996, pp. 217 to 225).

This taxonomy was proposed by Guerrieri (1990), on the basis of work done by Pavitt (1984), as a

171 BADECEL is based on customs tapes that the countries send directly to the Latin American Integration Association (LAIA) and later to ECLAC. These are primary data that are not subsequently adjusted, whereas central banks and other entities responsible for national trade statistics do make such adjustments. Consequently, these data may differ from the trade balance figures used by the countries' Governments.

classification that could be used in analysing the relationship between countries' technological capabilities and their trade performance. The classification subsequently developed by ECLAC identifies five types of industries: (i) primary industry, defined as all agricultural, mining and energy industries whose products do not undergo a subsequent stage of processing; (ii) traditional industry, comprising producers of food, beverages and tobacco, textiles, clothing, leather and footwear, wood, cork, furniture, paper and cardboard, metal manufactures and machinery, and others; (iii) natural resource- and scale-intensive industries, whose products are also categorized as semi-manufactures or industrial commodities; (iv) durable goods industries; and (v) industries that act as diffusers of technical progress, which include capital goods and their components.

A. TRADE BALANCES IN LATIN AMERICA (1990-1997)

The overall trend observed in the trade balances of the subgroup formed by the countries of Mercosur and Chile is largely determined by the figures for Brazil, which maintained a positive balance equivalent to nearly 10% of its total trade until 1994. The introduction in 1994 of the monetary stabilization plan (the *Real* Plan) permitted an expansion in income and an increase in the total amount of goods and services purchased, while the growing overvaluation of the local currency reduced the cost of imported goods. Initially, in the period from March to December 1994, the Government of Brazil turned to external competition as a means of preventing an increase in domestic prices. The 1994 trade surplus gave way to a deficit equivalent to nearly 8% of the country's trade and, in spite of the administrative controls introduced by the Government in the ensuing years, this deficit had climbed to nearly 11% by 1997 (see tables V.1 and V.2).[172]

All the countries of this group except Paraguay had large trade surpluses at the start of the decade, and in the case of Argentina the surplus amounted to more than 50% of its total trade. Later on, from 1992 to 1994, Argentina ran a deficit (of between 10% and 15% of its total trade), but the country again built up a small positive balance in 1995 and 1996, mainly as a result of its transactions with its chief trading partner, Brazil. As can be seen from table V.2, Uruguay's deficit has remained above 15% since 1993, when it reached almost 20%. In Chile, there were deficits of more than 5% in 1996 and 1997.

The average figures for the Andean Community have been strongly affected by the situation in Ecuador and Venezuela, which, as we have seen, have had large surpluses in the 1990s as well as in previous decades. The trade figures of the other three countries in this group show a deficit. In Bolivia, the negative balance was equivalent to more than 22% of its trade in 1993, after which it eased somewhat in 1994 but then gradually increased again, rising to more than 23% by 1997. In Peru, the deficit increased in relative terms from 1992 onward, with a negative balance of more than 20% in 1995 and 1996, although it fell to about 17% in 1997. Colombia began to run a deficit in 1993; its negative balance remained at around 15% of its total trade in the following years, with the exception of 1996 (which was also a year of slow growth for the Colombian economy).[173]

Mexico has been the exception to this rule, since after recording a trade deficit of about 13% between 1992 and 1994, it achieved a surplus of nearly 5% in 1995. In 1996 the surplus was down to a little more than 3%, and in 1997 there was a small deficit. Mexico's special relationship with the United States

172 The relative value is (X-M)/(X+M).

173 In Colombia, average annual GDP growth was around 6% between 1993 and 1995, and fell to 2.2% in 1996 (ECLAC, 1998b, table IV.1, p. 60).

and the changes this has brought about in its foreign trade structure account not only for the trend in its trade balance, but also for the impressive rise in the value of its trade, which has been accompanied by an increase in the relative weight of the manufacturing sector in the country's exports and imports. In 1997, Mexican exports amounted to more than US$ 110 billion, or more than 38% of the region's total exports.

According to various studies, there has been a radical change in Mexico's foreign trade structure as it has shifted away from a trade pattern based on exports of raw materials and a few goods involving little added value and towards one in which high-value-added manufactures play a predominant role, both in imports and in exports. Since the trade liberalization process began in 1985, the growth rate for exports of industrial products, and especially those with the highest value added (e.g., electrical appliances and equipment and electronics, motor vehicles and their parts, and capital goods), has steepened (Salomón, 1997).[174]

The foreign trade performance of the countries of Central America has been characterized by a sustained trade deficit for several decades, and this trend has continued into the 1990s, with even higher percentages being registered at times. On average, the trade deficit of these countries between 1990 and 1996, measured as a percentage of total trade, ranged from a low of 8% in Costa Rica in 1995 to a peak of 60% in Nicaragua in 1992. In 1997, all the CACM countries except Costa Rica had negative trade balances equivalent to over 24% of their total trade.

B. THE COMPOSITION OF IMPORTS OF INDUSTRIAL PRODUCTS

If petroleum and petroleum imports are factored out of the calculations for Latin America, it will be seen that its imports are preponderantly comprised of industrial products (see table V.3).

1. Traditional goods

The category of traditional goods includes finished consumer goods produced by the food, beverage and tobacco industries and by makers of furniture, leather goods and other similar products, as well as the inputs used in these industries (e.g., fabrics, yarns and threads, leather, wood). Trends in Latin American imports of these products have varied over the course of the 1990s but, overall, they have increased as a percentage of total imports of industrial goods (see table V.4).

In the group comprising the Mercosur countries and Chile, the share of traditional goods, which did not exceed 15% of imports in previous decades, has gradually increased in the 1990s, reaching nearly 20% in 1995. The highest coefficients for traditional goods are to be found in Chile, Paraguay and Uruguay, although the share of traditional goods in Brazilian imports of manufactures, which was formerly no more than 10%, had risen to more than 18% by 1995. In the 1960s, imports of traditional goods represented only a small proportion of total industrial imports in the more developed countries, such as Argentina (where they averaged slightly under 14%), Brazil (9.6%), Colombia (9.1%) and Mexico (11.3%). In Chile, the proportion was nearly 25% in 1965, fell to about 18% in 1970, rose to 28% in 1980, fell again in 1990 (to less than 17%), and then rose to an average of 22% in the following years.

174 In presenting its data, the Banco de México breaks down the country's foreign trade into *maquila* exports and imports and other exports and imports. In 1997, *maquilas* accounted for 41% of the value of exports and 33% of the value of imports. The *maquila* sector generated a positive balance of nearly US$ 9 billion, which was, however, offset by a negative balance of nearly the same amount in the rest of the economy (Banco de México, 1998, table IV.2).

Table V.3

LATIN AMERICA: IMPORTS OF INDUSTRIAL GOODS AS A PERCENTAGE OF TOTAL IMPORTS[a], BY COUNTRIES AND GROUPS OF COUNTRIES, 1965-1997

(Percentages)

	1965	1970	1980	1990	1992	1993	1994	1995	1996	1997
Mercosur [b] and Chile	81.2	88.3	87.6	91.5	92.8	93.5	93.7	93.7	92.5	93.3
Argentina	85.8	90.3	94.0	90.1	96.2	96.5	96.9	95.8	95.9	95.3
Brazil	76.1	87.8	83.6	89.7	88.8	90.8	91.3	92.7	90.3	91.8
Chile	81.4	86.3	85.6	95.5	94.2	94.3	93.7	93.7	94.4	95.2
Paraguay	87.2	90.5	96.6	99.1	97.6	97.9	96.9	96.9	94.4	...
Uruguay	74.9	85.3	88.9	91.9	92.4	94.7	93.3	93.1	93.3	94.4
Andean Community	90.1	91.4	91.9	92.3	92.7	93.5	93.4	91.2	91.6	92.2
Bolivia	96.3	96.2	92.9	95.5	95.0	94.9	93.2	93.7	93.5	95.4
Colombia	87.3	92.7	91.0	92.8	89.3	94.1	93.8	88.7	91.3	90.8
Ecuador	92.3	94.8	94.7	93.4	97.3	95.0	96.1	94.6	93.1	94.4
Peru	88.3	86.3	87.6	90.0	89.2	90.7	91.7	92.7	92.1	92.9
Venezuela	91.0	91.7	92.7	92.0	94.5	93.5	92.6	91.8	90.9	...
Mexico	92.3	90.6	86.4	91.6	94.5	95.0	84.9	88.7	91.6	91.8
CACM [c]	92.0	92.4	90.9	88.8	90.7	94.2	93.7	94.5	91.5	93.7
Costa Rica	95.8	91.0	88.6	80.2	83.1	92.8	92.9	92.4	86.6	...
El Salvador	88.1	91.1	88.0	92.4	93.0	95.7	93.2	95.1	93.1	93.0
Guatemala	91.8	92.6	93.8	95.4	96.0	95.4	95.1	95.7	93.3	94.9
Honduras	94.7	94.8	94.0	95.0	94.2	94.5	94.5	95.5	93.9	91.8
Nicaragua	91.0	92.9	89.7	90.0	92.7	91.6	92.8	94.3	93.6	95.5
Total	**87.7**	**90.0**	**88.7**	**91.5**	**93.4**	**94.2**	**89.9**	**91.6**	**92.0**	**92.6**

Source: ECLAC, on the basis of official figures.
[a] Excluding oil imports.
[b] Mercosur = Southern Common Market.
[c] CACM = Central American Common Market..

Several sectoral studies have provided confirmation as to the importance of imports of traditional goods in Chile's production activities. Meller and Donoso (1998) have analysed the relationship between imports and apparent consumption in various Chilean industries. According to their estimates, between 1990 and 1995-1996, this ratio rose from 17% to 30% in the textile industry, from 10% to 35% in the clothing industry, and from 2% to 19% in the footwear industry. A similar study carried out in Brazil indicates that for artificial and synthetic fibre yarns and fabrics, this ratio increased from 1.6% in 1990 to 17% in 1995 and then fell to 9.5% in 1996; in the case of natural fibre yarns and fabrics, the figure rose from 3.9% in 1990 to 15.9% in 1996; and in the footwear industry, it climbed from 0.7% to 6.7% between 1990 and 1996 (Moreira and Correa, 1997, table 2, p. 75).

Table V.4

LATIN AMERICA: IMPORTS OF TRADITIONAL GOODS AS A PERCENTAGE OF INDUSTRIAL IMPORTS, BY COUNTRIES AND GROUPS OF COUNTRIES, 1965-1997

(Percentages)

	1965	1970	1980	1990	1992	1993	1994	1995	1996	1997
Mercosur [a] and Chile	15.5	12.4	15.3	16.4	17.7	18.6	18.5	19.8	19.2	17.4
Argentina	14.0	13.2	19.0	11.0	19.8	19.5	18.5	18.8	17.8	17.7
Brazil	9.6	9.3	8.3	16.8	13.4	15.7	16.1	18.5	17.3	15.2
Chile	24.9	17.6	28.3	16.7	20.7	21.3	21.3	21.7	22.6	22.8
Paraguay	23.1	31.9	21.5	22.7	25.6	25.7	28.4	32.5	33.9	....
Uruguay	22.6	15.2	16.3	17.8	20.9	23.9	25.0	27.0	27.3	27.3
Andean Community	21.4	17.2	18.4	13.9	17.4	17.2	17.6	19.2	20.3	18.9
Bolivia	37.1	32.5	25.2	21.6	21.5	18.4	20.1	18.1	18.5	15.5
Colombia	9.1	11.4	12.3	8.3	13.2	13.1	14.1	16.1	17.3	17.6
Ecuador	22.7	14.2	12.2	11.1	16.7	14.9	15.3	15.5	18.6	18.5
Peru	22.2	20.9	17.9	23.8	23.5	23.6	22.8	21.1	24.2	22.4
Venezuela	23.1	17.8	22.0	15.0	17.7	19.1	20.0	23.3	22.7	....
Mexico	11.3	13.5	15.5	23.1	25.5	25.9	29.1	26.3	24.9	25.0
CACM [b]	34.4	33.7	27.8	22.6	24.9	24.4	25.8	25.6	26.7	29.7
Costa Rica	31.1	30.8	24.9	22.1	23.7	23.5	24.3	23.5	23.7	....
El Salvador	34.0	35.4	39.2	24.1	25.1	25.6	26.7	27.5	28.8	29.6
Guatemala	35.2	34.6	22.0	19.6	21.5	21.4	24.7	23.3	23.8	26.0
Honduras	41.1	36.6	25.7	24.0	26.3	26.0	26.6	27.9	31.0	34.5
Nicaragua	32.1	32.0	35.4	28.0	36.6	33.4	31.4	30.8	30.9	31.3
Total	**19.0**	**16.1**	**17.1**	**18.7**	**21.5**	**21.7**	**23.0**	**22.2**	**21.9**	**21.3**

Source: ECLAC, on the basis of official figures.
[a] Mercosur = Southern Common Market.
[b] CACM = Central American Common Market.

As can be seen in table V.4, the share of total industrial imports accounted for by traditional goods also grew steadily over the decade in the countries of the Andean Community. In 1996, Bolivia, Colombia and Ecuador registered ratios of between 17% and 18%, while Peru and Venezuela reached levels of between 23% and 24%.

In Mexico, the share of traditional goods has been more than 25% in the 1990s, with a peak level of 29.1% in 1994. These values contrast with the figures for previous decades, in which this ratio fluctuated between 11% and a little over 15%.

Appreciable changes also occurred in the percentage of imports of traditional goods in the countries of Central America. Between 1965 and 1990, their share declined in all these countries: in Costa Rica, from 31% to 22%; in El Salvador, from 34% to 24%; in Guatemala, from 35% to 20%; in Honduras, from 41% to 24%; and in Nicaragua, from 32% to 28% (although the figure rose in El Salvador and Nicaragua in 1980). Nevertheless, these ratios have been rising again in the 1990s, reaching an average of nearly 30% in 1997 (see table V.4).

2. Scale-intensive goods

This category includes goods whose production involves substantial economies of scale and an intensive use of natural resources and that are mainly intended for intermediate consumption.[175] In practically all the countries studied, there was a steady, gradual decline in these goods' share of total imports of industrial products. The reduction was especially sharp in the group composed of the Mercosur countries and Chile (although in this case Chile constitutes an exception, since the change in this variable has not been very notable in that country). Indeed, as can be seen in table V.5, these imports have declined in the last few years from the high levels seen in the period 1965-1970 (40% on average) and at the beginning of the 1990s (32%). The same is true for Mexico.

The imports of the countries of the Andean Community have fluctuated less markedly, for although the average figure has declined in the 1990s (from 38% to 31%), the coefficient for 1997 is similar to that of previous decades. Imports of these goods have, however, behaved differently in the subcategory composed of the Central American countries, which, with the exception of Nicaragua, started the decade with high figures –above 40%– and then fell to levels of around 36%, although this was still higher than the levels recorded between 1965 and 1970.

3. Durable goods

The category of durable goods basically consists of finished consumer goods, such as household appliances, electronics and vehicles (but not their parts or engines). Imports of these goods have generally increased since trade has been liberalized, chiefly because of the pent-up demand that had existed as a result of administrative controls and high tariffs.

In the Mercosur countries and Chile, the average share of total imports of industrial goods represented by durable goods rose from 10% to nearly 17% between 1990 and 1994, but then fell back to 15% in 1996 and 1997. The greatest relative increase occurred in Brazil, where the ratio generally fluctuated between 4% and 5.5% throughout the period 1965-1990, rose to nearly 8% in 1992 and then to 15% in 1995, and then slipped to 11% in 1996 and 12% in 1997 after the Government imposed high tariffs and other internal controls in an effort to reduce imports of motor vehicles. In the other countries, the ratio remained around 18% between 1965 and 1997 (see table V.6).

In the countries of the Andean Community, durable goods' share of imports was 9.5% in 1990, rose to 19% in 1994, and then fell to about 12% in 1996 and 1997, one of the lowest levels in the period 1965-1997. In the countries of Central America, the ratios were also slightly higher in 1993 and 1994, but they have not undergone any major changes in several decades.

Mexico is the only country in which the ratio of imports of durable goods fell in the peak year for imports –1994– and again in 1995. The share of these goods in Mexican trade shrank from 17% in 1993 to 9% in 1994 and then levelled off at between 11% and 11.5% in 1996 and 1997.

175 For example, paper, chemicals, rubber, ceramics and building materials, and base metals such as pig iron and iron or steel ingots.

Table V.5

LATIN AMERICA: IMPORTS OF SCALE-INTENSIVE GOODS AS A PERCENTAGE OF INDUSTRIAL IMPORTS, BY COUNTRIES AND GROUPS OF COUNTRIES, 1965-1997

(Percentages)

	1965	1970	1980	1990	1992	1993	1994	1995	1996	1997
Mercosur [a] and Chile	43.9	39.5	36.1	32.3	28.8	28.8	26.6	28.4	27.8	26.5
Argentina	49.2	46.5	27.8	44.0	24.2	21.9	21.4	28.0	27.4	24.8
Brazil	50.3	40.0	47.1	32.6	35.4	36.6	31.4	30.2	29.7	28.4
Chile	26.7	26.4	20.6	26.1	25.2	23.6	23.9	25.2	23.5	22.9
Paraguay	30.6	20.2	31.1	21.0	23.2	23.2	20.7	17.7	21.3	...
Uruguay	38.1	38.8	33.5	38.1	27.6	27.2	29.6	27.0	28.6	26.6
Andean Community	26.3	30.1	31.3	38.2	29.9	27.3	28.7	32.5	30.9	31.0
Bolivia	21.8	23.7	25.6	24.8	24.3	26.2	28.0	27.7	24.2	28.2
Colombia	34.6	33.6	41.8	45.6	44.3	32.4	30.5	35.6	33.9	32.1
Ecuador	30.1	39.5	31.0	41.9	30.9	26.7	28.7	35.0	34.2	35.2
Peru	27.0	33.2	32.2	33.5	28.9	29.8	28.1	28.7	26.9	27.1
Venezuela	23.5	26.3	27.1	34.0	23.3	22.1	26.3	30.7	29.5	...
Mexico	28.0	25.1	29.6	23.7	18.4	17.9	19.4	20.1	19.3	19.8
CACM [b]	28.8	29.9	38.8	41.4	36.1	33.7	34.0	35.8	36.0	32.6
Costa Rica	33.6	32.1	39.9	42.1	38.3	34.7	36.5	39.6	38.1	...
El Salvador	27.7	31.6	33.2	43.7	34.9	30.8	30.5	31.7	33.7	33.1
Guatemala	27.5	30.6	46.5	44.5	38.0	34.1	34.7	36.9	37.0	34.4
Honduras	27.0	25.3	31.4	40.8	38.3	39.3	36.6	35.7	38.1	31.6
Nicaragua	27.4	28.9	36.9	26.2	23.0	24.2	27.2	31.0	28.0	28.3
Total	**32.6**	**33.1**	**33.3**	**31.1**	**24.8**	**24.2**	**24.5**	**26.8**	**25.5**	**24.4**

Source: ECLAC, on the basis of official figures.
[a] Mercosur = Southern Common Market.
[b] CACM = Central American Common Market.

4. Technical progress-diffusing goods

The share of total imports of industrial goods accounted for by the types of goods that serve to diffuse technical progress (mainly capital goods, parts and components) has been remarkably stable during the period under consideration. In the region as a whole the ratio fluctuated between 37% and 40% in the period 1990-1997. The highest coefficients were in the most industrially advanced countries, such as Brazil and Mexico, and the lowest were in the countries of Central America (see table V.7).

The average figures for the Mercosur countries and Chile were higher than the coefficients for the region as a whole. This was mainly because of the high ratios registered in Argentina and Brazil and, to a lesser extent, in Chile, since in Paraguay and Uruguay the proportion was less than 30%. In Mexico these goods increased their share between 1990 and 1997.

In the countries of the Andean Community, the share of imports represented by technical

Table V.6

LATIN AMERICA: IMPORTS OF DURABLE GOODS AS A PERCENTAGE OF INDUSTRIAL IMPORTS, BY COUNTRIES AND GROUPS OF COUNTRIES, 1965-1997

(Percentages)

	1965	1970	1980	1990	1992	1993	1994	1995	1996	1997
Mercosur [a] and Chile	10.5	8.6	11.4	9.6	16.2	16.6	17.0	16.0	14.2	14.9
Argentina	12.8	5.4	15.2	9.9	20.8	20.6	20.3	14.4	16.5	18.5
Brazil	5.4	7.6	4.0	5.5	7.9	11.4	13.5	15.0	11.3	12.0
Chile	11.7	15.2	23.1	14.5	20.5	18.5	17.5	18.7	19.1	18.2
Paraguay	15.1	15.6	17.3	31.6	25.4	24.8	24.0	25.8	18.2	...
Uruguay	15.1	16.2	21.2	14.4	27.4	24.1	20.9	18.8	15.1	16.5
Andean Community	15.7	14.4	15.3	9.5	17.1	19.2	19.3	14.4	12.3	12.6
Bolivia	13.1	12.5	14.9	20.4	18.9	17.2	23.5	18.8	16.7	20.9
Colombia	11.6	15.0	13.6	8.5	8.3	20.0	18.5	10.9	10.2	11.2
Ecuador	15.0	13.0	17.5	9.8	18.4	21.0	28.3	19.5	15.7	13.7
Peru	16.9	10.6	13.0	8.3	19.8	14.5	18.3	17.6	13.0	12.5
Venezuela	16.7	15.8	16.1	9.4	20.2	19.9	16.3	14.0	12.6	...
Mexico	17.0	15.4	15.9	17.1	17.3	17.1	8.7	9.3	11.3	11.5
CACM [b]	10.7	10.3	8.5	10.6	12.6	14.8	14.5	13.5	12.5	12.3
Costa Rica	9.1	11.0	9.2	9.1	12.3	13.6	13.7	10.7	12.6	...
El Salvador	10.4	9.2	4.5	9.7	13.8	15.7	15.9	15.8	11.9	11.2
Guatemala	11.5	9.5	9.7	9.2	13.3	18.0	17.5	17.7	15.0	13.8
Honduras	10.7	12.0	11.4	11.0	10.9	11.3	10.8	9.5	10.0	11.5
Nicaragua	11.6	9.6	5.7	21.3	11.3	11.7	9.8	9.7	11.5	12.3
Total	**13.7**	**11.7**	**13.4**	**12.4**	**16.6**	**17.2**	**13.9**	**13.3**	**12.7**	**13.1**

Source: ECLAC, on the basis of official figures.
[a] Mercosur = Southern Common Market.
[b] CACM = Central American Common Market.

progress-diffusing goods has been relatively low, with the exception of Colombia and Venezuela, where the figures have been higher. In Colombia, the share of these goods fell between 1990 and 1993, but rose again (to 37% and 39%) in the following years.

C. TRADE SPECIALIZATION PATTERNS IN LATIN AMERICA

The indicator that is used here to evaluate trade specialization patterns in Latin America was developed by Guerrieri (1994) and is known as the Indicator of Contribution to Trade Balance, or ICTB. The ICTB measures the relative contribution made by various groups of products to the trade balance; a

Table V.7

LATIN AMERICA: IMPORTS OF TECHNICAL PROGRESS-DIFFUSING PRODUCTS AS A PERCENTAGE OF INDUSTRIAL IMPORTS, BY COUNTRIES AND GROUPS OF COUNTRIES, 1965-1997

(Percentages)

	1965	1970	1980	1990	1992	1993	1994	1995	1996	1997
Mercosur [a] and Chile	30.1	39.5	37.3	41.7	37.3	36.1	38.0	35.9	38.8	41.2
Argentina	24.0	34.9	38.0	35.1	35.3	38.0	39.8	38.8	38.2	39.1
Brazil	34.7	43.0	40.5	45.1	43.3	36.4	39.0	36.3	41.7	44.4
Chile	36.6	40.8	27.9	42.7	33.6	36.6	37.2	34.4	34.8	36.1
Paraguay	31.2	32.3	30.1	24.6	25.8	26.4	26.9	24.0	26.6	...
Uruguay	24.1	29.7	29.0	29.7	24.2	24.8	24.4	27.2	29.0	29.7
Andean Community	36.6	38.3	35.0	38.4	35.6	36.3	34.4	34.0	36.5	37.5
Bolivia	28.0	31.2	34.2	33.2	35.3	38.2	28.4	35.4	40.5	35.5
Colombia	44.8	40.0	32.3	37.5	34.2	34.6	36.8	37.4	38.6	39.0
Ecuador	32.2	33.3	39.3	37.3	34.0	37.4	27.7	30.1	31.5	32.7
Peru	34.0	35.3	36.9	34.4	27.8	32.1	30.7	32.7	35.9	37.9
Venezuela	36.6	40.1	34.9	41.6	38.9	38.9	37.4	31.9	35.2	...
Mexico	43.7	46.0	39.0	36.2	38.9	39.1	42.8	44.3	44.5	43.7
CACM [b]	26.2	26.1	24.9	25.5	26.4	27.2	25.7	25.1	24.8	25.4
Costa Rica	26.2	26.1	26.1	26.7	25.7	28.2	25.6	26.2	25.6	...
El Salvador	27.9	23.8	23.1	22.6	26.2	27.9	26.8	25.0	25.6	26.1
Guatemala	25.8	25.3	21.8	26.7	27.1	26.5	23.0	22.1	24.2	25.8
Honduras	21.3	26.1	31.6	24.2	24.5	23.4	26.0	26.9	20.9	22.4
Nicaragua	28.9	29.5	22.0	24.5	29.0	30.8	31.6	28.5	29.6	28.1
Total	**34.8**	**39.1**	**36.2**	**37.8**	**37.1**	**36.9**	**38.7**	**37.7**	**39.9**	**41.2**

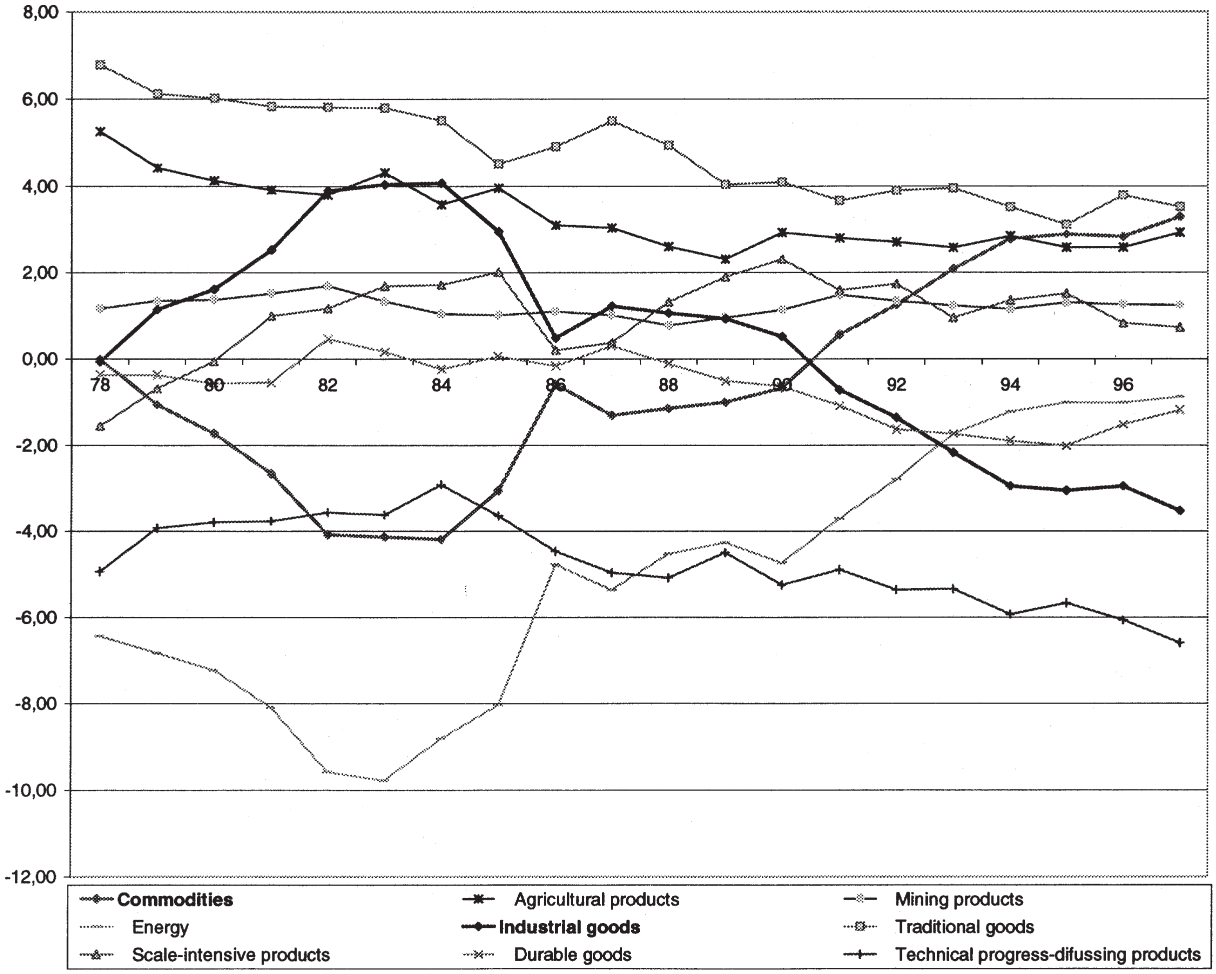
Source: ECLAC, on the basis of official figures.
[a] Mercosur = Southern Common Market.
[b] CACM = Central American Market.

positive (negative) value denotes the presence (absence) of a comparative advantage (comparative disadvantage) in the relevant product category.[176]

The Mercosur countries and Chile, together with Mexico, exhibit the greatest variations in terms of their patterns of specialization during the period studied. They originally had a comparative disadvantage in commodities, mainly because of the hefty trade deficits posted by the energy sectors of these countries during the years when oil prices were rising, together with the fact that these deficits were not offset by trade surpluses in other commodities. When the energy sector's trade deficit was reduced, these countries found that they had a comparative (albeit declining) advantage in agricultural products (see figure V.1 and table V.8). Primary mining products enjoyed a relatively stable comparative advantage.

176 ICTB (indicator of contribution to trade balance) = {[(Xi - Mi)/(X + M)/2] - [(X - M)/(X + M)/2]*[(Xi + Mi)/(X + M)]*100} (Guerrieri, 1994, p. 201).

Figure V.1
TRADE SPECIALIZATION PATTERN OF THE COUNTRIES OF THE SOUTHERN COMMOM MARKET (MERCOSUR) AND CHILE, 1978-1997



Source: ECLAC, on the basis of official figures.

Initially these countries also had a comparative advantage (a positive value for the indicator) in industrial goods, but this has turned into a comparative disadvantage in the course of the 1990s. This average value was strongly influenced by the positive contribution made by traditional goods, especially food, beverages and tobacco, although this tended to decline as time passed. As noted earlier, scale-intensive industrial goods had a comparative advantage, which was maintained principally as a result of Chile's performance. The largest deficits were in durables and in technical progress-diffusing goods.

Table V.8

TRADE SPECIALIZATION PATTERN OF THE COUNTRIES OF THE SOUTHERN COMMON MARKET (MERCOSUR) AND CHILE, 1978-1997

	1978-1981	1982-1985	1986-1989	1990-1993	1994-1997
Commodities	-1.4	-3.9	-1.0	0.8	2.9
Agricultural	4.4	3.9	2.8	2.7	2.7
Mining	1.4	1.3	1.0	1.3	1.2
Energy	-7.1	-9.1	-4.7	-3.2	-1.0
Industrial	1.3	3.7	0.9	-0.9	-3.1
Traditional	6.2	5.4	4.8	3.9	3.5
Food, beverages and tobacco	4.9	4.2	3.4	3.1	3.2
Other traditional goods	1.3	1.2	1.4	0.8	0.3
Scale-intensive	-0.3	1.6	1.0	1.6	1.1
Durables	-0.5	0.1	-0.1	-1.3	-1.7
Technical progress-diffusers	-4.1	-3.4	-4.8	-5.2	-6.1

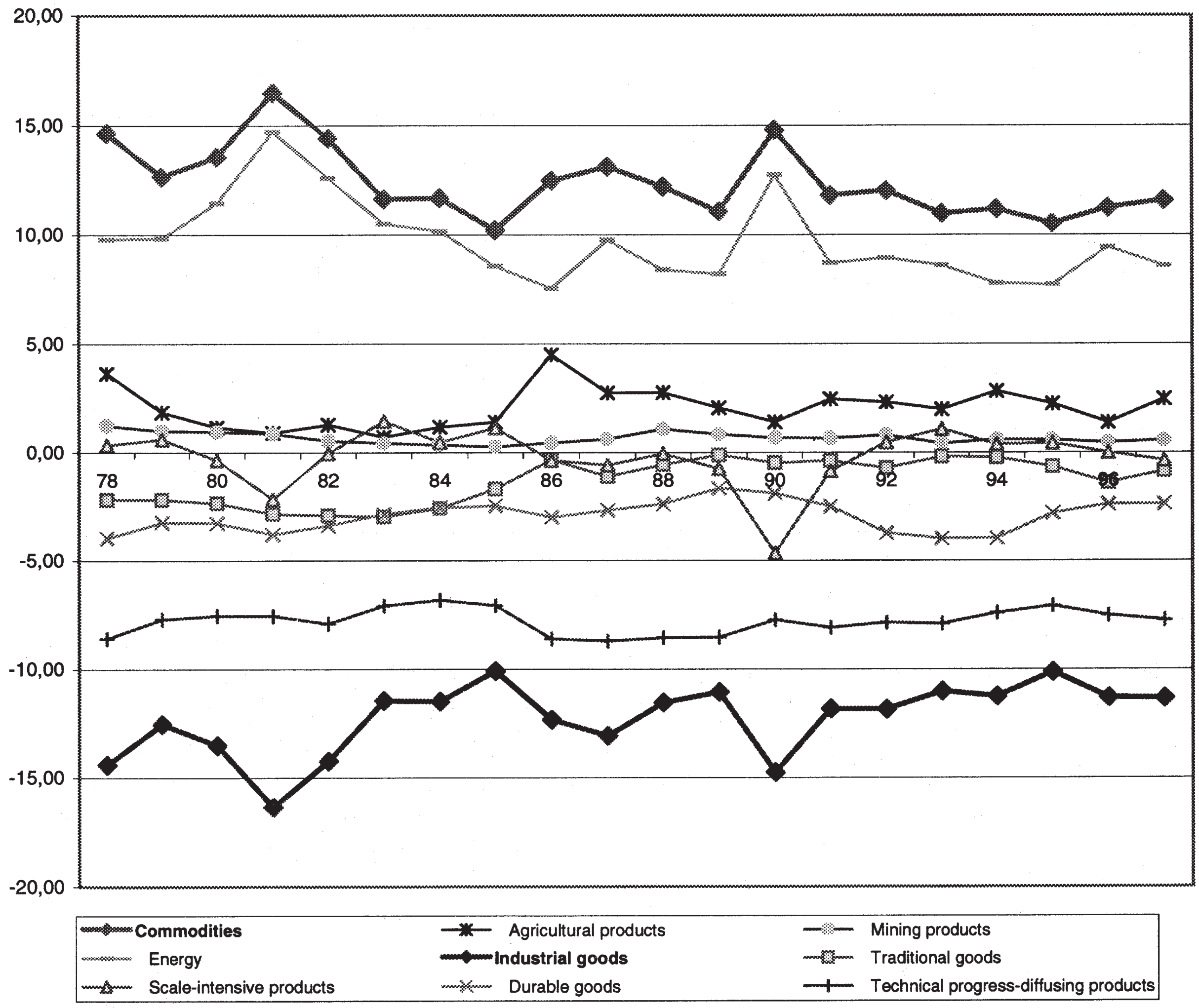
Source: ECLAC, on the basis of official figures.

Between 1978 and 1997 no significant changes were observed in the trade specialization patterns of the countries of the Andean Community, which enjoyed advantages in commodities, especially in primary energy and, to a lesser extent, in primary food and mining products. This was, in particular, a reflection of the influence of Ecuador and Venezuela on the group's average. The group had a strong disadvantage in industrial goods, however, in spite of the improvement seen in the indicator for food, beverages and tobacco and for other traditional industries, especially textiles. During the 1990s this group has also had a comparative advantage in scale-intensive products (see figure V.2 and table V.9).

Mexico constitutes a special case in this respect owing to the magnitude of the change observed in its trade specialization pattern. As can be seen in figure V.3, it registered a positive value for this indicator in the case of energy products, a certain neutrality in other commodities, and negative values for all industrial products. Although it has not been possible to counteract this disadvantage entirely, except in the case of durable goods, it has tended to decline in the course of the 1990s (see figure V.3 and table V.10).

Finally, the countries of Central America exhibited the greatest stability in their trade specialization pattern up to the beginning of the 1990s (see figure V.4 and table V.11), as well as having the largest surpluses in both primary and processed foodstuffs and food products. They had a comparative disadvantage in scale-intensive industrial goods, durables and technical progress-diffusing products throughout the period studied, although this has lessened somewhat in the last few years.

Figure V.2
TRADE SPECIALIZATION PATTERN OF THE COUNTRIES OF THE ANDEAN COMMUNITY, 1978-1997



Source: ECLAC, on the basis of official figures.

Table V.9

TRADE SPECIALIZATION PATTERN OF THE COUNTRIES OF THE ANDEAN COMMUNITY, 1978-1997

	1978-1981	1982-1985	1986-1989	1990-1993	1994-1997
Commodities	14.3	12.0	12.2	12.4	11.1
Agricultural	1.9	1.1	3.0	2.0	2.2
Mining	1.0	0.4	0.7	0.6	0.5
Energy	11.4	10.5	8.5	9.7	8.4
Industrial	-14.2	-11.8	-12.0	-12.4	-11.0
Traditional	-2.4	-2.5	-0.5	-0.4	-0.8
Food, beverages and tobacco	-0.8	-0.9	-0.2	-0.2	0.1
Other traditional goods	-1.6	-1.6	-0.4	-0.3	-0.9
Scale-intesive	-0.4	0.7	-0.4	-1.0	0.1
Durables	-3.6	-2.8	-2.4	-3.0	-2.9
Technical progress-diffusers	-7.8	-7.2	-8.6	-7.9	-7.4

Source: ECLAC, on the basis of official figures.

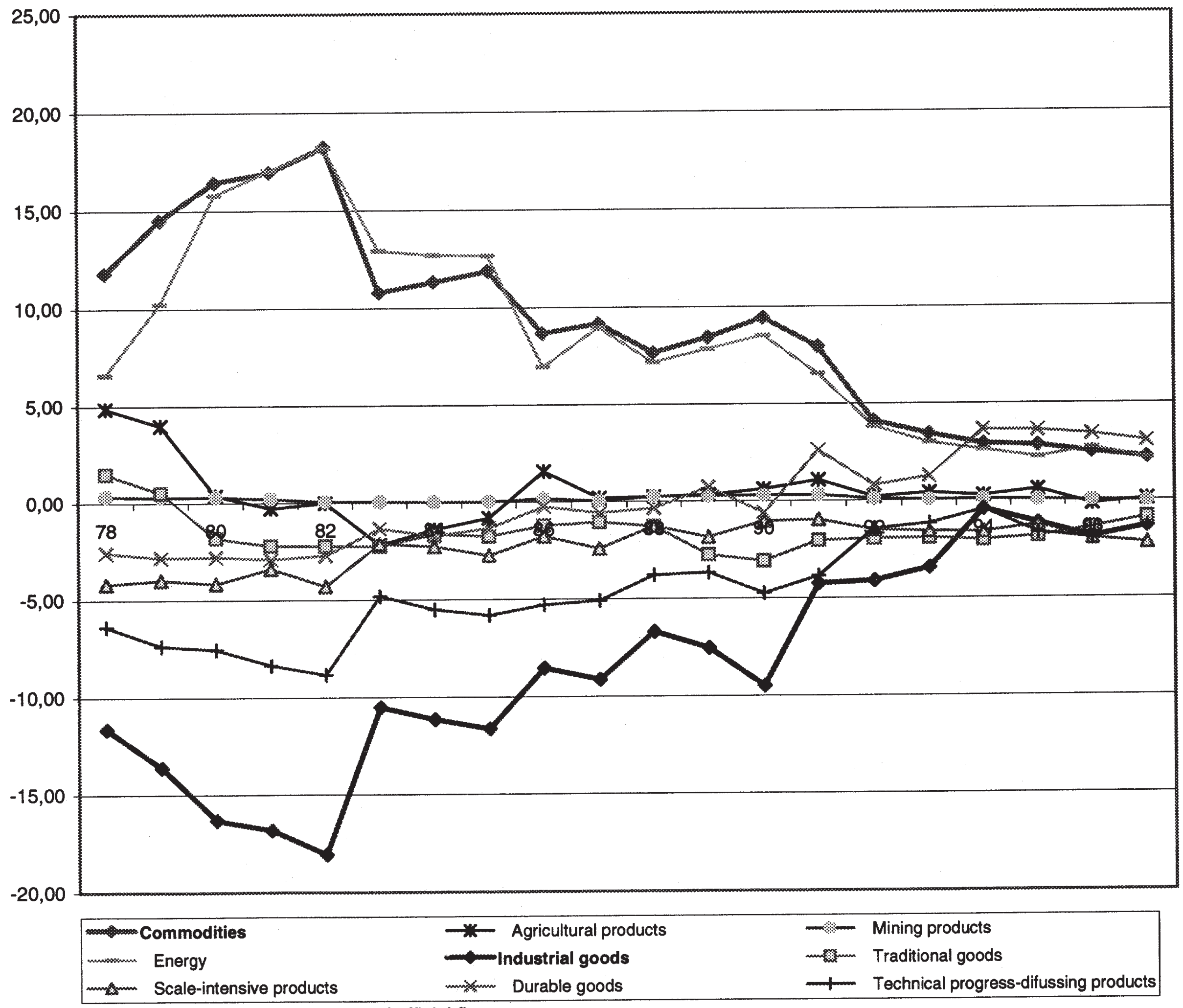
Table V.10

TRADE SPECIALIZATION PATTERN OF MEXICO, 1978-1997

	1978-1981	1982-1985	1986-1989	1990-1993	1994-1997
Commodities	14.9	13.1	8.5	6.2	2.6
Agricultural	2.2	-1.1	0.6	0.6	0.2
Mining	0.3	0.0	0.2	0.2	0.0
Energy	12.4	14.1	7.7	5.5	2.4
Industrial	-14.6	-12.9	-8.0	-5.3	-1.2
Traditional	-0.5	-2.0	-1.6	-2.3	-1.5
Food, beverages and tobacco	-0.1	-0.6	-0.5	-0.9	-0.3
Other traditional goods	-0.4	-1.3	-1.1	-1.4	-1.2
Scale-intensive	-3.9	-2.9	-1.8	-1.3	-1.8
Durables	-2.8	-1.8	-0.1	1.0	3.4
Technical progress-diffusers	-7.4	-6.2	-4.5	-2.8	-1.4

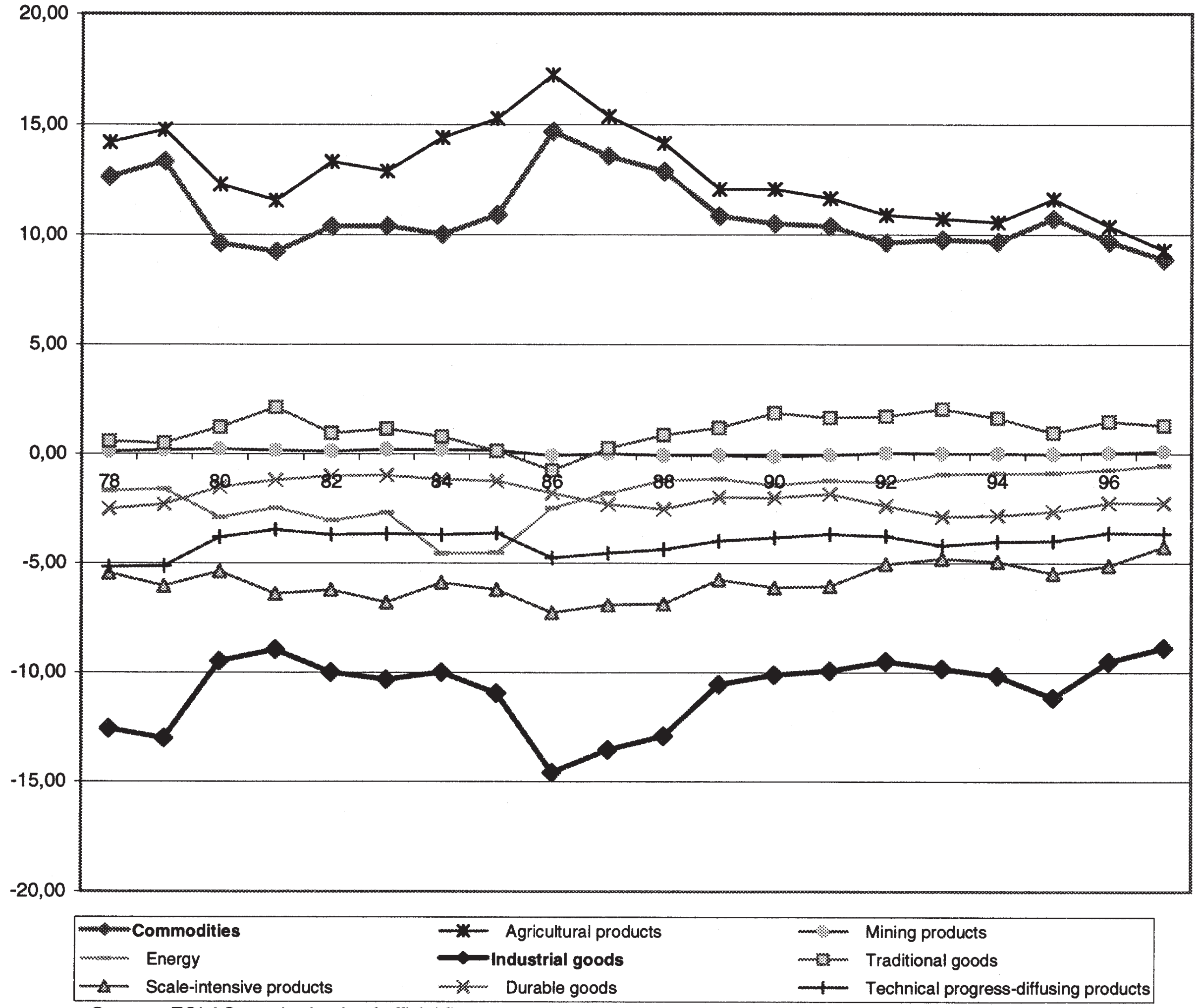
Source: ECLAC, on the basis of official figures.

Figure V.3
TRADE SPECIALIZATION PATTERN OF MEXICO, 1978-1997



Source: ECLAC, on the basis of official figures.

Figure V.4
TRADE SPECIALIZATION PATTERN OF THE COUNTRIES OF THE CENTRAL AMERICAN COMMON MARKET (CACM), 1978-1997



Source: ECLAC, on the basis of official figures.

Table V.11

TRADE SPECIALIZATION PATTERN OF THE COUNTRIES OF THE CENTRAL AMERICAN COMMON MARKET (CACM), 1978-1997

	1978-1981	1982-1985	1986-1989	1990-1993	1994-1997
Commodities	11.2	10.4	13.0	10.1	9.7
Agricultural	13.2	14.0	14.7	11.3	10.5
Mining	0.2	0.2	0.0	0.0	0.0
Energy	-2.2	-3.7	-1.7	-1.2	-0.8
Industrial	-11.0	-10.3	-12.9	-9.8	-9.9
Traditional	1.1	0.8	0.4	1.8	1.3
Food, beverages and tobacco	2.0	1.5	0.9	2.0	1.5
Other traditional goods	-0.9	-0.7	-0.5	-0.1	-0.1
Scale-intensive	-5.8	-6.3	-6.7	-5.5	-4.9
Durables	-1.9	-1.1	-2.2	-2.3	-2.5
Technical progress-diffusers	-4.4	-3.7	-4.4	-3.9	-3.8

Source: ECLAC, on the basis of official figures.

PART THREE

REGIONAL INTEGRATION IN LATIN AMERICA AND THE CARIBBEAN, 1997-1998

Chapter VI

ASYMMETRIES AND CONVERGENCES IN THE ECONOMIC INTEGRATION OF LATIN AMERICA AND THE CARIBBEAN

A. THE CONCEPT OF CONVERGENCE AND TYPES OF CONVERGENCE

The notion of convergence, though imprecise, appears frequently in the literature on economic integration.[177] Convergence is a dynamic concept related to the static categories of asymmetry and heterogeneity. It can be defined simply as a process in which non-uniform elements come together to become more of an ordered whole. In the context of economic integration, the aim of this process is to reduce initial differences or asymmetries between independent elements. This may occur spontaneously or it may be the result of negotiation among Governments, with some degree of formal institutional structure coming into play.

In connection with regional integration, two types of convergence are to be distinguished: convergence *within* integration schemes and convergence *between* them. The concept of convergence between integration schemes may, in turn, apply to a number of dimensions, depending basically on the depth of commitment to harmonization driving the move toward integration.[178] The progressive phases of the process by which a larger market is created –which may take the form of a free trade area; customs union; common market; economic union; or economic, monetary, and political union– involve increasing degrees of policy coordination and therefore convergence. Free trade areas are characterized by demanding less convergence among the economic policies of member countries than other types of integration schemes, while the opposite extreme –economic, monetary, and political union– represents the almost total elimination of the exercise of independent national policy by the member countries.

In keeping with this logical sequence, a process of macroeconomic convergence should lead to a nominal convergence reflected in a set of parameters corresponding to economic variables that have an impact on the stability of prices and interest rates, as in the case of the Maastricht Treaty (see chapter II). Real convergence is understood as the subsequent long-range process of reducing disparities of productivity and standards of living between countries or regions (Cámara Arilla, 1996). The economic and social cohesion that results from this constitutes the ultimate goal of the economic integration process.[179]

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177 Convergence is also used in the economic literature to refer to reduction of existing differences between countries with respect to per capita product or productivity levels. See Romer (1994).

178 There is also interest in analysing other types of asymmetries or differences between member countries of integration schemes, such as (i) the size and level of development of the participating countries, which affect their ability to benefit from the system (SELA, 1997a); (ii) the phase in which countries' economies find themselves at a given time; and (iii) the negotiating power that the various parties wield in the integration process.

179 Furthermore, to achieve economic and social cohesion within the enlarged economic arena requires persistent application of compensatory economic and social policies to benefit disadvantaged sectors and regions.

It should be pointed out that convergence between integration agreements depends on the nature of the agreements. For example, convergence between free trade areas and customs unions entails reduction of asymmetries between such agreements with respect to their basic trade regulations and tariff reduction programme.

In short, the different modes of convergence that seem relevant to projects of regional integration in Latin America and the Caribbean are: (i) convergence of policy and instruments *within* the integration agreements; (ii) convergence of policy and instruments *between* the agreements; and (iii) degree and complexity of convergence, which are determined by the policies to be harmonized, such as trade regulations or third-party tariffs, or major macroeconomic, fiscal and social policies.

With respect to their basic set of trade instruments, as mentioned above, convergence *between* agreements constitutes a preliminary and relatively loose stage of the convergence process. This makes it possibly the one with the most bearing on the three Latin American and Caribbean subregions. The interregional negotiations currently being held to establish free trade zones between the Andean Community and Mercosur fall within its parameters. Negotiations are focusing on those instruments of trade facilitation and policy that affect access to the enlarged market. The principal instruments include tariffs, rules of origin, safeguards, customs valuation and technical standards.

Once the basic systems of the integration schemes are in place, and as trade linkages between the integration partners intensify, it is to be expected that there will be increased demand for further harmonization of policies that affect trade between countries or influence their ability to attract investment.

Within existing integration schemes, the convergence of policies that go beyond trade issues seems to belong to a more advanced stage of convergence, one that the subregional integration agreements are just now entering. This variation on the theme is exemplified in efforts by the Andean Community, Mercosur, the Central American Common Market (CACM),[180] and the Caribbean Community (CARICOM) to flesh out their still imperfect customs unions by coordinating and harmonizing those policies that indirectly influence either the dynamics and functioning of the enlarged markets or the competition that takes place within them. Such policies include exchange rate policy, certain areas of monetary and fiscal policy, policy in relation to competition and to attracting foreign investment, and, in general, the unification of economic legislation and relevant administrative regulations.[181]

In the various contexts where it occurs, convergence represents a challenge that has increased in its substance and in its relevance to the current situation as the subregional integration schemes move toward more advanced stages of integration or begin efforts to enlarge. Furthermore, the proliferation of bilateral agreements, while it has made regional integration extraordinarily dynamic, has led to a rather disorganized evolution of competitive conditions within the region. Nonetheless, the factor that creates the greatest pressure to achieve a fully integrated regional market is the recent initiation of the negotiating process for the Free Trade Area of the Americas (FTAA), since the commitments it might

180 With respect to CACM, a persuasive argument in favour of harmonization of differing policies and regulations can be found in Ballesteros and Rodríguez (1997). The authors base their reasoning, on the one hand, on the small size of the Central American economies, and, on the other, on their favourable geographical location. The idea is that creating a harmonized economic area can reduce production, management and marketing costs for firms and can improve the efficiency of foreign investment, so that the subregion can operate as a single medium-sized integrated area and build linkages with the global economy in accordance with the open regionalism model.

181 Macroeconomic coordination presupposes a timely exchange of information and a commitment to consider the impact of national policy on the economies of partner countries, while harmonization would seem to imply the coordination *ex ante* of policy by means of negotiation. It should be pointed out that the European Union, from the outset, undertook by means of consultation to coordinate the above-mentioned types of policy, but achieved harmonization only gradually, in the course of the 1970s and 1980s, following the internal and external imbalances that affected the member countries after the first oil crisis.

entail have the potential to undermine the rationale of the push toward regional integration if the latter does not move beyond its current state of development (see chapter II). Then again, it has been argued to the contrary that current conditions are favourable for undertaking convergence, since similarly oriented economic policies are in place in the various countries (SELA, 1997b).

The section that follows considers the options and difficulties that the countries of the Latin American Integration Association (LAIA) must face with respect to their basic trade regulations if convergence of their agreements is to take place. The lines of thinking developed here can also, in principle, be applied to existing integration schemes in other subregions.

B. PLANNED CONVERGENCE AND SPONTANEOUS CONVERGENCE

1. Previous attempts at multilateralization

Created in 1961, the Latin American Free Trade Association (LAFTA), the precursor of LAIA, originally aimed to achieve free trade among the 11 member countries within the 1962-1974 period –barely 12 years.[182] In order to achieve its is goal of creating a multilateral free trade area, LAFTA employed two basic instruments: (i) lists setting forth each country's products and its plans for reducing tariffs in favour of partner countries and achieving an annual 8% reduction in the weighted average of tariffs applied to third parties; and (ii) a common consolidated list, negotiated every three years, of products whose tariffs and other restrictions the contracting parties were committed to eliminating within the transition period. This list was to be created in four successive rounds of negotiations, each of which would deal with 25% of the universe of tariffs (ECLAC, 1979).

After an auspicious beginning, however, both negotiating processes stalled. The national lists continued to be a fairly dynamic factor until 1970, ultimately including approximately 11,000 concessions. But very few products were added during the 1970s. Enlargement of the list also ran into serious difficulties in the course of the negotiations that were to produce the list covering the second 25% of the tariff universe. In both cases, negotiations made it clear that the countries had scant will for further reductions. In practice, only those imports that did not compete with domestic production were liberalized. Furthermore, some of the third-party tariff reductions that had been introduced forced the member countries to renegotiate agreed preference margins.

It was the medium-sized and smaller countries that were most critical of the stalled negotiations, and this led to the subsequent creation of the Andean Group within LAFTA. After various attempts to restart the negotiating process, the original schedule for LAFTA had to be modified, and the transition period was extended for six years by the Caracas Protocol, signed in December of 1969. However, international economic conditions in the 1970s were not favourable to the development of regional integration.

The 1980 Montevideo Treaty, which created LAIA, has guiding principles and mechanisms that clearly distinguish it from its predecessor, the 1960 Montevideo Treaty. Forms of integration based on planned multilateral tariff reduction were abandoned

182 It should be remembered that in the decades before the Latin American Free Trade Association was created, trade among the future members was covered by a set of bilateral agreements that had no organic relationship to each other. The withdrawal from intraregional trade that took place toward the end of the 1950s, along with the evolution of European integration, led to a series of intergovernmental actions that ultimately led, in 1960, to the signing of the Montevideo Treaty establishing LAFTA.

in favour of the principles of flexibility and pluralism embodied in the so-called partial scope agreements. The Treaty's Article 7 defines these agreements as "those in which not all member countries join, and [which] will tend to create the conditions necessary to advance the process of regional integration by means of progressive multilateralization".[183]

It should be pointed out that the mechanisms contemplated in the 1980 Treaty to multilateralize partial concessions have not in practice fulfilled their purpose. The one explicitly regional instrument, the regional tariff preference, has had little effect in this regard, due to extensive lists of exceptions and the low preference margins agreed on (LAIA, 1990).[184] The same is true for the preferences designed to grant differential treatment to economically less developed countries, an approach that might have led to greater convergence among the countries but for the fact that the process never reached completion.

The 1980 Montevideo Treaty also created an Evaluation and Convergence Conference, whose prime function, according to article 31, was to "review the functioning of the integration process in all its aspects and the convergence of the partial scope agreements through their progressive multilateralization, and to recommend that the Council (of Ministers) adopt corrective measures of multilateral scope". Section (e) of the article added the responsibility to "carry out multilateral negotiations to set and advance tariff preferences". However, the Conference never met in regular session, so it was not able to impart real content to the project that had been envisaged for it. As a result, the LAIA member countries have shown little interest in multilateralizing the preferences negotiated in partial contexts.

2. The components of convergence

In contrast, the member States have made extensive use of the partial scope agreements to conclude numerous bilateral agreements as well as some plurilateral ones.[185] The initial agreements were quite limited as to the quantity of products and the extent of the agreed preferences, but since the end of the past decade a new generation of economic complementarity agreements (ECAs) has appeared.[186] In general, these commit the signatory countries to substantially achieving free trade on a prescribed timetable. They also contain other elements of liberalization and of economic cooperation and complementarity characteristic of more advanced stages of integration, such as liberalized trade in services, promotion and protection of mutual investments, cooperation on infrastructure, and understandings relating to technical and phytosanitary standards.

At this point, there are already 10 new-generation ECAs, including the four-party customs union formed

183 The new approach is clearly expressed in the introduction to the 1980 Montevideo Treaty: "The renewed desire for integration of the countries thus finds various channels for its fulfilment, since starting by renegotiating concessions currently in effect to strengthen and balance intraregional trade flows establishes a sphere of economic preferences that will continue to develop through various mechanisms, such as the regional tariff preference, regional agreements, and, on a fundamental level, by a growing fabric of partial accords that will create the conditions necessary for the Association to evolve naturally toward the desired goal of a Latin American common market" (LAIA, 1980).

184 The preferences granted under this approach are being absorbed into those that have been negotiated in the so-called new generation of agreements.

185 In this respect, LAIA has proven to be a useful framework, allowing member countries to place their understandings under the conceptual umbrella of the enabling clause approved in the Tokyo round of GATT. Only with the consolidation of Mercosur have voices arisen within WTO arguing that WTO should be notified of integration agreements of similar scope, as called for in article XXIV.

186 This is true, both for the initial agreements for renegotiating concessions agreed upon under the previous treaty and for the ECAs negotiated during the greater part of the 1980s.

by Mercosur.[187] The customs union formed by the Andean Community also comes to mind, although it is legally independent of the LAIA scheme. These agreements may constitute the basis of what in the future could come to be a multilateral free trade zone. According to this logic, these agreements create the following integration systems: (i) the Andean Community; (ii) the Group of Three; (iii) Mercosur; (iv) the partnership agreement signed by Mercosur and Bolivia and the one signed by Mercosur and Chile; (v) the system that could be formed by the preceding group and the Chile-Peru agreement; (vi) the set of bilateral agreements signed by Chile; and (vii) the set of bilateral agreements signed by Mexico (LAIA, 1998a).

In recent years, with the web of agreements ever denser and the corresponding planned tariff reductions realized, the idea began to emerge at the LAIA General Secretariat that all these elements taken together, improved and supplemented by some missing agreements, could, by around 2005, bring about a large free trade area comprising the LAIA countries.[188] Thus, in a study recently commissioned by the LAIA General Secretariat, three complementary paths are indicated by which a free trade area embracing all the LAIA countries could be reached. First, the web of agreements already in existence would need to be completed. Second, negotiations would need to be held to eliminate the exceptions contained in the agreements. Lastly, it would be necessary to renegotiate the tariff reduction schedules that are too extensive, thus achieving free trade more quickly and making the calendar of changes compatible with the dates when the great majority of the tariff elimination processes are to be complete (LAIA, 1998b, p. 9).

Current conditions seem more favourable for the eventual convergence of agreements, given the trade and investment liberalization undertaken by all the member countries since the end of the past decade, and given both the commitments made in WTO and the countries' willingness to open themselves to international competition, including competition from within the region. It is significant that the Mercosur programme of liberalization is to reach completion in 2001; that Peru will have completed its integration into the Andean Community's free trade system by 2005; and that in that year almost all trade between participating countries will have been liberalized by the tariff reduction programmes of the Group of Three and by the effect of the majority of bilateral ECAs. Besides the inexorable advance of tariff reduction programmes, the movement towards a large free trade area gains momentum from the countries' evident interest in creating the missing agreements or in deepening existing ones.

The question remains as to why the countries have preferred to conclude many partial agreements rather than tying themselves to a single negotiating framework that would gradually lead to a completely integrated free trade area. One possible answer is that they are more willing to negotiate in more restricted geographical contexts, because it is easier to evaluate the probable costs and benefits associated with different types of agreements.

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187 The following ECAs can be considered of the new generation: No. 17 (Chile-Mexico), No. 18 (Mercosur), No. 23 (Chile-Venezuela), No. 24 (Chile-Colombia), No. 31 (Bolivia-Mexico), No. 32 (Chile-Ecuador), No. 33 (Colombia-Mexico-Venezuela), No. 35 (Mercosur-Chile), No. 36 (Mercosur-Bolivia), and No. 37 (Chile-Peru).

188 This idea is reflected in a recent publication of the LAIA General Secretariat, which maintains that "For the member countries as a group, liberalized trade will reach a level of more than 94% by the year 2005, at which time there will virtually be a free trade zone in South America, as well as various ones between Mexico and the other member countries" (LAIA, 1998a, p. 5).

C. LIMITATIONS OF THE SPONTANEOUS MODEL

1. Limited geographical scope

The possibility of a virtual free trade area forming spontaneously, though attractive, since it requires little in the way of additional multilateral effort, is not likely, given the current status of the integration process among the LAIA countries and the difficulties associated with convergence. First of all, there is the persistent problem of the missing agreements. In this regard, it can be said that the successful conclusion of negotiations between the Andean Community and Mercosur is the greatest challenge standing in the way of a possible South American free trade area. If negotiations do not go well, the current situation will persist, with three hubs (Mercosur, Andean Community, Chile), but various important spokes missing, such as bilateral agreements between Mercosur and Colombia, Mercosur and Ecuador, Mercosur and Peru, and a Bolivia-Chile relationship. As for trade linkages, segmentation would persist here, too, since trade flows, relatively strong within each subgroup, are lighter between groups, and in general between countries that do not have agreements with each other.

Where the sharpest discontinuity is to be seen, however, is in the relationship between Mexico and Mercosur. The parties still differ on the interpretation and application of article 44 of the Montevideo Treaty, which calls for compensations to be made by a country that has granted preferential treatment to a developed country, such as occurred with Mexico when it became part of NAFTA.[189] At the same time, Mexico maintains that its preferences have been hurt by the formation of Mercosur.

These centrifugal forces have manifested themselves more than once in the region in recent years. For example, the participation of Colombia and Venezuela in the Group of Three, in addition to allowing linkage between these countries and Mexico, implies a breakdown of the Andean Community's common external tariff. The same is true in the case of the complementarity agreement between Bolivia and Mercosur. And the agreement between Costa Rica and Mexico, signed in 1995, has the same effect on the Central American Common Market common external tariff. Though this sort of partial arrangement does not fit the traditional concept of a customs union, it seems to reflect the interest some countries have in diversifying their trade relations.

2. The lists of exceptions

The so-called new generation of agreements are different from those concluded during the past decade, chiefly because that they entail negative lists of the relatively small number of products exempt from free trade provisions rather than positive lists like those that appeared in previous agreements, which covered all the products benefiting from tariff reduction. In general, the new-generation ECAs establish an automatic schedule of reduction for most existing tariffs. The remainder are reduced at varying paces over varying time periods. While the majority of these agreements involve relatively short lists of items

189 Article 44 calls for the unconditional extension to the remaining member countries of concessions granted by one member country through agreements not contemplated in the Montevideo Treaty or the Cartagena Agreement. Mexico's participation in NAFTA meant an initial automatic application of this article, but complex negotiations led to the parties' approving, in June 1994, an interpretative protocol on article 44, allowing it to be suspended, with compensation among interested parties to be negotiated. This protocol thus opens up the possibility that the member countries may conclude agreements with developed countries without an automatic obligation to extend the concessions to other member countries.

exempt from reduction, some recent ECAs include no outright exceptions, but instead provide for more extended timetables for products considered sensitive. The partnership agreements between Mercosur and Chile and between Mercosur and Bolivia are examples of this.

The idea of a more perfect free trade area is based on the notion that all products benefit from free trade. It has therefore been recommended that lists of permanent exceptions be eliminated. Nevertheless, this may be too stringent a requirement for countries that have very disparate abilities to compete. Furthermore, the understanding governing interpretation of article XXIV of the 1994 GATT only requires that the free trade area liberalize “substantially all trade” within a period generally not to exceed 10 years. Though reduced in scope, the lists of exceptions provided for in ECAs usually contain products that are highly important to the countries, such as certain agricultural products.

On the other hand, the recommendation to shorten some of the time periods for tariff elimination seems to have considerable merit. A period of 18 years, for example, as stipulated in various ECAs signed by Chile, seems excessively long and could even send the wrong signal to the industry in question concerning the urgency of restructuring. If there is a real desire to provide long-term protection for a product, it would be more logical to include the product on the list of permanent exceptions, leaving open the possibility that the list could be shortened in subsequent negotiations.

3. Institutional and regulatory weakness in the regional agreements

Among other factors that make spontaneous convergence of the agreements difficult are the administrative complexity resulting from the simultaneous functioning of multiple agreements covering different geographical areas, the fact that the various commitments remain unconsolidated, and the institutional and regulatory weakness of most of the agreements.

For example, to apply a particular preference, the importing country’s customs service not only must determine the product’s country of origin, but must also know on which tariff reduction list the product figures as well as the year of the schedule on which it appears. This task is still feasible at the national administrative level, but a potential exporter who wishes to explore access to the regional market will face high transaction costs.

In the absence of multilateral consolidation of the concessions granted in the partial integration agreements, Governments may change concessions unilaterally, resorting for the purpose to safeguard clauses or to anti-dumping measures. These changes affect not only the interests of the parties in question, but also the competitive situation in the region as a whole, and they make the regional market even less transparent and increase its instability.

It is common for ECAs to have bilateral trade and investment promotion committees that serve as watchdogs for the enforcement of the agreement and deal with disputes. Mercosur and the Andean Community, also have institutions that perform similar roles. However, these dispute settlement mechanisms are not very effective. In general, there has been a preference for solutions at an intergovernmental level, which can be justified by supposedly greater flexibility and efficacy than is offered by some other mechanisms. Nevertheless, the coexistence of a growing number of different institutional frameworks not only implies high cost for the countries involved, but also makes for a less transparent and predictable regional market, in which all these structures are superimposed.

This same argument can be applied in general to the increasing dispersion of the basic regulatory structure that must govern intrazonal trade. It has been argued, for instance, that LAIA lacks a modern set of regulations of regional scope. Indeed, LAIA has no instrument of general scope beyond the option provided by a mutual consultation mechanism (LAIA, 1998c). Thus, there is no effective mechanism for countries to resort to resolve such issues as dumping and subsidies.

With respect to the rules of origin approved by resolution 78 of the Committee of Representatives, the LAIA General Secretariat itself considers that it has fallen out of date and been of little use, among other reasons because various ECAs have stipulated their own rules (LAIA, 1998d).[190] LAIA has a safeguards arrangement (resolution 70 of the Committee of Representatives) that provides for this type of measure (i) for reasons having to do with an imbalance in the balance of payments; (ii) in cases of serious harm or threat of serious harm to domestic production; and (iii) to deal with a manifest deficit in a member country. However, the Andean Community and various ECAs, including the one from which the Group of Three emerged, have their own clauses, while Mercosur, on the contrary, does not allow the application of safeguards to its reciprocal trade.

Both Mercosur and the Andean Community have made efforts to develop their own regulatory framework. However, it is more and more common for the new generation of ECAs to adopt regulations negotiated on a case-by-case basis, though in many cases these regulations are compatible with multilateral standards.[191] The regulations of the agreements in which Mexico participates are clearly inspired by NAFTA, which contain stricter rules than those committed to by the WTO countries.[192]

In effect, LAIA has as yet no basic regulatory structure of regional scope to govern trade relations among its members, or one that follows modern criteria in its content and mode of enforcement. This lack was not felt in the first years, when LAIA members barely concerned themselves with renegotiating their limited traditional preferential arrangements. The initial regulatory weakness of LAIA has also been justified in terms of a desire to offer the countries the greatest possible flexibility in their handling of partial agreements. Beyond this, it was a sovereign decision of the countries to leave these matters relatively undefined. Nevertheless, the intensity and diversity of the linkages covered by the new generation of agreements has induced the countries to incorporate in these agreements regulations negotiated on an ad hoc basis. The resulting dispersion of regulations complicates the process of creating integration in a regional market which so far seems to consist merely of the sum of the different agreements.[193]

Given this dilemma, various lines of action can be imagined. One would be what the LAIA General Secretariat proposes, which is basically to complete and modernize the Association's regulations. Aware of the limitations of the current structure, the LAIA General Secretariat has presented concrete proposals for improving the regional rules of origin and the safeguards system based on WTO rules and the particular needs of intraregional trade. Nevertheless, the member countries have shown little interest in

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190 In this publication, the following ECAs with their own regulatory structure are identified: No. 18 (Mercosur), No. 31 (Bolivia-Mexico), No. 33 (Group of Three), No. 35 (Mercosur-Chile), and No. 36 (Mercosur-Bolivia).

191 In its proposal for the adoption of new rules of origin, the LAIA General Secretariat finds that the regulations contained in the new ECAs have discrepancies among themselves and that the discrepancies basically have to do with terminology. The General Secretariat therefore proposes adopting uniform terminology and establishing rules for tariff nomenclature on a category by category basis (LAIA, 1998d, p. 4).

192 For a detailed comparative analysis of the different regulatory structures within LAIA, see LAIA (1998e).

193 This problem was acknowledged by the LAIA General Secretariat itself when it noted that "the common regulations of the Association which govern trade and other aspects of integration are of an inchoate and supplementary nature compared with those that exist on the same matters in the agreements. Furthermore, the issues dealt with in the rules of the bilateral and subregional agreements are more numerous, more substantial in content and entail a higher degree of commitment. There are some cases where a certain reluctance is evident, and others where the process of giving the Association's common regulatory framework more breadth and depth has been slow, since it depends on regulatory arrangements in the agreements that progress at different speeds, and because there are problems in achieving compatibility" (LAIA, 1998a, p. 3).

providing effective support for this work, preferring regulation at the level of subregional and bilateral agreements. Another factor to consider is that existing regulations within bilateral and subregional agreements cannot easily be adapted to this new set of regulations, should it be approved. The countries' hesitancy is based not only on the fact that the regulations have been negotiated to fit each agreement, but also on the fact that the granting party may feel reluctant to change previously negotiated concessions and extend them to third countries.

Another approach would be to replace the partial regulatory systems, when the time comes, with a common hemisphere-wide regulatory framework that would come out of negotiations initiated in the FTAA context. In fact, the various FTAA negotiating groups in principle cover all the key areas needed to establish a free trade area in the broad sense (see section on FTAA in chapter II).

A fully implemented and enforced FTAA might do away with the rationale for partial free trade agreements, even though the institutional arrangements of the customs unions and common markets would remain valid. In any case, the creation of a hemispheric free trade area poses no contradiction to the desirability of a regional common market with more ambitious objectives, which would be based on balanced integral development of a more homogeneous group of participating countries. Such an argument is only strengthened by the possibility that negotiations towards FTAA will not reach a successful conclusion within the planned time. In any case, whatever convergence the various regional components can reach in the meantime will help to strengthen the region's negotiating position.

A third (and not necessarily least attractive) option might be for the countries to forge uniformity out of the differing regulatory structures in the context of LAIA or a South American Free Trade Area around the year 2005, in the event that FTAA negotiations do not prosper. This would be facilitated by the experience gained in the FTAA negotiations, since at that point the ECAs would be fully functioning. Also helpful would be the fact that asymmetries among the region's countries are relatively small.

Chapter VII

THE STATE OF REGIONAL AND SUBREGIONAL INTEGRATION IN LATIN AMERICA AND THE CARIBBEAN

The steady growth seen between January 1997 and July 1998 in trade within the subregional groupings of Latin America and the Caribbean and the intergovernmental agreements concluded within these subregional schemes in the same period demonstrate how vigorous the economic integration process is in the region. There are as yet no clear signs to suggest that the onset and subsequent worsening of the international financial crisis have had any effect on this process. Nonetheless, it is perfectly possible that the regional environment, which has hitherto been favourable to integration, may be affected by some of the repercussions of the crisis on international trade, such as falling prices for the commodities exported by the countries of the region, the competition that products from the region may face from similar Asian ones in domestic and other markets, and declining export revenues due to slack demand in Asia (see chapters I and III).

The four customs unions operating in the region have made progress in applying their respective free trade systems and common external tariffs, albeit at a pace dictated by the economic situation of their member countries. Furthermore, Governments have made efforts to introduce reforms in related areas or to implement them more quickly, examples being institution-building liberalization of the service sector, and the free movement of individuals and capital. Again, in some cases the first steps have been taken towards designing an effective mechanism for settling disputes.

On the other hand, there has been a decline in the number of new free trade agreements being signed between countries, partly because the two countries that were the driving force behind such agreements, Chile and Mexico, have now concluded the agreements they were seeking, and partly because there is growing interest in finding areas of convergence between subregional groups, as demonstrated by the current negotiations between the Southern Common Market (Mercosur) and the Andean Community, and by the signing of agreements between subregional groups and non-member countries, as in the case, for example, of the Central American Common Market (CACM) and the Dominican Republic. These efforts to form closer ties can be explained partly as a response to the challenges created by the launching of the hemisphere-wide negotiation process at the beginning of 1998, but they also owe something to the desire of countries in Latin America and the Caribbean to enlarge these economic areas, which are still too small to enable international competition to be confronted successfully (see chapter VI).

In 1997 the intraregional trade of Latin America and the Caribbean as a whole grew by 17.5%, while the total exports of the region grew by around 11%. Consequently, the relative share of intraregional trade, measured in current values, increased from 19% in 1996 to more than 20% in 1997 (see table VII.1). This figure is an average, however, and masks the diversity of trade relations in the region, as is illustrated by the substantial trade between Mexico and the United

Table VII.1

LATIN AMERICA AND THE CARIBBEAN: EXPORT FIGURES FOR THE REGION AND FOR SUBREGIONAL INTEGRATION SCHEMES, 1990-1997

(Millions of United States dollars f.o.b. and percentages)

	1990	1994	1995	1996	1997
Latin American Integration Association (LAIA)					
1 Total exports [a]	112 694	167 570	204 295	229 472	254 319
Annual percentage growth		10.4	21.9	12.3	10.8
2 Exports to LAIA	12 302	28 254	35 614	38 461	45 078
Annual percentage growth		23.1	26.0	8.0	17.2
3 Percentage of exports within LAIA (2:1)(%)	10.9	16.9	17.4	16.8	17.7
Andean Community					
1 Total exports	31 751	34 084	39 260	44 684	45 637
Annual percentage growth		1.8	15.2	13.8	1.9
2 Exports to the Andean Community	1 324	3 485	4 849	4 718	5 325
Annual percentage growth		27.4	39.2	-2.7	12.9
3 Percentage of exports within the Community (2:1)(%)	4.2	10.2	12.4	10.6	11.7
Southern Common Market (Mercosur)					
1 Total exports	46 403	61 890	70 129	74 407	82 696
Annual percentage growth		7.5	13.3	6.1	11.0
2 Export to Mercosur	4 127	12 048	14 451	17 115	20 478
Annual percentage growth		30.7	20.0	18.4	19.7
3 Percentage of exports within Mercosur (2:1)(%)	8.9	19.5	20.6	23.0	24.8
Central America Common Market (CACM)					
1 Total exports	3 907	5 496	6 777	7 332	8 764
Annual percentage growth		8.9	23.3	8.2	19.5
2 Exports to CACM	624	1 228	1 451	1 553	1 831
Annual percentage growth		18.4	18.2	7.0	17.9
3 Percentage of exports within CACM (2:1)(%)	16.0	22.3	21.4	21.2	20.9
Caribbean Community (Caricom) [b]					
1 Total exports	3 634	3 716	4 487	4 589	4 682
Annual percentage growth		0.6	20.8	2.3	2.0
2 Exports to Caricom	467	521	691	767	671
Annual percentage growth		2.7	32.8	11.0	-12.5
3 Percentage of exports within Caricom (2:1)(%)	12.9	14.0	15.4	16.7	14.3
Latin America and the Caribbean [c]					
1 Total exports	120 572	177 317	216 132	241 951	268 423
Annual percentage growth		10.1	21.9	11.9	10.9
2 Exports to Latin America and the Caribbean	16 802	35 176	42 814	46 518	54 666
Annual percentage growth		20.3	21.7	8.7	17.5
3 Percentage of exports within the region/total (2:1)(%)	13.9	19.8	19.8	19.2	20.4

Source: ECLAC, on the basis of official information.

[a] From 1992 on, Mexico's *maquila* exports are included in these figures.

[b] Figures refer only to Barbados, Guyana, Jamaica and Trinidad and Tobago.

[c] Figures refer only to LAIA, CACM, Barbados, Guyana, Jamaica, Panama and Trinidad and Tobago.

States (see chapter II). As will be shown later on, the proportion of the total trade of Mercosur and Andean Community member countries accounted for by intraregional trade has increased in relation to their trade with outside countries, while it is this latter segment that has been the most dynamic for the countries of CACM and the Caribbean Community (Caricom).

A. THE SOUTHERN COMMON MARKET (MERCOSUR)

In March 1999 it will have been eight years since the Governments of Argentina, Brazil, Paraguay and Uruguay signed the historic Treaty of Asunción, under which they agreed to establish Mercosur. The successes achieved by this integration scheme in the areas of trade, investment and interaction between the production structures of member countries have been substantial. Other effects include increased participation by civil society in the subregional integration process and the growth of subregional links between municipal and provincial leaders, professional associations, employers' associations and labour organizations.

1. Trade in goods and investment within the subregion

During 1997, merchandise exports within Mercosur exceeded US$ 20 billion and posted with a high growth rate (nearly 20%), thus coming to account for almost a quarter of total exports (see table VII.I). The share of manufactured products in these exports continued to be substantial and was higher than the share of manufactures in the exports of member countries to outside markets.

Although it is estimated that the pace of growth in trade within the group slowed in 1998, intragroup trade is still expected to grow appreciably faster than trade with other countries, and exports within the group are expected to increase as a share of the total exports of member countries. According to data from the Mercosur administrative secretariat, in the first half of 1998 exports from Argentina to the other countries in Mercosur stood at the same level in terms of value as in the first half of 1997, while the country's total exports grew by 4%. In Uruguay, on the other hand, the growth rates for intraregional and total trade were 20% and 7%, respectively, and in Brazil the figures were 11% and 3%.[194] It is important to note that the growth in Uruguayan exports to Mercosur in the early months of 1998 was accounted for mainly by an increase of around 70% in its trade with Argentina, while exports to the Brazilian market grew by only 3%.[195]

Furthermore, the consolidation process that has taken place in the expanded market has stimulated foreign direct investment from within the region itself, although there is some disagreement as to the amount of capital involved (see ECLAC, 1998e, pp. 95 to 98). On the one hand, there is piecemeal information that suggests a tendency for Brazilian firms to set up more offices, production plants and subsidiaries in Argentina, and vice versa (ECLAC, 1997a, p. 108; ECLAC, 1997b, box 2, pp. 29 to 30). On the other hand, the recorded total of Brazilian capital investment in Argentina and Argentine investment in Brazil is considerably lower than what reports in the financial press would lead one to expect. According to the Central Bank of Brazil, investments carried out by

194 The figures for Brazil cover the period from January to July 1998.

195 See the Website of the Mercosur Administrative Secretariat:(http://www.algarbull.com.uy/secretariamercosur) .

Brazilian firms in Argentina between 1990 and mid-1996 totalled less than US$ 270 million, although the Production Research Centre (CEP) put the total stock of Brazilian investment in Argentina between 1992 and 1996 at around US$ 388 million, which represents 2% of the more than US$ 19 billion invested in total during that period. Of this estimated US$ 388 million, 90% went to manufacturing.[196] The main destinations for Argentine investments are the members of Mercosur and other South American countries, which receive 73% of the total between them; Brazil received around 17% of the total stock of Argentine investments abroad between 1990 and 1996 (CEP, 1998, p. 58).

2. Market access and trade facilitation measures

Mercosur is gradually moving towards becoming completely operational as a full free trade area. Under the agreements reached in relation to the Mercosur adaptation regime (Régimen de Adecuación), from 1999 onward Argentina and Brazil will be obliged to apply a tariff preference of 100% to all goods imports from Mercosur countries, with the exception of the automotive and sugar sectors. Paraguay and Uruguay must follow suit a year later.[197] Since these sectors include products that are economically sensitive for all the countries, however, tariff reduction timetables are expected to be set up for them during the course of 1999.

The process of creating the Mercosur Customs Union has also followed its course, with the convergence of national tariffs towards a common external tariff for a limited number of products coming from the rest of the world proceeding as planned. The intention is to decide on a common external tariff for the automotive and sugar sectors some time in 1999. It should be noted that in December 1997 the Common Market Council authorized a 3% increase in the level of the common tariff.[198] This measure was requested by Brazil as a way of controlling its trade deficit and was adopted on a temporary basis until the end of 1999.[199] The Council ruled that Bolivia and Chile, as associate members of Mercosur, would not be affected by this temporary increase in the common tariff.

Less progress has been made as regards non-tariff measures and restrictions, which are the responsibility of Technical Committee No. 7 of the Mercosur Trade Commission.[200] By way of illustration, a business opinion poll carried out in Brazil has shown that bureaucracy is the main problem faced by Brazilian companies in Mercosur (IDB/INTAL, 1998, p. 3). There is also a great deal still to be done in order to harmonize technical standards and apply sanitary and phytosanitary provisions more transparently, especially given the diversity of regulatory systems in the member States.

Meanwhile, Mercosur has taken the first steps towards preferential liberalization of trade in services. In December 1997, at the Common Market Council meeting held in Montevideo, the Governments signed the Montevideo Protocol on Trade in Services within Mercosur, which establishes a transitional period of 10 years during which services transactions within the

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196 See “Inversión extranjera directa brasileña en Argentina” on the Website of the Production Research Centre (http://www.mecon.ar/cep), 14 August 1998. See also ECLAC, 1998e, pp. 120 to 123.

197 The adaptation regime, established by Decision No. 24 of 1994, granted the countries an additional period of four years to remove tariffs entirely from certain products. The programme provides that full trade preference will be achieved in four annual stages of 25% each: Argentina and Brazil have to apply this timetable between 1995 and 1999, while Paraguay and Uruguay are to do so between 1996 and 2000 (Izam, 1997, pp. 30 and 31).

198 Decision No. 15/1997.

199 The increase in the common external tariff was also intended to compensate Argentina for abolition of the statistical duty, application of which had been objected to by WTO.

200 At the Montevideo meeting in December 1997, the Common Market Council established rules and procedures for harmonizing non-tariff measures (Decision No. 17/1997).

group are to be liberalized by means of compulsory annual negotiations in the Common Market Group (see box VII.1). Subsequently, the fourteenth meeting of the Common Market Council approved schedules of specific commitments regarding the initial measures to be taken by each country, in addition to sectoral provisions relating to the movement of natural persons providing services, financial services, overland and maritime transport services and air transport services.[201] At the fourteenth meeting of the Common Market Council, the Services Group was set up as an auxiliary body to the Common Market Group, with responsibility for services.[202]

3. Regulatory aspects and formation of the common market

At its meeting in December 1997, the Common Market Council approved common rules for trade protection against imports from third countries,[203] better specifications for rules of origin,[204] and regulations for a future common regime for the automotive industry.[205] Progress was also made on the institutional front as regards participation by Chile in Mercosur meetings, and an ad hoc group with responsibility for government procurement was set up.[206] Then, at its July 1998 meeting, the Common Market Council approved the general principles of a common system for government procurement of goods and services,[207] among other items, and it was agreed that a common policy for the automotive sector was to enter into force at the beginning of the year 2000.[208]

4. Disputes settlement

At its twenty-ninth meeting, held in Buenos Aires from 6 to 8 May 1998, the Common Market Group, in addition to other business, considered a number of complaints brought by countries under article 5 of the annex to the Ouro Preto Protocol; no consensus was achieved regarding a satisfactory solution however.[209] These complaints included two that had been lodged by Argentina, one against Brazil in relation to subsidies for pork exports and another against Brazil, Paraguay and Uruguay alleging non-compliance with

201 Decision No. 9/1998.

202 Creation of the Services Group (Resolution No. 31/1998). The Services Group is to organize the annual rounds of negotiation on specific undertakings and report regularly to the Common Market Group on progress made in negotiations concerning services.

203 Regulatory Framework for Common Rules on Protection against the Dumping of Imports from non-Mercosur Member Countries (Decision No. 11/1997).

204 Specific Rules of Origin (Decision No. 16/1997).

205 Decision No. 21/1997.

206 Decision No. 12/1997; Resolution No. 79/1997.

207 Guidelines for the Creation of a Government Goods and Services Procurement Regime in Mercosur (Resolution No. 34/1998).

208 Approval was given, among other things, for the Internal Regulations of the Common Market Council (Decision No. 2/1998); the Agreement on Commercial Arbitration in Mercosur (Decision No. 3/1998); the Agreement on International Commercial Arbitration between Mercosur, the Republic of Bolivia and the Republic of Chile (Decision No. 4/1998); the Cooperation and Mutual Assistance Plan for Regional Security in Mercosur (Decision No. 5/1998); and the Understanding regarding the Cooperation and Mutual Assistance Plan for Regional Security between Mercosur, the Republic of Bolivia and the Republic of Chile (Decision No. 6/1998).

209 In accordance with the Ouro Preto Protocol (an additional protocol to the Treaty of Asunción on the institutional structure of Mercosur), in the annex entitled “General procedures for complaints to the Mercosur Trade Commission”, article 2 (The State party bringing the complaint shall submit it to the chairman *pro tempore* of the Mercosur Trade Commission...) article 5. (If no agreement is reached at the first meeting referred to in article 4, the Mercosur Trade Commission shall submit the various proposals to the Common Market Group for its consideration together with the joint opinion or the conclusions of the Technical Committee experts, so that a ruling may be issued on the matter).

Box VII.1

LIBERALIZATION OF INTRAREGIONAL TRADE IN SERVICES

Mercosur

At its December 1997 meeting, the Common Market Council approved the Montevideo Protocol on trade in services within Mercosur. This document consists of three parts: a general framework, annexes on specific sectors and schedules of specific commitments made by the States parties. At the July 1998 meeting, the annexes on specific sectors were approved, as were the annexes referring to the financial services sector, movement of natural persons providing services, overland and maritime transport services, and air transport services (Decision No. 18/1998). The initial lists of specific commitments contain proposals by the four member countries of Mercosur to liberalize certain services and service sectors within the subregional scheme. The policy agreed upon for compiling these lists was to build on the proposals made by each State party within the framework of the General Agreement on Trade in Services (GATS) of WTO.

Although it was not possible to achieve far-reaching liberalization of trade in services at this initial stage, the States parties have made efforts to add new sectors to the proposals they made in WTO. Argentina, for example, broadened the coverage of arrangements for certain professional services, giving them national treatment with a commercial presence. Brazil included architectural and engineering services in its schedule and granted the right of establishment, but made it conditional on a consortium being formed with a Brazilian company, which must hold a controlling interest. Uruguay expanded on its information technology proposals in respect of business services, and included certain professional services such as accountancy, architecture and engineering. In the telecommunications sector, for which Uruguay did not make any proposals at WTO, some services were included subject to the regulatory restrictions obtaining in the country: voice mail, electronic mail, access to databases and on-line information retrieval, video-conferencing services and personal, mobile, global and satellite communications services. Paraguay, meanwhile, offered to make commitments in connection with certain types of insurance, deposit-taking and loans (with a commercial presence), and tourism services.

Andean Community

In June 1998 the Commission of the Andean Community approved Decision 439, which establishes a general framework of principles and regulations for liberalizing trade in services within the Community. The objectives of this decision include the abolition of measures that restrict services transactions within the Community, progress towards an Andean common market in services and, in parallel with this, improvement and diversification of the supply of services and harmonization of the sectoral policies of the different countries. Decision 439 was adopted pursuant to the mandate given to the Andean Community at the tenth session of the Andean Presidential Council, held in Guayaquil in April 1998, with a view to the establishment of a free market in services within the Community by the year 2005 at the latest.

Decision 439 covers the same means of supply as were established within the framework of the GATS and is applicable to trade in services between member countries in all sectors and to the different means of supply, except for services provided by the public sector, government procurement and air transport services. The principles on which this liberalization process is based are those of access to markets by any method of supply, most favoured nation treatment, and national treatment. The decision also contains agreements on transparency and on the "binding" of the relevant rates. Provision is also made, however, for member States to avail themselves of certain exceptions. The timetable for the liberalization process establishes that by 31 December 1999 at the latest the Commission of the Andean Community must issue a decision on the inventory of measures used by each member country to restrict application of the principles of market access and national treatment; these measures will be lifted as the negotiating rounds proceed. It was decided to begin the process by negotiating on financial and telecommunications services within two months following implementation of Decision 439.

their obligation to incorporate certain resolutions previously adopted by the Common Market Group into their national laws. These difficulties have highlighted the need to set up a formal mechanism for settling disputes within Mercosur.

5. Institutional and political aspects

In July 1998 the fourteenth meeting of the Common Market Council was held in Ushuaia, Argentina. This meeting, at which the rotating presidency of Mercosur passed from Argentina to Brazil, was attended by the Presidents of Bolivia and Chile in addition to those of the Mercosur countries. It resulted in the signing of the Ushuaia Protocol,[210] which states that fully democratic rule is an essential precondition for integration to proceed among the signatory countries and sets out the procedures to be followed in the event of a breakdown in democratic order. The Mercosur Governments also reaffirmed their determination to continue progressing towards completion of the Customs Union and deals with issues ranging from institutional improvements to matters relating to legal security in the subregion.[211]

6. The external relations of Mercosur

One of the most rapidly evolving areas in the recent development of Mercosur has been its relationship with individual countries and groups of countries beyond its borders. All negotiations focus on the conclusion of broad free trade agreements, with the exception of the negotiations with Mexico, which are restricted to a limited number of products and have not made any substantial progress (see box VII.2). Contacts with Panama have become closer, and Nicaragua has stated its intention of signing a free trade agreement with Mercosur.

In the regional sphere, on 16 April 1998 the Framework Agreement for the Creation of a Free Trade Area between Mercosur and the Andean Community was signed in Buenos Aires and will begin to operate at the beginning of the year 2000. Another agreement is scheduled to come into force on 1 October 1998 to replace existing tariff preferences, which were established under bilateral agreements signed between the member countries of the two groups and form part of the legacy of the Latin American Integration Association (LAIA). The definitive free trade agreement, which will cover the entire range of tariffs, was to be negotiated between the beginning of October 1998 and 31 December 1999. The negotiations, have proved to be longer and more complex than anticipated, however, and the possibility of a six-month extension (to 31 March 1999) for the existing bilateral agreements is being considered.

Meanwhile, on 16 June 1998 an Understanding on Cooperation in Trade and Investment and a Plan of Action were signed between Mercosur and Canada with a view to liberalizing trade and identifying measures that impede or distort reciprocal flows of trade and investment. Representatives of both parties have formed a consultative group, which will meet at least once a year to review and direct the process in accordance with the guidelines set out in the Plan of

210 Ushuaia Protocol on Commitment to Democracy in Mercosur, the Republic of Bolivia and the Republic of Chile.

211 Subsequently, at its thirtieth meeting held in Buenos Aires on 22 July 1998, the Common Market Group decided to set up a special meeting to analyse the situation of women, taking into account the legislation in force in the States parties to Mercosur relating to the concept of equality of opportunity, with the objective of contributing to the social, economic and cultural development of communities in the States parties to Mercosur (Article 1 of resolution No. 20/1998).

Box VII.2

RELATIONS BETWEEN MERCOSUR AND MEXICO

Article 44 of the Treaty of Montevideo (1980), the legal instrument that established the Latin American Integration Association (LAIA), states that any advantages, favours, exemptions, immunities or privileges granted by member countries to products originating from any other member or non-member country, or exported to any other member or non-member country, by virtue of decisions or agreements not included in the Treaty itself or in the Cartagena Agreement, are to be immediately and unconditionally extended to all other member countries. In 1994, mainly as a result of the signing by Mexico of the North American Free Trade Agreement (NAFTA) with Canada and the United States, LAIA approved the Protocol of Interpretation for article 44 of the Treaty of Montevideo and Resolution 43 (I-E), which establishes the rules for the transitional period that is to elapse before this protocol comes into effect.

It should be noted that each of the member countries of Mercosur had individual agreements with Mexico, and these had to be revised and made applicable multilaterally to Mercosur as a whole. Negotiations were held with Mexico for this purpose; while those negotiations were being pursued, the bilateral agreements were extended. Thus, both the Economic Complementarity Agreement No. 5 (Mexico and Uruguay) and the Partial Agreement on Renegotiation No. 38 applying to the provisions of previous agreements (Mexico and Paraguay) were to remain in force until 31 December 1998. Meanwhile, the preferences established in the Partial Agreement on Renegotiation No. 9 (Brazil and Mexico) expired on 31 December 1997. Finally, on 9 October 1998 the Governments of Argentina and Mexico renewed Additional Protocol No. 13 to Economic Complementarity Agreement No. 6, and extended bilateral tariff preferences up to 31 December 2001, unless a complementarity agreement is established before that date between Mercosur as a group and Mexico.

Action. It is interesting to note that this plan deals, among other points, with matters relating to consultation and cooperation in areas of mutual interest within the Cairns Group, WTO and other international forums and negotiations, among them the negotiations to set up the Free Trade Area of the Americas (FTAA), in which Mercosur is an active participant. Mercosur is taking part in these negotiations as a bloc and is represented at each meeting by a spokesman appointed by the country holding the presidency *pro tempore* at the time in question.

The preparatory work for negotiations regarding a free trade agreement with the European Union is being carried out by Mercosur-European Union working groups and an ad hoc Mercosur-European Union external relations group. These negotiations are to begin when the bi-regional presidential summit is held in Brazil in June 1999. At the same time, closer contacts are being pursued with Australia, China, Japan, New Zealand, South Africa and the Commonwealth of Independent States. In addition, the Republic of Korea has asked Mercosur for a meeting in the near future with a view to forging closer economic ties.

B. ANDEAN COMMUNITY

1. Trade and investment within the Community

During 1997 intraregional exports resumed the strong upward trend that had been interrupted in 1996. The growth rate of around 13% recorded in 1997, while more modest than the annual average for the first five years of the decade, was still substantial considering that Andean exports to the rest of the world grew by less than 2%, which meant that the share of intra-Community exports rose to some 12% of the member countries' total exports (see table VII.1). All the member countries except Bolivia (whose exports to the subregion fell by 7%) made a positive contribution to this recovery, with intra-Community export growth rates of 49% for Ecuador, 23% for Peru, 21% for Venezuela and 15% for Colombia. Nonetheless, bilateral trade between Colombia and Venezuela still dominates trade within the subregion.

According to the projections of the General Secretariat of the Andean Community, in 1998 trade within the Community may well have continued to grow faster than total exports, as it is expected that the exports of all the countries may have fallen substantially due to the drop in oil prices (Andean Community, 1998c).

Between 1990 and 1997, the annual flow of foreign direct investment into the countries of the Andean Community rose from US$ 1.14 billion to around US$ 9.8 billion, with a total FDI stock for the period of US$ 36 billion.[212] Thus far, the main attractions for foreign investors have been the countries' liberalization programmes, the deregulation of their economies, and their privatization processes. It is, however, difficult to quantify the impact that the integration process has had on flows of capital into the countries; it has even been suggested that large foreign investments could be helping to return these economies to a position of dependence on primary commodities, rather than helping to strengthen and diversify their manufacturing sector (Heirman and Mattos, 1998, pp. 6-8).

Intra-Community investment accounts for a very small proportion of total investment, with a sum total of around US$ 720 million up to 1996, and has been channelled into different sectors from those chosen by investors from outside the subregion. Another distinguishing feature of intra-Community investment is its geographical distribution, as almost 66% of it has been between Colombia and Venezuela and another 20% between Colombia and Ecuador, while 8% is accounted for by Ecuadorian investments in Venezuela (Garay and Vera, 1997, pp. 16 and 17).

2. Market access and trade facilitation measures

Since the end of January 1993, a free trade area with no exemptions has been in operation among Bolivia, Colombia, Ecuador and Venezuela. In addition, Peru has been gradually reintegrating itself into the Andean free trade area through a tariff rollback programme that began at the end of August 1997 and is due to be completed by the end of 2005.[213] According to the agreed timetable, three quarters of all Peruvian tariff items were to have been liberalized by mid-1998.

The common external tariff of the Community is applied by Bolivia, Colombia, Ecuador and Venezuela to a large number of sub-items, although Ecuador is authorized to maintain a difference of five points over the common levels for 930 sub-items. The lists of exceptions to the common external tariff have been shortened each year and were to have been done away with altogether by 1 February 1999 (Decision 370). Bolivia receives special treatment, but may not alter its tariffs unilaterally. Peru is to come into the common tariff mechanism at an earlier date than had been thought last year.

The customs union now being formed already has a number of complementary instruments for regulating the internal Andean market that were approved in previous periods. These are the Community Nomenclature and Customs Valuation,

212 Figures obtained from the Website of the Andean Community [http://www.comunidadandina.org].

213 Decision 414.

Rules of Origin (Decision 293), Technical Regulations (Decision 376), Rules on Dumping and Subsidies (Decision 283), and Rules on Practices Restricting Free Competition (Decision 285).[214]

The Andean Community also has an Andean Common Agricultural Policy (PACA), which has been evolving over the years and is now constituted basically by the Andean Agricultural Health System, the Andean System of Price Bands and the system of Agricultural Indicators (IASA). The first of these systems sets out common phytosanitary standards for 31 products which together represent 60% of intra-Community trade in agricultural products, measured by value, and animal health standards covering almost all the trade conducted in livestock and livestock products. The objective of the second system is to stabilize the cost of importing a number of agricultural products that are subject to considerable instability or serious distortions on the international market. The price system is considered to have made a substantial contribution to reducing the cost of importing a number of key products such as wheat, maize, barley and soya. Finally, the IASA system makes it easier to harmonize agricultural policies and facilitates negotiations with other countries and regions (Andean Community, 1997b).

Furthermore, the Andean integration process is moving into new areas, as is demonstrated by the recent approval of a general framework of principles and rules for the progressive liberalization of trade in services within the subregion, with the ultimate aim of this framework being to establish a common Andean market in services by 2005. The agreement covers all forms of service provision, adopts the most favoured nation and national treatment principles, and requires the Governments to engage in annual negotiations aimed at gradually eliminating any restrictions that are contrary to these principles (Andean Community, 1998a) (see box VII.1).

3. Institutional and political aspects

On 1 August 1997 the General Secretariat of the Andean Community took over the functions of the Board of the Cartagena Agreement. Implementation of decisions taken by the two highest bodies of the Community, the Andean Presidential Council and the Andean Council of Ministers for Foreign Affairs, is now centralized in the General Secretariat, which serves as the Community's sole executing agency. The Secretariat is headed by the Secretary General, who is assisted by a number of Directors General with responsibilities in particular subject areas, whereas the Board was headed by a three-member committee.

The main function of the Andean Presidential Council is to define and give direction to integration policies, while the task of the Council of Ministers is to formulate and apply the foreign policy of the Community. Previously, the role of the Commission of the Andean Community was limited to formulating, implementing and evaluating the trade and investment policies of the Community. To sum up, the task of managing the integration process has been transferred to the highest political authorities, while the Secretary General has technical, legal and political powers that enable him to act as the political spokesman for the Andean Community (Andean Community, 1997a).

This arrangement is the culmination of an institutional reform process begun at the eighth session of the Presidential Council in Trujillo in March 1996, the purpose of which was to provide the Community with the mechanisms it needs to cope with

214 The latest version of the Common Nomenclature of the Member Countries of the Cartagena Agreement (Nandina) (Decision 381) will come into full effect at the beginning of 1999, when the five countries will be using Nandina. The subregional customs valuation standard came into force in 1994.

the challenges posed by the current stage of the integration process. These mechanisms include measures for consolidating the internal market, broadening and improving external relations and promoting integration in new areas. The Community is following a strategy of prior coordination among its members, and this is enabling it to establish common positions in a number of external negotiating forums, such as Mercosur and FTAA.

In addition, the concluding statement issued at the tenth session of the Andean Presidential Council, held in Guayaquil in April 1998, noted the desire of the governments to harmonize macroeconomic policies. The Presidents instructed the Advisory Council of Ministers of Finance, presidents of central banks and economic planners to "work for greater coordination and convergence among the macroeconomic policies of the member countries...(and) draw up an agenda...setting forth the policy harmonization objectives to be attained in this area" (Andean Community, 1998b).[215]

At a special session held in Bogotá on 7 August 1998, the Andean Presidential Council signed the Andean Community's Commitment to Democracy and gave the Andean Council of Ministers for Foreign Affairs the responsibility of preparing a draft protocol establishing the measures to be taken "by the Andean countries in the event of a breakdown in the democratic order of a member country".

4. The external relations of the Community

At the ninth session of the Andean Presidential Council (Sucre, April 1997), guidelines were laid down for negotiating a free trade agreement with Mercosur. At that meeting, the Presidents expressed a desire for these negotiations to be concluded before the end of 1997. As has already been noted, however, the negotiations proved to be more difficult than expected, and the parties were unable to reach an agreement by that deadline due to disagreements on issues such as treatment of the agricultural and automotive sectors, rules of origin and the establishment of a mechanism for settling disputes. The tenth meeting of the Presidential Council, held in Guayaquil, instructed the Council of Ministers for Foreign Affairs to complete the preparation of a framework agreement and have it ready for signing on 16 April 1998. The agreement was indeed signed on the date set, in Buenos Aires, just two days before the opening of the Second Summit of the Americas in Santiago, Chile. Under this agreement, the two parties –the Andean Community and Mercosur– undertook to complete the renegotiation of pre-existing agreements before the end of September 1998, so that they could be implemented as of 1 October of that year.[216]

At the last meeting, which was held in Montevideo on 6 November 1998, the Ministers of the Mercosur Council and the Ministers of the Commission of the Andean Community agreed upon a number of directives designed to permit the completion by 31 March 1999 of the first stage of negotiation provided for by the framework agreement

215 The Advisory Council had met for the first time on 2 and 3 March 1998 to analyse the advantages of coordination and discuss what could be achieved in this area, basing these discussions on technical documents produced for this purpose. These documents identified the establishment of stabilization funds for commodities, application of a counter-cyclical tax policy and a more active exchange rate policy as areas in which coordinated action could be taken.

216 These past agreements are bilateral pacts signed by the countries of the two regional groupings within the framework of LAIA. In addition to expanding and diversifying trade, the negotiations have the objective of creating a legal and institutional framework for cooperation and integration with a view to developing this wider economic area; developing and utilizing physical infrastructure and creating integration corridors; promoting and stimulating reciprocal investment; furthering economic, energy, scientific and technological complementarity and cooperation; and reaching coordinated positions on hemispheric integration and in multilateral forums generally.

for the creation of a free trade area between Mercosur and the Andean Community.[217]

The Community has begun talks with Caricom, CACM, Canada and Panama with the aim of negotiating free trade agreements. During the Summit of the Americas in April 1998, contacts with Panama developed to the stage where a general framework was agreed upon for further negotiations on a free trade treaty.

The Andean Community has also participated actively in the preparatory work and ongoing negotiations of the FTAA, with the member countries acting as a bloc at the meetings of the negotiating teams. Three Andean countries have been selected to chair different negotiating teams up to October 1999 (Colombia: market access; Peru: competition policies; and Venezuela: intellectual property).

The Community's relationship with the European Union is based on the Third Generation Framework Agreement on Cooperation, signed in 1993, and on the Joint Declaration of Rome (June 1996). The two parties have pledged themselves to cooperate with one another, particularly in the sphere of economic integration, and to institutionalize political dialogue by holding regular meetings at different levels. Accordingly, on 12 February 1998 the foreign ministers of the member countries of the two groupings met in Panama for the Eighth Institutionalized Meeting of Ministers for Foreign Affairs of the Rio Group and the European Union.[218]

C. THE CENTRAL AMERICAN COMMON MARKET (CACM)[219]

1. Trade within the CACM area

In 1997, trade within the CACM area grew by 18% in current values, a slightly lower rate than for the member countries' total exports (19.5%). The percentage of total exports accounted for by exports within the area therefore remained stable, at 21%, which is roughly the same proportion as has been recorded ever since 1992 (see table VII.1). Intra-CACM trade continued to be affected by certain structural weaknesses, including the very limited participation of Honduras and Nicaragua, the large deficits that these countries tend to have with other members, and the high degree to which trade is concentrated in final consumer products and some light manufactures.[220]

2. Institutional and political aspects

At the Nineteenth Summit of Central American Presidents, which was held in Panama City on 12 July 1997, major decisions were taken with the objective of rationalizing and strengthening the institutional structure of CACM. Presidential meetings became the highest authority for taking political decisions and setting strategy. Subsequently, at a special meeting held in Managua on 2 September 1997, the Presidents decided to move towards an economic and political union with the objective of contributing to the

217 See the Andean Community Website.

218 The Andean countries are beneficiaries of the Special System of Preferences granted by the European Union to support the efforts of these countries in combating drug production and trafficking. This system has already produced tangible results in the form of export growth.

219 This section is largely based on ECLAC (1998f).

220 Costa Rica, El Salvador and Guatemala account for 90% of exports within the area and 70% of imports from within the area. The main manufactures traded are chemical products, food, beverages and tobacco.

economic development of member countries and reinforcing democratic institutions in the region. To this end a high-level group was established to draw up the articles of agreement for a Central American union.

Among the reorganizational measures that were approved, particular mention should be made of the decision to consolidate the existing secretariats into a single General Secretariat for the Central American Integration System (SICA), with its headquarters in El Salvador. The Council of Ministers for Foreign Affairs is responsible for coordinating SICA, which has brought together the Secretariat for Social Integration (formerly in Panama), the Secretariat for the Integration of Tourism in Central America, or SITCA (previously in Managua) and the Central American Commission on Environment and Development (CACED).[221]

3. Market access and trade facilitation measures

In 1997 the member countries opened their economies still further to international trade by progressively reducing tariffs, although they did lag somewhat behind the timetable for tariff reduction adopted in September 1996. Under the programme, tariffs are gradually to be brought down to match the common external tariff of CACM, which has four final tariff levels: 0% for raw materials, intermediate goods and capital goods when the same goods are not produced in the subregion; 5% for raw materials competing with those produced in the subregion; 10% for intermediate goods and capital goods competing with goods produced there; and 15% for finished products.[222] On 6 June 1997, the Deputy Ministers for Economic Affairs agreed to extend the tariff reduction period by five years in order to give some sensitive sectors time to adjust to the new conditions of international competition.[223] As a result, the deadline for alignment with the common external tariff was put back to 2005.

According to information from SIECA, El Salvador, Guatemala and Nicaragua were maintaining a tariff of 0% on capital goods and raw materials, while Costa Rica and Honduras applied a tariff of 1%, thus complying with the agreed tariff reduction timetable. All the countries have adopted tariff reduction timetables for intermediate tariffs and tariff ceilings except Costa Rica, which has suspended application of its reduction programme (SIECA, 1998).

Other steps favourable to the development of trade within the area were also taken during 1997. Almost all tariffs applying to inter-CACM trade in agricultural products were eliminated, the use of safeguard clauses was reduced,[224] and virtually all limitations on currency trading and import payments were lifted.

221 As of November 1998 the proposed merger still had not taken place, and the Secretariat for Economic Integration (SIECA), formerly known as the Permanent Secretariat of the General Treaty on Central American Economic Integration, is still responsible for the economic side of CACM.

222 For information on the tariff reduction timetable, see ECLAC, 1997a, table V.2, p. 118.

223 These sensitive products include certain textile products, tyres, milk, potatoes and onions.

224 The Central American Regulations on Safeguards were approved in July 1996. These measures may be applied only to imports from third countries. The safeguard clauses were renewed at the end of 1996 until mid-1997, and were then renewed again, up to 31 December 1998. The Regulations are currently being revised to bring them into line with WTO rules.

4. Regulatory aspects

On 1 January 1997 the countries commenced the implementation of the new version of the Central American Tariff System (SAC), which includes the second amendment to the Harmonized System. Customs authorities approved draft legislation for Central America on the customs valuation of goods, under which the procedures to be used in implementing the agreement on the application of article VII of GATT would be harmonized across the region (SIECA, 1998).

SIECA is drafting regulations for Central America covering trade in services with a view to bringing about a gradual liberalization of this trade among member countries; these regulations will also establish the parameters for negotiations on this subject with countries outside the subregion.[225] However, the preliminary draft of regulations for Central America on administrative procedures for settling intraregional trade disputes has not yet been approved.

5. The external relations of CACM

At their second special meeting, held in Santo Domingo between 5 and 7 November 1997, the Central American Presidents and the President of the Dominican Republic reached agreement on the procedures for negotiating a free trade agreement between CACM and the Dominican Republic. This agreement, which was then signed on 16 April 1998, is a broad one which not only includes virtually the whole gamut of merchandise tariff items,[226] but also deals with other major issues, such as trade in services, reciprocal investments, intellectual property, competition policy and dispute settlement. The treaty is to come into effect in 1999, although some matters are still pending, such as the final list of products to be excluded from the treaty.

On 18 September 1997, meanwhile, Nicaragua signed a free trade agreement with Mexico. This agreement provides immediate access to the Mexican market for 77% of Nicaragua's exports and to the Nicaraguan market for 45% of Mexico's exports to that country. Tariffs on the remaining categories will be removed within a period of 10 years in the first case and 15 years in the second. Costa Rica and Mexico already have a similar free trade agreement, which has been in operation since 1 January 1995. Since the third meeting of the Presidents of Central America and Mexico (Tuxtla III, held in San Salvador in July 1998), renewed efforts have been made to conclude another agreement between Mexico and the three Central American countries that together form what is known as the Northern Triangle (El Salvador, Guatemala and Honduras).

The countries of Central America, acting as a group, are also currently negotiating free trade treaties with Chile and Panama. During their nineteenth summit meeting, the six Presidents finalized a framework agreement which recognizes the need to liberalize trade flows, promote reciprocal investment

225 The procedure for taking compensatory and anti-dumping measures is set forth in the Central American Regulations on Unfair Trade Practices, which was approved on 12 December 1995.

226 The treaty between CACM and the Dominican Republic, which was to como into force on 1 January 1999, provides for reciprocal free trade immediately and covers virtually all tariffs, provided that products are in compliance with the rules of origin stipulated in the agreement. The few exceptions to the free trade rule had to be negotiated within 120 days following the signing of the agreement and would then be subject to progressive tariff reductions, with complete free trade to be achieved in 2004.

and promote cooperation among CACM, Chile and Panama.[227]

Relations with countries outside the area have also been very dynamic. For example, the dialogue conducted with the European Union in the context of what is known as the San José process has sustained a high degree of cooperation and has permitted the continued application of previously agreed tariff preferences, although the Central American countries have expressed an interest in progressing towards more comprehensive agreements on financial and trade issues.

D. THE CARIBBEAN COMMUNITY (CARICOM)

The Caribbean Community (Caricom) and the Caribbean Common Market are the result of 15 years of efforts to achieve subregional integration, a process that began in 1958 with the creation of the British Federation of the West Indies, which lasted only four years. In December 1965 the Caribbean Free Trade Association (Carifta) was created, the participants being Antigua and Barbuda, Barbados, Guyana and Trinidad and Tobago. Caricom was established by the Treaty of Chaguaramas, which was signed by Barbados, Guyana, Jamaica, and Trinidad and Tobago and entered into effect on 1 August 1973.[228]

The Caribbean Common Market was created on the basis of a common policy of protection, with high tariff and non-tariff barriers to imports from third countries. The explicit objectives of the Common Market are: (i) to protect the industrial and agricultural output of the subregion; (ii) to support the development of internationally competitive production activities in the common market; (iii) to simplify the tariff structure; and (iv) to stimulate competition within the subregion. Later, in 1993, a new programme for the common external tariff was devised, whereby the Governments of the member countries, while recognizing the need to increase the international competitiveness of their economies, made known their concern about the adverse impact which economic liberalization could have on employment and the public finances.

At the tenth Conference of Heads of Government of Caricom, held in Grand Anse, Grenada, in July 1989, the Heads of Government stated their intention of creating a single economy and market within a short time period. The first steps that would need to be taken towards this objective were the establishment of four basic freedoms (free trade in goods, free trade in services, free movement of people and free movement of capital) and harmonization of the macroeconomic policies of member States. At the eleventh conference, held in Kingston in August 1990, the Heads of Government, after reviewing the progress made, decided to extend the deadlines within which the basic instruments for creating a common market were supposed to be in operation. These instruments included the common external tariff, with the scheduled reductions in tariff rates to be completed by the end of 1998.[229]

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227 During the first negotiating session between the Central American and Chilean delegations (Miami, September 1998) and at the negotiating session between Central America and Panama (Panama City, 17 and 18 September 1998), there was an exchange of general information about the national legislation of each of the countries as it applied to the subjects under negotiation, and the proposals submitted by the parties involved were explored and commented upon.

228 Other Caribbean countries subsequently joined Caricom (Antigua and Barbuda, Belize, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines). The Bahamas became the thirteenth member in 1983 and Suriname the fourteenth in 1995 (see the history of Caricom on the Caricom Website http://www.caricom.org). The Caribbean Common Market was also created in 1973 under the terms of an agreement annexed to the Treaty of Chaguaramas.

229 For the tariff reduction timetable, see ECLAC, 1997a, table V.3, p. 122.

1. Trade within the Community

The main exports of the Caricom member countries are commodities such as hydrocarbons and sugar in the case of Trinidad and Tobago, aluminium and bauxite in the case of Guyana and Jamaica, and bananas in the case of the smaller countries (see chapter III). Exports of commercial services, among which tourism is a prime example, generally account for a substantial proportion of export earnings (ECLAC, 1997a, table VIII.2, p. 153). The smaller and less developed countries also receive significant amounts of financial aid from abroad.

By contrast, trade within the Community includes a higher proportion of light manufactures, among them prepared foods, since these products enjoy an appreciable margin of preference in the Community market. Three quarters of intra-Community exports come from the four most highly developed countries: Barbados, Guyana, Jamaica, and Trinidad and Tobago.[230]

Thanks to the progress made in integrating the Community market and the gradual opening of these economies in general, trade within the Community recovered substantially in the first half of the 1990s. Data from the Caricom Secretariat show growth in intraregional trade, due mainly to transactions between the more highly developed countries (Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago).

2. Market access and trade facilitation measures

Most non-tariff restrictions have been lifted, but a number of countries still apply restrictive licensing arrangements and import quotas, particularly to regulate the entry of agricultural products and beverages which compete with local products (Caricom, 1997a). Likewise, countries such as the Bahamas, Dominica and Saint Vincent and the Grenadines apply stamp taxes, while others such as Antigua and Barbuda and Barbados, as well as Dominica, impose import surcharges which range from 3% to 10% of the c.i.f, value. The fourth and final stage in the programme of reductions and convergence towards the common external tariff should essentially be completed by the end of 1998, with the exception of Belize, which has been given up to the year 2000. As of mid-1998, however, only Barbados, Saint Kitts, and Saint Vincent and the Grenadines had implemented this final stage.

The tariffs applied to foreign trade are still a major source of public revenue, especially for the smaller countries, where they may account for almost half of total current revenue (ECLAC, 1997a, pp. 125-130). The Caricom Secretariat is carrying out studies to ascertain the extent to which tariff reductions will affect the tax revenues of member countries, so that the common external tariff may be applied without delay.

Since 1989 Caricom has been working to promote the free movement of labour within the subregion. As of mid-1997, 8 of the 14 member countries accepted travel documents other than passports (Barbados, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, and Saint Vincent and the Grenadines). Seven countries also have legislation that enables university graduates to practise their profession within the subregion without having to obtain work permits (Antigua and Barbuda, Barbados, Dominica, Grenada, Guyana, Jamaica, Saint Lucia, Saint Vincent and the Grenadines, and Trinidad and Tobago). This right will soon be extended to artists, athletes and members of the media (Caricom, 1997a).

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230 See the Caricom Website.

The efforts being made to establish and refine the design of the single market and economy include the negotiation of a number of protocols, to be implemented by the year 2000, which represent a genuine reform of the Treaty of Chaguaramas. The first of these, which provides for restructuring the organizations and institutions of Caricom, came into provisional effect on 1 July 1997. This was also done in the case of Protocol II, which deals with the provision of services, the right of establishment and capital movements.

During the nineteenth Conference of Heads of Government, which was held in Saint Lucia from 30 June to 4 July 1998, and which celebrated the organization's twenty-fifth anniversary, Protocol III, dealing with industrial policy, and Protocol V, relating to the agricultural policy of the Community, were signed.[231] The countries have not yet, however, been able to harmonize their treatment of foreign investments, competition policy or intellectual property protection (Caricom, 1998).[232]

3. The external relations of Caricom

During the Second Summit of the Americas, held in Santiago, Chile, in April 1998, the Caricom Bureau formulated a number of recommendations for conducting negotiations jointly with third countries by means of what is known as regional negotiating machinery.[233] Caricom successfully completed negotiations to extend its economic and trade agreement with Colombia, and this was signed on 1 June 1998 by the Governments of Colombia and of the States members of Caricom. Joint negotiations with the Dominican Republic have also recently been brought to a successful conclusion with the signing on 22 August 1998 of a framework agreement on free trade which entered into effect on 1 January 1999 and should be fully operative by 2005. Likewise, the Joint Caricom-Cuba Commission, which was set up in 1993 to hold discussions on promoting trade and mutual cooperation, has met on a number of occasions (Caricom, 1997b).

231 Protocol IV, dealing with trade liberalization, is to be ready for signing at the tenth inter-sessional meeting.

232 Protocol VI provides for a common policy on international transport; Protocol VII deals with the issues facing disadvantaged countries, regions and sectors; Protocol VIII covers the dispute settlement mechanism; and Protocol IX concerns protection against competition. The Heads of Government have also accepted in principle an agreement to set up a Caribbean supreme court. Some countries still have difficulties in accepting the appeal function of the Court, however, due to differences in their legal structures.

233 The Bureau is a consultative group which was set up in 1992, its members being the current chairperson of the Conference of Heads of Government, the preceding chairperson and the chairperson-elect. The function of this body is to consider more urgent matters in advance of regular sessions of the Conference and formulate proposals regarding these issues.

Chapter VIII

TRADE AND INDUSTRIAL POLICIES SINCE THE URUGUAY ROUND: A COMPARISON BETWEEN THE COUNTRIES OF EAST ASIA AND LATIN AMERICA[234]

Introduction

Economic literature in recent decades has helped to disseminate information on the economic policy successes achieved by the Governments of East Asia, which have enabled them to correct various market failures, thereby speeding up the process of capital accumulation, technical progress and structural transformation of the economy. In other words, State intervention has resulted in a higher level of economic growth than could have been achieved through a policy of laissez-faire. For this and other reasons, the countries of Latin America and the Caribbean have turned their attention to East Asia in an attempt to draw lessons from that region's experience.

However, following the financial crisis that swept through the economies of East Asia, radical changes have had to be introduced in the regulations that protected various of its markets from international competition. In particular, countries that have had to resort to borrowing from multilateral financial agencies will have to speed up the process of deregulation and liberalization of product and factor markets in order to comply with the conditions laid down by those agencies.

Moreover, other factors make it less likely that selective industrial and trade policies similar to those applied successfully in East Asia can be adopted elsewhere. First, globalization of markets is forcing national companies to engage in intense competition both internally and externally, and the rules of this competition are dictated by the big transnational corporations. As a result of the globalization of production and finance, there is an increasing tendency within the World Trade Organization (WTO) and other negotiating forums to work towards harmonization of national policies and standards based on multilaterally agreed criteria. Moreover, neither the new multilaterally negotiated disciplines emerging from the Uruguay Round nor those arising from plurilateral, subregional, regional or hemispheric agreements would allow the adoption of selective industrial and trade policies that are as far-reaching as those applied in the past in the East-Asian countries.

The new round of multilateral trade negotiations scheduled to start towards the end of 1999 could impose even greater restrictions on selective policies. And even if that round were not to take place, WTO member countries have already committed themselves

234 This chapter is based on the summary document of the project, "Comparative study of development strategies of selected East Asian and Latin American countries, with special reference to trade and industrial policies, under the new international trading system", developed by the International Trade Unit of ECLAC under the direction of Mikio Kuwayama (ECLAC, 1998). Six comparative studies were conducted on the following countries: Argentina (Casaburi, 1997); Brazil (Delorme Prado, 1998); Chile (Agosin, 1997); Indonesia (Nasution, 1998); Malaysia (Zainal-Abidin, 1998), and Republic of Korea (Yeom, 1998).

to engaging in dialogues by the year 2000 on disciplines still pending in relation to the protection of intellectual property rights and further liberalization of trade in agricultural products and in services. Similarly, WTO will need to examine the progress achieved by the working groups set up in 1996 on trade and investment, competition policy and public-sector purchases.

Nevertheless, many analysts consider that the room for manoeuvre that Governments have enjoyed with respect to their policies is by no means a thing of the past.[235] Developing countries should strive to strengthen policy measures, consistent with the standards established in the Uruguay Round and other international agreements, designed to improve their endogenous capacity. The experiences of the six countries examined in this chapter may give an idea of ways of designing and administering such measures.

A. THE ENDOGENOUS APPROACH TO DEVELOPMENT

State intervention in the structure of incentives for private agents is justifiable, affirm its advocates, on the grounds of externalities and failures existing in product, labour, capital and information markets. With respect to the labour market, for example, although many skills are only acquired with practice, companies do not invest sufficiently in personnel training because of high staff turnover. On product markets, companies that experiment with new technologies or new markets provide valuable information to the rest and when they are successful may be imitated. These externalities, related to information and technology, are not easy to internalize within the company, so that the associated benefits cannot be appropriated individually. Moreover, in the absence, for example, of developed capital markets, it is highly unlikely that the financial market will yield very favourable results in terms of financial intermediation, especially as regards long-term investments or channelling of loans to small and medium-sized companies. Nevertheless, it has been shown that trade policy is not the most appropriate mechanism for correcting factor and capital market distortions. The problems mentioned should be tackled at the root.

Recent growth theory emphasizes investment in human capital and in technology as the main growth factors over the long term. The argument is that capital stock is a composite good, in which the knowledge component yields increasing returns to scale that offset the diminishing returns of physical capital stock. This has two consequences: on the one hand, the incentive for capital accumulation can persist indefinitely, and, on the other, technological change becomes an endogenously determined input. Therefore, public policy should, justifiably, be geared towards the development of those sectors that lead, separately or simultaneously, to the creation or assimilation of knowledge.

New theories on international trade also emphasize dynamic externalities, both internal and external to the company. According to these theories, the increase in productivity is considered to be the outcome of a gradual, long-term process of learning-by-doing based on the assimilation of past and recent experiences with production. However, some sectors display a greater capacity for technological innovation, while others are strategic sectors which transmit strong externalities to the rest of the economy. Public policies should therefore promote the development of those industries believed to hold great potential, subject to rigorous selection criteria and relevant incentives offered for a limited time only and on the basis of actual performance.

235 See, among others, Agosin (1996); Agosin, Tussie and Crespi (1994); and Laird (1997).

Various experiences in this regard point to the conclusion that success in the application of such policies depends on the existence of certain conditions at the national level, in particular a favourable macroeconomic context, an adequate physical infrastructure, a literate and skilled labour force and an institutional framework which ensures the full operation of the production and financial systems. In addition, the support provided by the State in the area of productive development should guarantee the systemic competitiveness of the economy as a whole.

It is also possible that policies designed to correct some market failures may not be selective but horizontal or neutral. For example, exports give rise to important externalities when they comply with international market standards, specifications relating to product quality and objectives relating to distribution and marketing, externalities which, once achieved, can be extended to other products and processes. In this regard, integration in the world economy can be conceived of as a public good. As far as imports are concerned, the externalities have to do with the learning opportunities provided by the importation of capital goods and intermediate goods with embodied technology (Bradford, 1991, p. 99). The public sector's capacity to provide credit and sufficient trade guarantees can be decisive in correcting capital market failures. If external trade is to function as a cumulative process of learning and technology absorption, both for entrepreneurs and for the country as a whole, it would be advisable for the State to lend support to the private sector while ensuring that the country's integration in the global economy satisfies the criteria of a public good.

The distinction between selective and horizontal policies is not always clear. When a selective policy is applied to a group of economic activities and not to a given company or sector, this distinction becomes blurred. For example, selective policies have been applied to the promotion of industrial complexes, technological parks or resource-based production complexes (clusters). Economic incentives for creating broad backward and forward linkages may be highly selective or may encompass a whole range of productive activities. Moreover, inasmuch as the selective policies seek to identify the most promising area or even to constitute it, horizontal policies are usually applied on a selective basis.[236]

B. EVALUATION OF INDUSTRIAL AND TRADE POLICIES APPLIED IN THE PAST

1. Export-led growth or growth-led exports?

The controversy over the causal relationship between growth and exports (that is, export-led growth as opposed to growth-led exports) is a complex issue that is far from resolved.[237] However, depending on which of these two hypotheses is correct, the implications will be significant for public policy. If the key to growth lies in the second hypothesis, that is, in the accumulation of physical and human capital and tech-nological transformation, it will be worthwhile to gear policy towards promoting these factors. If, on the

236 Furthermore, although, policies for improving education are not generally considered to be selective, the question of whether to accord priority to primary, secondary or higher education does contain an element of selectivity. Some vocational training programmes, and specific programmes for higher education, technical and scientific education and specialized industrial training can be highly selective. If investment in the development of technical skills is geared towards export promotion, the policy for consolidating it will be selective, although it may not necessarily be directed towards specific industries or sectors.

237 Since exports are included in GDP, an increase in exports automatically affects the GDP growth rate, without there necessarily entering into play any specific causal relationship. By the same token, there is no reason why an export orientation should result in greater investments. In many cases, a substantial increase in the profitability of exports will not lead to an increase in investment, even after a considerable lag.

other hand, the key lies in the first, policies should be applied that stimulate export expansion and diversification.

Some analysts have stressed the importance of exports as an engine of growth.[238] According to this model, using trade liberalization to harmonize domestic prices with world market prices implies efficient use of domestic resources since it reduces the cost of imports, thus releasing resources for producing and purchasing national products and generating tradable goods. Therefore, if the purpose of trade policy reform is to achieve international competitiveness, the economy can respond to external demand by setting appropriate prices. Reform could include liberalization of the import regime, unification of the exchange rate, together with devaluation, and various other measures designed to boost exports (particularly tax refunds) in order to counter the anti-export bias. As a result, in a context of macroeconomic stability, exports should lead to specialization of the economy based on comparative advantages and give rise to an increase in earnings, investment, savings and productivity.

Exports are justifiable, *inter alia*, on the grounds that they lead to improvements in efficiency and increases in productivity. In practice, however, what prompts developing countries to export is, above all, the need to overcome balance-of-payments constraints. While capital flows can be used temporarily to finance imports, a vigorous increase in exports is needed to maintain high growth rates. Another link between exports and growth is market size: access to world markets enables the economy to achieve minimum production scale. Moreover, exports provide a range of externalities that arise at the industry level, such as economies of specialization and agglomeration.

Other analysts claim that development is investment-driven.[239] According to this paradigm, the chain of causality begins with investment, which raises the rate of structural transformation and productivity improvement, factors which, for their part, lead to expansion of exports and supply-led international competitiveness. When the rate of investment is high, the return does not necessarily decline. On the contrary, if technological change is built into new capital goods, high rates of investment speed up technological progress, intensify practical learning and give rise to a virtuous circle of greater competitiveness and more dynamic economic growth. As cautioned in box VIII-1, there are different views with respect to the causal relationship between growth and exports.

The recent experiences of East Asia seem to indicate that in those countries, it has become more difficult to channel investments into productive uses. This was predicted by Krugman (1994), who claimed that economic growth in East Asia could be attributed simply to accumulation of capital and labour and not to any increase in productivity, a situation that would inevitably result in diminishing returns on both factors, ultimately leading to a slowdown in growth. The problem could also be due to the quality of investment, much of which is geared to the non-tradables sectors, which yield low returns, rather than towards productive sectors. It may also be inferred that accessibility to foreign capital together with a more liberal and permissive financial framework lacking appropriate regulation and control will lead the private sector to invest and become too heavily indebted, causing the formation of speculative bubbles on real estate and stock markets (ECLAC, 1998, p. 16). Excessive lending by financial intermediaries caused inflation not as a result of price rises for securities rather than of products. When the bubble burst, the resulting fall in the price of stocks proved that the intermediaries were insolvent and obliged them to suspend operations, forcing down further the price of stocks (Krugman, 1998a and 1998b).

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238 See, for example, Krueger (1985); World Bank (1987).

239 Rodrik (1995); Singh (1995); UNCTAD (1994); Akyüz and Gore (1994).

Box VIII-1

CAUSAL RELATIONSHIP BETWEEN GROWTH AND EXPORTS

Brazil, according to Delorme Prado (1998), is an example of a country where exports are “growth-led”, since the main factors contributing to growth are domestic variables, while exports are necessary to generate the foreign exchange required for importing essential capital goods, services and technology. For a country with a vast domestic market like Brazil’s, the normal tendency, he claims, is to adopt a growth-based model. Recent events in some large economies, such as the United States and the People’s Republic of China, where growth during the last few years has been export-driven, show that the author’s thesis is more limited in application.

Agosin, on the other hand, in his analysis of Chile (Agosin, 1997), maintains that, while both exports and investment are significant factors in the country’s steady long-term GDP growth, Chile’s situation, especially since the mid-1980s, is best explained by the hypothesis of export-led growth. However, he cautions that the second phase of the development strategy based on exports will be more problematic, since the country will be obliged to diversify its exports to include more processed goods, instead of just basic commodities.

According to Zainal-Abidin (1998), growth in Malaysia, depending on the stage of economic development involved, has been alternately export-led or investment-driven. Initially, exports were a source of growth, since they generated income, diversified and intensified industrial activity and created employment. Beginning in 1980, investment, first in the public sector (1980-1985) and then in the private sector, assumed this role; this phase was accompanied by large inflows of foreign direct investment (FDI) and an intense wave of privatization. Major investments were channelled towards expenditure on machinery and equipment in the manufacturing sector, which, in Malaysia, is very much export-oriented. When the accumulation of human capital and technological innovation occur in the export sector, the distinction between the two models may be less obvious.

In his study on Indonesia, Nasution (1998) states that the country adopted a highly outward-oriented industrialization strategy based on the expansion of exports. A substantial portion of the investment was channelled into export-based manufacturing industries, and FDI also helped to stimulate export-based economic growth. As in the case of Malaysia, when most of the investment and related technological innovation occur in the export sector, the distinction between the two models tends to become blurred.

According to Casaburi (1997), growth in Argentina cannot be said to have been export- or investment-led. In his view, no single or predominant development strategy can be discerned that has lasted more than three or four years. Moreover, the chief macroeconomic incentives offered in the last 30 years not only had an anti-export bias (for example, export taxes and the negative relative price of exports), but also were a deterrent to investment (for example, the high price of capital goods, restrictions on foreign investment and constraints on financial markets). Growth in exports has been strong only in the last few years, and exports still account for a very small proportion of GDP. Overall, Casaburi considers that, in the final analysis, recent growth in Argentina can be said to have been based on investment.

Although the question of a causal connection is not addressed directly, Yeom (1998) shows that the Government of the Republic of Korea adopted a set of industrial and trade policies (consisting, above all, in high tariffs and other import restrictions, together with tax and preferential credit systems and administrative support) geared equally to export industries and import substitution. Through this approach, combining exports and import substitution, the State sought to eliminate a series of investment barriers and to foster a substantial increase in returns on private investment capital (Rodrik, 1995).

2. Evaluation of the industrial and trade policy applied in the past

In general, the six studies referred to above maintain that while an industrialization policy based on import substitution has helped to form the industrial base and in some phases has served to deepen it, its application has imposed serious external and internal restrictions on countries. Moreover, contrary to expectations, neither in East Asia nor in Latin America were these policies, least of all those applied in the second phase, successful in replacing labour-intensive, natural resource-based or semi-specialized industries by specialized, capital-intensive industries fully competitive on the international market. Dependency on imported inputs showed no tendency to diminish either. Moreover, these policies were often blocked by foreign exchange restrictions, which successively demanded the unilateral liberalization of economies in each of these regions. Furthermore, this model allowed specific groups to secure extraordinarily high rents.

It should be pointed out that, in the six countries in question, reforms had already been introduced in response to the economic situation, even before the start of the Uruguay Round. Generally, the policies currently being applied are even more liberal and less interventionist than those authorized by the World Trade Organization. Current tariffs are considerably lower than the consolidated levels established in the Uruguay Round and, in the early 1990s, direct export subsidies considered to be precluded by, or actionable under, the terms of the agreement were unilaterally abandoned.

As the experience of these countries has shown, incentives for import substitution should, ideally, be moderate at first and granted for a given period and exceptions to the principle of policy neutrality should be few and far between and awarded in a very selective manner. During a subsequent stage of development, incentives could appropriately be granted to the major industries (that is, to those that have best chance of producing dynamic benefits not internalized by the market), rather than to given beneficiaries.

Accordingly, countries should seek, first and foremost, to apply public policies that stimulate systemic competitiveness of the economy as a whole. These should include the adoption of measures designed to perfect the educational system; support industry (through training and product development); complement the capital market, especially for small and medium-sized enterprises; attract foreign investments towards new sectors that provide possible comparative advantages; improve physical and social infrastructure and carry out effective skills training and research and development programmes. The adoption of neutral policies, viewed by Governments as appropriate and authorized by WTO does not mean that incentives are superfluous.

C. ADAPTING NATIONAL POLICIES TO THE URUGUAY ROUND AGREEMENTS

1. Export subsidies

The Agreement on Subsidies and Countervailing Measures of the World Trade Organization (WTO) defines subsidies as financial contributions by Governments (including forgiveness of taxes which would otherwise have been due) and specifies the rules for their use. Subsidies are currently classified as prohibited, actionable or non-actionable. Any developing country having a per capita gross national product (GNP) of less than US$ 1,000 may grant export subsidies. The agreement also allows a certain degree of flexibility, since developing countries may subsidize exports if their share of the market in the importing country is relatively small (*de minimis* clause).

The category of prohibited subsidies covers a wide range of export promotion instruments, including the reduction of tariffs on imported inputs to an amount equivalent to the value of the exported end products. One example of this would seem to be the situation in Argentina and Brazil, where imported components used in the assembly of motor vehicles are exempted from tariffs up to an amount equivalent to the value of the exported vehicles (Casaburi, 1998, p. 33). Chile also applies a system of rebates based on the f.o.b. value of the exports which does not comply with WTO provisions on customs drawbacks (Agosin, 1998, p. 32).[240]

A major exception is exemption from or forgiveness of indirect taxes which normally apply to the production and distribution of like products marketed for domestic consumption (sales tax or value added tax, for example, but not direct taxes such as those levied on wages and profits). A system of this type has been introduced in Argentina that provides for rebates on indirect taxes on exports (Casaburi, 1998, p. 35). In Chile, exporters can recover any value added tax they have paid on raw materials and intermediate inputs (Macario, 1998b, p. 4).

Many countries in East Asia and Latin America and the Caribbean provide a package of tax incentives for industries located in free trade areas or export processing zones; these incentives are usually linked to outward processing or *maquila* activities. A large proportion of exports from some Central American, Caribbean and East Asian countries originate in such zones. Depending on the nature of the tax exemptions and other incentives provided for activities located within them, developing countries may have to adapt their legislation to comply with WTO provisions by the year 2003 (WTO, 1997, p. 51).

The non-actionable subsidies category enables developing countries to subsidize activities which produce externalities, provided that they are not specifically export-oriented and that the subsidies are granted to all industries. In principle, this permits subsidies to be provided for training and retraining activities, which are essential to increased productivity and international competitiveness, and for research and development activities, including product quality improvements, local adaptation of foreign technology, and consumer preference studies. General subsidies also include support for less-developed areas, government assistance for compliance with environmental protection standards and certain privatization programmes when they are carried out by developing countries.

In Argentina, Brazil and Malaysia, the gradual elimination of subsidies is not expected to give rise to major problems. On the other hand, certain subsidies in the Republic of Korea that are granted in order to promote exports and encourage purchases of national products will have to be replaced with non-actionable subsidies; it will also be necessary to reduce the amounts and scope of subsidies during the grace period provided for in the Agreement. The Government of the Republic of Korea has in fact reported that the five categories of subsidies which are contrary to WTO provisions will be replaced with export insurance, long-term export credits, drawback programmes and systems for the issuance of commercial promissory notes permitted by WTO (Yeom, 1998, p. 33).

240 In Chile, importers of capital goods pay duties under a plan providing for deferments of up to seven years, and exporters are exempted from those payments. Both this provision and the simplified drawback are considered subsidies by WTO and will have to be eliminated by the end of the year 2002 (Agosin, 1998, p. 32).

2. Countervailing measures applicable to imports and exports

Anti-dumping measures and countervailing duties have become the main commercial defence mechanisms for both industrialized and developing countries.[241] The Agreement on Subsidies and Countervailing Measures states that countervailing duties may be applied for a maximum of five years unless, upon review, it is found that their elimination would be likely to result in the continuation of the subsidization and the injury (sunset clause).[242]

In 1986, of the six countries studied, only the Republic of Korea had adhered to the Code on Subsidies and Countervailing Duties approved during the Tokyo Round. In 1994, Argentina, Brazil, Indonesia and Malaysia began to modify the corresponding legislation to bring it into line with WTO rules (Casaburi, 1998, p. 37; Delorme Prado, 1998, p. 25; Nasution, 1998, p. 40; Mahani, 1998, p. 35); in Chile, the appropriate amendments are in the process of being made (Agosin, 1998, p. 39). However, further changes are needed. In Malaysia, for example, the relevant legislation needs to be revised in order to incorporate the legal definition of dumping, broaden the excessively restrictive definition of national industry and require that any request for a new dumping investigation should be supported by enterprises representing at least 25% of the total output of the national industry concerned (Mahani, 1998, p. 35).

3. Trade-related investment measures (TRIM)

The Agreement on Trade-Related Investment Measures (TRIM) reaffirms the 1947 GATT provisions relating to national treatment (article III) and prohibition of quantitative restrictions (article XI). Strictly speaking, the clauses in the Agreement dealing with local content and trade balancing requirements (export performance) are incompatible with the provisions of article III, while those referring to trade restrictions, currency balancing and domestic sales requirements are incompatible with the provisions of article XI.

Fulfilment of obligations under the Agreement will affect some of the policy instruments used for the promotion of certain industries, such as the automotive industry, where local content provisions and export balancing requirements are widely used. For example, the automotive regime in the member States of the Southern Common Market (Mercosur) will have to be modified by 1999 to bring it into line with WTO standards (Casaburi, 1998, p. 36; Delorme Prado, 1998, p. 24). It will also be necessary to change export performance and local content requirements for the Chilean automotive industry by 1999 (Agosin, 1998, p. 37). Measures to protect Malaysia's automotive industry also contravene the TRIM agreement (Mahani, 1998, p. 35). The special tax, customs or credit privileges formerly granted under Indonesia's controversial national automotive programme were discontinued as of January 1998 (Nasution, 1998, p. 35).

There are also a number of instruments designed to improve domestic technological capacity through foreign direct investment which are compatible with the TRIMs agreement. For example, the Government

241 For example, 66 anti-dumping cases and 13 countervailing investigations were initiated in Brazil between 1992 and 1995 (Delorme Prado, 1998, p. 26). Argentina became the country conducting the second greatest number of anti-dumping investigations, after the United States (Casaburi, 1998, p. 37).

242 The Agreement also includes *de minimis* provisions relating to the dumping margin and the volume required to terminate dumping investigations: anti-dumping cases are to remain without effect when the dumping margin is less than 2% or when the share of the countries concerned in the importing market is less than 3% (or, cumulatively, 7% among a number of exporters whose individual shares each amount to less than 3%).

of the Republic of Korea grants financial and tax incentives to foreign investors who set up high-technology enterprises in the country. These investors can also buy large areas of land, and there are plans for two new industrial complexes for foreign investors in the Kwangju and Chunan areas. The local authorities in these two areas will be called upon to establish a centre to assist foreign investors, and all the various sorts of institutional support needed by small and medium-sized enterprises, including research and development, will be provided (Yeom, 1998, p. 31; Pyo, Kim and Cheong, 1996, pp. 4-5).

The TRIMs agreement does not apply to public-sector purchasing. Most developing countries have not signed the Agreement on Government Procurement that was drawn up during the Uruguay Round and are therefore not subject to restrictions in that area.

4. Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)

Some countries have already modified the relevant regulations to bring them into line with the TRIPs agreement. Argentina enacted new industrial property legislation in December 1994, and Brazil followed suit in May 1996. Among other things, the new legislation contains provisions on the granting of patents for inventions and prototypes, on industrial designs and trademarks, and on prevention of the fraudulent use of geographic designations. These laws were enacted not only for the purpose of complying with international agreements, but also to resolve outstanding disagreements with the United States; the legislation also includes stricter requirements and shorter transition periods than those laid down by WTO (Casaburi, 1998, p. 30; Delorme Prado, 1998, pp. 27-28). In May 1996, Brazil enacted provisions to protect products on which patent applications are pending; other countries did likewise in mid-1997 (WTO, 1996, pp. 121-127).

Chile, Indonesia and Malaysia have modified their legislation on copyrights, patents and trademarks. In Chile and Malaysia, for example, copyrights will now be protected for a period of 20 years starting from the date on which the application is submitted, instead of 15 years from the date on which it is accepted. In Chile, provisions regarding geographical origin will also be applied more strictly (Agosin, 1998, p. 40). New laws will be enacted in Indonesia and Malaysia for industrial designs involving integrated circuits, protection of new plant varieties, and trade secrets. These countries will also have to modify compulsory licensing provisions to bring them into line with article 31 of the TRIPs agreement (Ariff, Mahani and Chye, 1996, p. 46).

Steps are being taken in the Republic of Korea to minimize the impact of the TRIPs agreement (Pyo, Kim and Cheong, 1996, p. 15). One such measure provides for sharing information on patents among business enterprises, research institutes and universities; another involves helping firms to develop their own brands, improve their design capabilities and protect endogenous technology. Another course of action would be for the authorities to improve the coordination of TRIPs agreement implementation among the various government departments.[243]

Despite the limitations imposed by the agreement, the developing countries still have some room for manoeuvre. They can take advantage of the fact that the agreement is transitional and that its application

243 In the Republic of Korea, administrative responsibilities for industrial property rights has been assigned to the Patent Office; copyrights to the Ministry of Culture; design rights on semiconductors to the Ministry of Industry and Resources; and rights on computer software to the Ministry of Science and Technology.

provides for a 10-year grace period. There is no reason why patent royalties on imported technology should obstruct technology transfers to developing countries. The information built into any patent or, for that matter, any imported product is public knowledge and there is nothing to prevent business enterprises from using it as a starting point for introducing other innovations. Indeed, all innovations have to be adapted to local conditions and are subject to ongoing improvements. For example, if items which have come into common use or which constitute advances of minor importance can be excluded from the various countries' patents legislation, and if general scientific principles can be excluded from copyrights, the international legal system will offer considerable manoeuvring room for re-engineering and the adaptation of existing technology (Agosin, 1996, p. 164).

5. General Agreement on Trade in Services (GATS)

For the developing countries, GATS is a fairly well-balanced instrument whose main advantage is that it establishes a flexible framework for future negotiations. Since service activities involve the movement of factors of production across national borders, GATS enables countries to avail themselves of a series of exceptions and positive lists that allow them to maintain a considerable level of national autonomy. GATS also enables developing countries to reach concrete agreements with foreign enterprises to strengthen the efficiency and competitiveness of the services they offer at the national level as well as agreements relating to access to technology, channels of distribution and information networks.

The countries of East Asia and Latin America and the Caribbean have generally been very selective in terms of the commitments they have made under GATS.[244] For example, Indonesia has made services-related commitments in respect of five major sectors: telecommunications, industrial services, tourism, non-banking financial services and banking services (Nasution, 1998, pp. 26-32). These obligations are subject to certain limits in terms of market access and national treatment. However, the Government of Indonesia reached an agreement with IMF in April 1998 that greatly reduces its margin for manoeuvre in applying these selective policies. It will, for example, have to eliminate the 49% ceiling on foreign ownership of share capital in the enterprises appearing on the list, and restrictions on foreign investment in retail and wholesale commerce will have to be ended.[245]

Malaysia permits a foreign commercial presence in most service activities provided that it is in the form of a locally-incorporated joint venture with either Malaysian nationals or enterprises controlled by Malaysian interests. A foreign financial institution is allowed to maintain a commercial presence only through the creation of a locally-incorporated joint venture in which foreign ownership does not exceed 30% (rising to 49% in the year 2000) (Mahani, 1998, p. 33). It is noteworthy that the Government of Argentina submitted no schedule when the new WTO financial services commitments were adopted in December 1997 (Casaburi, 1998, p. 34).[246]

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244 The proportion of sectors (out of 1,240 possible cases) which did not impose restrictions in respect of market access and national treatment was 6.8% for Latin America and the Caribbean and 8% for East Asia (Hoekman and Braga, 1996, pp. 5-20).

245 For further detail, see "Memorandum of Economic and Financial Policies of the Government of Indonesia" at the IMF Website.

246 Regarding the 70 countries which submitted offers under the new financial services agreement, including Brazil, Chile, Indonesia, Malaysia and the Republic of Korea, see "Non-attributable summary of the main improvements in the new financial services commitments", at the WTO Website.

6. The Agreement on Agriculture

The Agreement on Agriculture gives special treatment to exporters in the developing countries regarding the *de minimis* clause, export subsidies and exemptions for certain subsidies.[247] For example, developing countries will be exempt from the obligation to reduce export marketing subsidies, including those applied to such items as handling costs, product improvements and other processing-related expenditures, and subsidies for international or domestic freight costs. "Green box" measures include State support for research and development, disease and pest control, infrastructure development, food security, structural adjustment, implementation of environmental programmes and regional assistance programmes. For example, the Government of Indonesia has registered all national support programmes in the "green box" to ensure their exemption from reduction commitments (Nasution, 1998, p. 23).

In the case of Argentina and Brazil, the Agreement on Agriculture does not entail major changes (Casaburi, 1998, p. 33; WTO, 1996).[248] For Argentina, whose main exports are agricultural, the agreement represents an important step towards dismantling protectionism, particularly that of the United States and the European Union (Casaburi, 1998, pp. 29-31). The Republic of Korea, however, will have to implement policies to minimize the short-term impact of the Uruguay Round and protect the welfare of its farmers (Yeom, 1998, pp. 14-16). Countries finding themselves in a similar position may have to restructure and refine their legislation on subsidies, including those based on dual pricing and cereal production management systems and agricultural subsidies. Emergency measures may also have to be introduced to alleviate the impact of imports, and health and phytosanitary inspection procedures applying to imports of agricultural products may have to be improved. In all these cases, progress needs to be made in restructuring the agricultural sector and increasing its productivity.

D. INDUSTRIAL AND TRADE POLICY FOLLOWING THE URUGUAY ROUND

1. Macroeconomic policy options

WTO standards permit a broad range of fiscal, monetary and foreign-exchange policies and place no limitations on policies aimed at achieving high levels of saving and investment. Under the new trading system, the developing countries will have to make sure that they impose fiscal discipline in the public sector and implement appropriate credit and interest-rate policies in order to take maximum advantage of investment based on personal and corporate savings.

For example, Agosin points out that the investment surge in Chile after the 1982-1983 crisis was given an additional boost by the 1984 tax reform, which replaced taxes on corporate profits with a single tax on income from all sources. Nasution (1998, p. 54) argues that, on the one hand, the tax reforms introduced in Indonesia between 1983 and 1985 and revised 10 years later streamlined tax procedures, increased the precision and progressiveness of the tax system and eliminated legal loopholes which had been

247 According to the *de minimis* clause, domestic support measures not exceeding 10% of the value of production applied by the developing countries (the threshold is 5% for developed countries) are exempt from the reduction commitment. Export subsidies granted by developing countries are to be reduced by 21% within 10 years, based on the average level for the 1986-1990 period (for the developed countries, the figure is 36% within 6 years).

248 Subsidies for tobacco producers in Argentina have been challenged by WTO (Casaburi, 1998, p. 32).

used for tax evasion and that, on the other hand, they enabled the State to collect revenue not only from the petroleum industry and foreign trade but also from other business sectors. This increased revenue, in turn, permitted higher spending on basic human needs such as primary education and health services. As for Malaysia, Mahani emphasizes that the 1986 legislation to promote investment provides for a series of tax incentives and other inducements for pioneering activities by business enterprises wishing to become involved in activities or to manufacture products covered by the legislation (Mahani, 1998, pp. 65-66; Ariff, Mahani and Chye, 1996, p. 13).

The six studies on this subject cited here show that trade and industrial policy mechanisms, including the investment regime, have a pronounced influence on foreign-exchange policy and vice versa. When the rate of exchange is stable and realistic, an appropriate proportion of investment will benefit the tradable goods sector. There is also less need for aggressive measures, such as special lines of credit, insurance programmes and export subsidies, to compensate for the anti-export bias resulting from other policies.

2. Pre-competitive measures in support of systemic competitiveness

(a) Human resources development

The positive externalities generated by the availability of a large number of highly skilled workers and the negative externalities resulting from underinvestment in labour training are well known. In Chile, for example, the training of engineers and managers at State universities, together with programmes to develop human capital in the agricultural and forestry sectors, have been decisive factors in the growth of the corresponding exports (Agosin, 1998, p. 36). By the same token, the high level of unemployment in Argentina may be due to deficiencies in education and difficulties in providing suitable training to redundant workers in labour-intensive sectors such as textiles, plastics and toys (Casaburi, 1998, p. 53). Casaburi argues that any policy aimed at solving such problems should be demand-driven so that the training provided will match actual labour market demands. As for Chile, Agosin (1998, pp. 42-43) argues that the training programmes subsidized by the National Training and Employment Service (SENCE) need to be adapted in order to meet the real needs of workers in small- and medium-sized enterprises more satisfactorily. Brazil will also need to boost social spending on human resources quickly in order to create favourable conditions for sustainable economic development (Delorme Prado, 1998, p. 34).

In East Asia, although academic education and skills training have expanded rapidly, the actual quality of training has not improved. In Indonesia, for example, State teaching institutions have little autonomy or flexibility in resource use, and their links with industry are weak (Nasution, 1998, p. 46). Malaysia has good primary education, but university-level technical and professional training is limited. Industrial modernization has been slowed by the shortage of high-level technical and engineering specialists, and the country lacks an effective system for the development and dissemination of industrial technology (Mahani, 1998, p. 41). In the Republic of Korea, the Government has emphasized human resources training and research and development activities, but has given greater priority to the former, as can be seen from the growing proportion of the total resources of the industrial infrastructure development programme being allocated to such items (Yeom, 1998, pp. 35-37).

(b) Technology

The countries are faced with numerous bottlenecks in the sphere of technological innovation and technology transfer. In Indonesia, for example, technological progress has been concentrated in agriculture, natural resources and import substitution manufacturing industries. The fact that these strategic and resource-based industries constitute what might be described as an enclave restricts the diffusion of technology (Nasution, 1998, p. 48). The shortage of computer specialists has also made it difficult for banks to acquire information technology. In Malaysia, technology transfers have been confined to a limited number of sectors, such as electrical spare parts and electronic components (Mahani, 1998, p. 42).

There are, however, some experiences which should be emulated by other countries. The Chile Foundation, a non-profit institution which was originally State-subsidized, has developed new export technologies (Agosin, 1998, p. 34). Its activities are a good example of successful cooperation among the private sector, the State and other institutions. The Brazilian Agricultural Research Enterprise (Embrapa) has succeeded in improving the productivity and quality of various crops and in transferring these improvements to the private sector (Delorme Prado, 1998, p. 22).

In the Republic of Korea, the Government has realized that innovation is the decisive element in sustained economic growth and has therefore provided a series of tax incentives and subsidies for private research and development activities (Yeom, 1998, p. 35). The Government also feels that State-run research bodies, including universities, should compete with private research and development organizations for government resources, and has endeavoured to minimize the role of research and development institutions associated with the country's leading conglomerates (known as *chaebols*). The Government of Malaysia provides numerous tax incentives to strengthen the public and private sector's research and development capacity. In addition, the mandates of various bodies specializing in technological development, such as the Standards and Industrial Research Institution, require them to provide technological outreach services, particularly to small- and medium-sized enterprises (Mahani, 1998, p. 67).

(c) Infrastructure

The aforementioned six studies recognize the importance of infrastructure in improving the systemic competitiveness of the economy as a whole. The modernization of Chile's infrastructure in the 1960s, for example, played a major role in its subsequent export boom (Agosin, 1998, pp. 35-36). In the same vein, Casaburi notes that decentralization and privatization of ports and railways in Argentina (Casaburi, 1998, p. 42) triggered a spectacular upsurge in productivity in the short space of five years. However, much remains to be done to ensure that services meet modern standards and that prices are competitive on the international market. The Argentine Government could, for example, apply preferential policies by subsidizing major infrastructure projects in the country's least developed regions. In Brazil, increasing infrastructure demand is for the most part being met through the use of private resources, some of which are being provided by privatized companies. Other State bodies, such as the National Economic and Social Development Bank, have also decided to allocate increased resources to infrastructure (Delorme Prado, 1998, p. 34).

(d) Market information

Information is considered a public good and, since the information market is asymmetrical future users and purchasers generally do not invest sufficiently in developing it. To rectify this situation, the Government of Chile has been investing heavily in this area since 1974, especially for the purpose of gathering information on foreign markets. Prochile is a division of the Ministry of Foreign Affairs and is responsible for export promotion; with the help of 38 offices in foreign countries, it coordinates market studies and collects trade information of interest to exporters. Recently, it has been conducting an aggressive campaign to create a positive image of Chile in other countries. Prochile will shortly become an independent mixed enterprise with considerable private-sector participation. Together with a number of business associations, the Production Development Corporation (Corfo), a State body, is carrying out a similar programme under which it provides partial subsidies for administrative costs for a specified period (Agosin, 1998, p. 34; Macario, 1998b, p. 16).

In the Republic of Korea, a number of State-run bodies, such as the Korea Trade-Investment Promotion Agency (Kotra), play a major role in providing business and industrial information to exporters and in conducting market research (Yeom, 1998, p. 41). The Malaysian External Trade Corporation (Matrade) was set up in 1994 to carry out trade promotion activities. It maintains offices in the world's major cities which provide information to Malaysian exporters and carry out promotion activities in export markets (Mahani, 1998, p. 49).

(e) Small and medium-sized enterprises (SMEs)

The great majority of instruments used to promote business development do not contravene the WTO rules on subsidies. Generally they are pre-competitive, are provided to enterprises in all sectors and do not directly influence the final price of products.

To encourage the development of SMEs, the Government of the Republic of Korea has used indirect mechanisms such as tax exemptions and soft loans. It also provides resources for structural improvements in SMEs which are sited in rural areas or are of a technological nature. In 1996, the body responsible for SMEs was upgraded and designated the Office for Industrial Advancement. It currently provides SMEs with technical advisory services, staffing-related assistance and financial support; it also promotes sales of products manufactured by SMEs and provides them with marketing and distribution services (Yeom, 1998, p. 38).

The Malaysian authorities have created the Small and Medium-Scale Industries Development Corporation (SMIDEC) to formulate development programmes and coordinate the activities of various bodies which promote the development of SMEs (Mahani, 1998, p. 43). A fund for technical assistance to industry was set up in March 1990 to help SMEs in the areas of consultancy services, product development and design, improvements in quality and productivity, and market development (Ariff, Mahani and Chye, 1996, p. 14).

In order to be effective, however, support programmes should cater to the central interests and aspirations of SMEs, in other words, focus on the demands of the SMEs themselves (Casaburi, 1998, p. 49). In Argentina, for example, the substantial financial support provided to SMEs has not borne fruit to the degree expected because the various programmes (44 in number) did not take account of the end users' real needs.

3. Trade facilitation and other measures

(a) Trade

Business enterprises have numerous difficulties with customs rules and procedures, some of which have to do with a lack of transparency and inefficient customs infrastructures. Trade promotion can be improved by simplifying and harmonizing customs formalities and standardizing the corresponding regulations. For example, Brazil's introduction in 1993 of Siscomex, an integrated computerized system for foreign trade, has made it possible to streamline export procedures and the processing of customs documents (Delorme Prado, 1998, p. 30). In addition, since 1992 improvements have been introduced in the development and administration of regulations and in testing and certification procedures. Indonesia enacted new customs legislation in 1995 in order to comply with its Uruguay Round obligations and modify its inspection system. Since 1985, Indonesia has used a private firm for customs clearance of imports at their point of origin (Nasution, 1998, p. 23). In the Republic of Korea, the average amount of time that imported goods are held at the port of entry has been cut from 15 to two or three days. Customs clearance has also improved greatly, thanks to electronic data interchange systems (Yeom, 1998, p. 31).

(b) Foreign direct investment (FDI) policies

Over the past 10 years there has been a clear trend towards the liberalization of FDI. Many countries in both regions have raised the limit on foreign ownership to 100% in most sectors not classified as being of public interest. Also, the requirements for obtaining national treatment have been made even more flexible. Many countries have moved from an import licensing system to one based on the submission of customs entry forms. Other measures in the same area include double-taxation protection and investment guarantee arrangements.

The Industrial Development Authority (MIDA) of Malaysia has become an important centre for coordinating foreign investments in the country. Investors have only to request the authorizations required at the federal level from the Authority (Mahani, 1998, p. 48). A similar administrative procedure and a centralized service system were introduced recently in the Republic of Korea as well. The Government of that country announced a foreign investment liberalization plan in September 1993 under which the licensing system was replaced with one based on the submission of applications. Additional liberalization measures were introduced in June 1994 and in 1996 that increase the number of industries covered and broaden the investment framework. Since 1997, FDI applications can be submitted at any bank having a foreign currency desk, rather than, as formerly, only at the Bank of Korea, and the institution has to process the application quickly instead of taking from 20 to 30 days (Yeom, 1998, p. 25). In Chile, Decree Law 600 of 1974 grants national treatment to foreign investors, has opened up most of the economy to FDI, provides for automatic approval of relatively simple projects, and guarantees unrestricted remittance of profits at any time and capital repatriation after three years (Agosin, 1998, pp. 32-33).

(c) Export credit insurance and guarantees

Governments can play a considerable role in expanding and improving export financing, export credit and export credit guarantees. Export credit and related guarantee and insurance programmes are prohibited by multilateral rules when they are provided below cost, but not when the price is higher than cost but lower than market rates.

Export credits and insurance programmes, such as Brazil's export incentive programme (Proex) and machinery and equipment export programme (Finamex), fulfil these requirements and are therefore not considered to be subsidies. However, preferential taxation rates on income and profits and preferential customs treatment of imported materials and capital goods are considered to comprise an element of subsidization. These cases will require a thorough review of the national taxation system.

The Government of Chile has created a fund which covers up to 50% of the guarantee which commercial banks require from firms exporting non-traditional products. Corfo administers a fund for foreign buyers of capital goods and consumer durables and of Chilean engineering and consulting services; it also administers a long-term credit line to finance investments in export projects by firms whose annual sales do not exceed US$ 30 million. Corfo also provides export insurance subsidies to small and medium-sized enterprises having annual sales of less than US$ 10 million (Macario, 1998b, pp. 9-11). The Malaysian Export Credit Insurance Berhad (corporation) provides export credit insurance and guarantees to firms that market or export manufactured goods. It also guarantees loans provided by lenders in Malaysia to foreign buyers or banks for purchases of Malaysian products (Mahani, 1998, p. 49). In the Republic of Korea, export financing is provided in the form of post-shipment export loans, tax-free reserves and export credits. In addition, the Korea Export Insurance Corporation provides insurance for exports and overseas investments (Yeom, 1998, p. 34).

Chapter IX

ENVIRONMENTALLY MOTIVATED BARRIERS TO SHRIMP EXPORTS

Recent studies show that the trade liberalization policies implemented during the present decade have helped to increase the region's external trade in goods and services, although imports have grown more than exports (see chapter V). In an effort to boost exports, the Governments of Latin America and the Caribbean have introduced promotional instruments designed to change the export specializations of their countries, while being careful to maintain the comparative advantages they derive from their abundant natural resources. Among the new export items are fisheries products, with Chile, Ecuador, Argentina, Peru, Mexico, Brazil and Colombia, in that order, being the main Latin American exporters (ECLAC, 1995, table 3, p. 9). Shrimp exports are one of the items on which countries such as Ecuador, Colombia and Honduras have concentrated their diversification efforts.

The United States is one of the world's largest importers of fisheries products and is a destination of preference for Latin American exports. Over recent years, however, the United States has been applying measures that limit imports in an effort to force exporters to adopt production processes that comply with the endangered species protection laws and other environmental regulations applying in that country. This has given rise to a number of conflicts between environmental policy and trade. The first conflict of this sort involved an embargo that the United States Government placed on imports of tuna caught using methods that endangered dolphins. Since then, the United States Government has also taken measures to restrict shrimp imports, since with drift nets, which is one of the methods used to catch shrimp, sea turtles are often trapped in the nets by accident, and a number of studies have shown that this is one of the factors driving this species, which is protected under United States federal law, towards extinction.

Concern about the harm shrimp trawling is doing to sea turtles has led a number of environmental groups, among them the Earth Island Institute, to urge the United States Government to embargo shrimp imports in order to force exporters to change their harvesting methods.[249] Besides this, other regulations have been applied to shrimp reared in farms (aquaculture), since this method, if not properly conducted, also causes harm to the environment by, for example, destroying nearby wetlands, and for this reason there has also been great pressure for a ban on imports of cultivated shrimp into the United States.

Protecting the environment is a legitimate objective for all countries, whether industrialized or developing. Nonetheless, it is disturbing that environmental regulations should operate as significant barriers to international trade and result in new conditions being imposed on exporters seeking access to the markets of industrialized countries. To assist in analysing the issue, this chapter will provide information about the embargo on shrimp exports to the United States and the legal arguments put forward

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249 The Earth Island Institute also participated in the campaign to control imports of tuna caught using methods harmful to dolphins.

at WTO in relation to this unilateral measure. In addition, preliminary data will be presented from a current ECLAC research project which is looking at the methods that have been used by two Latin American countries, Colombia and Ecuador, to adjust to United States environmental policy.

A. UNILATERAL MEASURES BY THE IMPORTER

At the urging of environmental protection groups, the United States Government enacted a law prohibiting the importation of shrimp caught using methods that endanger sea turtles. At first this ban applied only to shrimp trawling in Pacific waters, but the measure was subsequently extended to include the Atlantic. At around the same time, a fishing mechanism that prevents sea turtles from being caught accidentally, known as a turtle excluder device (or TED), was developed in the United States. Later on, specific legislation was enacted to oblige companies to use this or a similar device.

The taking of sea turtles has been banned in the United States since 1973 under the Endangered Species Act. Following this ban, the National Marine Fisheries Service designed the TED, which has an estimated efficiency of 97% and a negative impact on shrimp fishing of 2% to 3%. In 1983, in the light of a number of studies showing that shrimp trawling was one of the factors threatening sea turtles with extinction, the National Marine Fisheries Service proposed to United States shrimp producers that they use this device voluntarily.[250] In 1987, a regulation issued pursuant to the Endangered Species Act and stated for full implementation in 1990 made the use of TEDs mandatory for all United States shrimp boats that use drift nets. Subsequently, in 1989, section 609 of Public Law 101-162 prohibited the importation of shrimp from tropical or warm-water countries (i.e., countries off whose shores sea turtles live) if they have been caught with drift nets.[251] Compliance with the law is monitored jointly by the United States Customs Service, Department of State and Coastguard.

To receive the necessary certification from the United States Department of Commerce, the Government of the exporting country has to prove that TEDs (or a similar device) are being used, or provide documentary proof that its shrimp fishing activity does not harm sea turtles, either because there are none in the waters concerned or because the fishing system used does not endanger them. Failing this, the Customs Service is legally empowered to prohibit imports of shrimp from that country.[252]

In pursuance of section 609, the United States Government, using the 1991 Guidelines, limited the geographical scope of the import ban to the countries of the Caribbean and the western Atlantic area, and gave them a three-year grace period in which to gradually introduce a regime comparable to that of the United States; this measure had a particularly notable effect on Mexico.[253] On 19 April 1996 the United

250 According to research carried out in the 1970s, five of the seven existing species of sea turtles were threatened with extinction because of human action. Most of these species inhabit tropical or subtropical waters (WTO, 1998a).

251 See the American University's Academic Web Server page [http://gurukul.ucc.american.edu]. The ban does not apply to manual fishing, as the nets used are very small and do not harm sea turtles.

252 1991 Guidelines (56 *Federal Register* 1051, 10 January 1991); 1993 Guidelines (58 *Federal Register* 9015, 18 February 1993); 1996 Guidelines (61 *Federal Register* 17342, 19 April 1996) (WTO, 1998c, p. 3, note 11). First, certification is granted to countries whose fishing environment is such that there is no danger of turtles being taken as bycatch in the course of shrimp harvesting; second, certification is given to harvesting nations which provide documentary evidence that they have introduced a regulatory programme governing the incidental taking of sea turtles in the course of commercial shrimp trawling which is comparable to the programme in force in the United States, provided that the average bycatch rate for sea turtles taken by vessels from the harvesting country concerned is comparable to the average bycatch rate for sea turtles taken by United States vessels (Article 609 b) 2) A) and B)) (WTO, 1998c, p. 3).

253 Imports into the United States of shrimp caught using commercial fishing technologies that could endanger sea turtles have been banned under paragraph b) 1) of section 609 since 1 May 1991. Paragraph b) 2) of this section stipulates that the shrimp import ban will not apply to harvesting nations that have received the relevant certification (WTO, 1998c, pp. 2-3).

States enacted the 1996 Guidelines, which extended the scope of section 609 to shrimp caught by all harvesting nations (WTO, 1998c, p. 5).

According to information from the Earth Island Institute, by 1998 the United States Department of State had certified 43 shrimp exporting countries, although more than 40 are barred from exporting until proof that the TED is in use is forthcoming.[254] Of the 43 countries certified, 19 use the device, among them Colombia, Ecuador and Mexico;[255] another 16 nations[256] fish in cold waters where there are no turtles, and in 8 countries[257] shrimp fishing is carried out manually.

The 1996 Guidelines provide that all shrimp and shrimp products imported into the United States must be accompanied by an exporter's declaration form attesting that the shrimp was harvested either in the waters of a nation currently certified under section 609 or under conditions that do not adversely affect sea turtles (WTO, 1998c, p. 4). The certification issued by the United States is valid for one year and can be withdrawn at any time (as happened with Colombia and Ecuador in 1997), which is a source of uncertainty in economic and commercial activity. Brazil and Venezuela received certification in 1997, but not in 1998 (Andrade, 1998, p. 35).

According to information provided by the United States, the cost of a United States excluder device, including installation, is between US$ 300 and US$ 400, and the cost could be less if it is manufactured in the exporting country (WTO, 1998b). Although this is not a large amount of money in international terms, it often seems high when compared to the average annual income of fishermen in many developing countries. Furthermore, other specific costs have to be added in: in some developing countries, for example, fishermen employed by shrimp producers receive a cash wage that they supplement with money earned in the local market by selling the fish that are caught along with the shrimp and discarded by their employers. The National Marine Fisheries Service of the United States acknowledges that a secondary effect of using TEDs is that other fish are excluded (WTO, 1998b, annex I); however, the impact of this on the earnings of fishermen has not been factored in to the cost to developing countries of using the device.

Other costs associated with the introduction of TEDs are training and installation costs. A technology transfer process is needed for the device to be adapted to national fishing industries, and this takes time. If the training is poorly assimilated by fishermen and the device is not properly used, debris and sediment tend to be dragged in, which reduces the shrimp haul and increases fishing time. Complying with the United States rules also entails additional administrative and inspection costs, since national authorities and boat owners must supervise the use of the device on an ongoing basis.

Although many countries share the concern of the United States in ensuring the survival of sea turtles, they do not agree with the policy of imposing extraterritorial environmental measures, as in the case of section 609. They believe that protection for sea turtles should be achieved through multilateral negotiations, rather than by unilateral action. The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) has covered all species of sea turtles since 1975. However, the United States considers that the Convention has been ineffective in halting the extinction of sea turtles, specifically because it does not provide for commercial sanctions to enforce compliance.

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254 A country that does not receive certification can appeal and request a second inspection.

255 The 19 countries are: Belize, Brazil, China, Colombia, Costa Rica, Ecuador, El Salvador, Fiji, Guatemala, Guyana, Honduras, Indonesia, Mexico, Nicaragua, Nigeria, Panama, Thailand, Trinidad and Tobago, and Venezuela.

256 The 16 countries are: Argentina, Belgium, Canada, Chile, Denmark, Finland, Germany, Iceland, Ireland, the Netherlands, New Zealand, Norway, Russia, Sweden, the United Kingdom and Uruguay.

257 The eight countries are: the Bahamas, Brunei Darussalam, the Dominican Republic, Haiti, Jamaica, Oman, Peru and Sri Lanka.

B. LEGAL ARGUMENTS REGARDING THE SHRIMP EMBARGO IN WTO

It has already been pointed out that, just as in the case of tuna and dolphins, the unilateral measure taken by the United States relates to the process used to produce shrimp rather than to the product itself, and it was on these grounds that in 1991 the Government of Mexico requested that a Panel be established under the GATT dispute settlement mechanism.[258] In the case of dolphins, in very much the same way as is now happening with the shrimp embargo, the United States Government initially enacted a law to protect marine mammals, including dolphins, and subsequently decided to ban imports of yellow-fin tuna taken using purse-seine nets, which catch tuna and dolphin indiscriminately. The panel ruled that the embargo applied by the United States was contrary to article III of GATT, among others, since the comparison should be made between the products of the exporting country and the importing country rather than between the production processes of the countries (Larach, 1998, pp. 43 and 44).[259]

A group of countries submitted formal complaints concerning the shrimp embargo to the WTO Dispute Settlement Body. In January 1997, India, Malaysia, Pakistan and Thailand applied for a WTO panel[260] to decide whether section 609 of United States Public Law 101-162 was compatible with the most favoured nation principle, and with the following paragraphs of GATT 1994: paragraph 1 of article XI, which requires all quantitative restrictions on imports and exports to be lifted; paragraph 1 of article XIII, which also relates to the application of quantitative restrictions; the exceptions provided for in Article XX (letters b and g); and paragraph 1 (a) of article XXIII, which deals with measures applied by a member that nullify or impair the rights and benefits of another member (WTO, 1998b, chapter III).[261]

In its report, which was distributed on 15 March 1998, the panel ruled that the ban on imports of shrimp and shrimp products applied by the United States was incompatible with paragraph 1 of article XI of GATT 1994 and that it could not be justified under article XX of the same Agreement (WTO, 1998b). The United States appealed the ruling as it related to the interpretation of article XX, since although it accepted that, where countries which were not certified under section 609 were concerned, this was tantamount to a restriction on shrimp imports falling within the terms of paragraph 1 of article XI of GATT 1994, it believed that it was nonetheless entitled to apply a quantitative restriction on the basis of the exceptions provided for under letters (b) and (g) of article XX.

The report of the Appellate Body, which was adopted on 8 October 1998 and distributed on 12 October 1998, was at variance with the one issued by the panel, since this time it was accepted that the United States measure did meet the conditions for provisional justification under letter (g) of article XX. Nonetheless, it was decided that the measure did not

258 India, Pakistan and Thailand argued that the embargo on shrimp and shrimp products was incompatible with the most favoured nation principle set forth in paragraph 1 of article I of GATT 1994 because physically identical shrimp and shrimp products from other countries, were given different treatment by the United States when they were imported into that country on the basis of the method used to harvest them (WTO, 1998b, E).

259 The embargo imposed on Mexico by the United States had a devastating impact on its tuna industry. In 1994 exports were just over 1,000 tons, as against more than 83,000 tons in 1989. The tuna fleet, which had been one of the biggest in the Pacific, shrank by 46% (ECLAC, 1998d, p. 21).

260 On 8 October 1996, India, Malaysia, Pakistan and Thailand made a joint request for consultations; Malaysia and Thailand, in a communication of 9 January 1997, and Pakistan, in a communication of 30 January 1997, asked the Dispute Settlement Body to set up a special panel to hear their complaints regarding the import ban imposed on certain types of shrimp and shrimp products by the United States under section 609 of Public Law 101-625 and the relevant regulations and court rulings (WTO, 1998c, p. 1).

261 Letters (b) and (g) of article XX state that: “Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures: ... b) necessary to protect human, animal or plant life or health; ... g) relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption...” (GATT, 1994, p. 540).

meet the requirements set out in the chapeau of article XX and, consequently, was not justified under article XX of GATT 1994 (WTO, 1998c, VII). The Appellate Body ultimately recommended that the Dispute Settlement Body request that the United States bring the measures which had been found to be inconsistent with article XI of GATT 1994 in the panel's report and which it had ruled were not justified under article XX, "into conformity with the obligations of the United States under this Agreement" (WTO, 1998c, VII).

The fact that shrimp imports from certain countries were limited while those from others were not arose out of the need to preserve sea turtles, which are threatened with extinction throughout the world. Thus, it was justifiable for section 609 to draw a distinction between countries whose shrimp boats operated without TEDs, and thereby endangered sea turtles, and countries that did use them. However, the Appellate Body concluded that although section 609 referred to measures designed to conserve an exhaustible natural resource, under letter (g) of article XX of GATT 1994, and although the measure was applied in conjunction with restrictions on domestic fishing activities, its application constituted "unjustifiable discrimination".

The report adopted by the Dispute Settlement Body concluded that the way in which section 609 had been applied constituted a "means of unjustifiable discrimination" between countries where the same conditions prevailed. Furthermore, it noted that the most conspicuous flaw in the measure's application was its intended and actual coercive effect on specific policy decisions made by WTO member governments. "Section 609, in its application, is, in effect, an economic embargo which requires all other exporting Members, if they wish to exercise their GATT rights, to adopt *essentially the same* policy (together with an approved enforcement programme) as that applied to, and enforced on, United States domestic shrimp trawlers" (WTO, 1998c, II, C.2).[262]

C. THE CASES OF COLOMBIA AND ECUADOR[263]

1. Colombia

(a) Trawling

Shrimp fishing began on the Pacific coast of Colombia in 1957 and was introduced along the Caribbean coast in the early 1970s. Shrimping was for some time the mainstay of the fishing industry, but it has since declined somewhat in importance. According to the National Institute for Fisheries and Aquaculture (INPA), shrimp catches have fallen by up to 50% in recent decades, especially in the Pacific.[264] Shrimp is still the third most important export product of the Colombian agricultural sector, however, being surpassed only by bananas and flowers. In all, 70% of these exports go to the European market (Spain, Italy and Portugal) as whole shrimp, and 30% to the United States and Japan as shrimp tails.

Use of the TED is now compulsory throughout Colombia. Initially, in 1992, it was limited to the

262 The report of the Appellate Body stressed the distinction between measures to protect the environment and unilateral trade measures: "In reaching these conclusions, we wish to underscore what we have *not* decided in this appeal. We have *not* decided that the protection and preservation of the environment is of no significance to the Members of the WTO. Clearly, it is. We have *not* decided that the sovereign nations that are Members of the WTO cannot adopt effective measures to protect endangered species, such as sea turtles. Clearly, they can and should. And we have *not* decided that sovereign states should not act together bilaterally, plurilaterally or multilaterally, either within the WTO or in other international fora, to protect endangered species or to otherwise protect the environment. Clearly, they should and do." (WTO, 1998c, II, C.3).

263 Information obtained in interviews with private sector and government sources in these countries.

264 The decline in shrimp catches along the Pacific coast has been due to a disease affecting shrimp in that area.

Pacific coast, but in 1993 it was extended to the Caribbean coast of Colombia. The Government of Colombia introduced the device for Pacific shrimp fishing following a joint decision by INPA and the private sector which was based on the conviction that any embargo on shrimp imports into the United States would lead to serious employment problems along Colombia's Pacific coast, where fishing and the wood industry are the main economic activities.

One of the functions of INPA, which is a public body attached to the Ministry of Agriculture, is to turn fishing and aquaculture into a strategic, competitive and sustainable industry. It is also responsible for training the employees of shrimp producers how to use the TED, and for issuing licences for fishing and aquaculture activities in the country.

The owners of the Colombian shrimping fleet are not opposed to the TED being used in areas where the water is clear, as it is in the Atlantic. The Pacific fishing grounds have more turbid water, however, as more torrential rivers discharge into it. In this area, the device picks up shoals and organic matter in large quantities which block up the nets and ultimately lead to a considerable decrease in productivity, longer working hours and higher costs.

Every year the United States sends inspectors to both coastal areas to check whether companies are using the device. In 1996, companies operating in Pacific waters finally obtained certification from the United States authorities, thanks to the effort made by shrimp trawlers to adopt the system. In the 1997 inspection, however, it was decided that companies were not complying with the measure satisfactorily in the Pacific, and consequently an embargo was imposed on exports that lasted for around two months. Subsequently, the Colombian authorities succeeded in having a new inspection held. This time, officials from the United States Embassy and the National Marine Fisheries Service inspected all the boats of the three companies[265] that export shrimp to that country and were able to confirm that the TED was being used in the vessels and that effective supervision was being carried out by the Colombian authorities.[266]

(b) Cultivated shrimp

Shrimp farming is a relatively recent activity in Colombia but, given its great economic potential, it has been growing in scale. With the exception of 1995 and 1996, it has grown continuously during the 1990s. At present, aquaculture is one of the fastest-growing industries in the agricultural sector. In the second half of the 1980s, the Government of Colombia created the conditions needed to make this activity attractive to investors. These included subsidized interest rates for fixed investment and capital, the provision of grace periods by means of tax reimbursement certificates (CERT), advance rebates of 20% of taxes on exports, and exemption from import taxes (Republic of Colombia, 1997).[267]

As mentioned earlier, the incorporation of section 609 into United States Public Law 101-162 does not affect cultivated shrimp, and these are therefore not subject to embargoes or restrictions. Nonetheless, aquaculturalists in Colombia are worried about the possibility that importing countries may introduce new laws and measures unilaterally under which they may require, for example, an environmental seal of approval for cultivated shrimp. In order to represent farmed shrimp more accurately in the international market, the nomenclature for the harmonized shrimp tariff applying since the beginning of the 1990s has been split into two different categories. Furthermore, every exporter of cultivated shrimp must obtain a certificate from INPA to confirm that the product

265 Agropesquera Industrial Bahía Cupica, Impesca and Arpecol.

266 As of the date of re-certification, fines totalling close to 60 million Colombian pesos had been levied on 13 trawlers.

267 Subsequently, during the economic liberalization process, export incentives and subsidies were reduced, and in some cases abolished. Thus, CERT fell from 20% to 8.7% between 1985 and the second half of 1997. The Government plans to abolish CERT by the year 2002 at the latest and replace it with a productivity fund.

being exported is farm-reared shrimp. Colombian environmental protection legislation has also been extended to include mangrove swamps, and authorization to construct aquaculture facilities is refused if it is shown that they would be damaging to these wetlands.[268]

2. Ecuador

Although shrimp production and exporting is a relatively new activity in Ecuador, this item is already the country's third-largest export, being surpassed only by oil and bananas, and shrimp exports account for 20% of all Ecuadorian exports by value. The country produces sea shrimp and farmed shrimp, the former accounting for 10% of total production. Over 60% of all the shrimp it produces is exported to the United States, more than 20% to Europe, and between 8% and 12% to Asia, but the country is seeking new markets.

(a) Trawling

As noted earlier, United States legislation has obliged the country's shrimp fishing companies to use the TED, since otherwise Ecuador would lose its access to the United States market. The National Marine Fisheries Service of the United States rejected the Government of Ecuador's argument that, unlike the Caribbean countries, it had almost no turtles in its fishing grounds because this claim was not backed up by scientific studies. The reason no such studies were available was that the time elapsing between the announcement that use of the TED was being made compulsory and the date set for implementation of this requirement was not long enough for the required scientific proof to be obtained.[269]

The Government of Ecuador made use of the TED a legal requirement in April 1996, even though its adoption boosted operating costs, which were then absorbed by the owners of the fishing fleet. Ecuador was not a member of WTO when the embargo began, and its Government was therefore unable to lodge a formal complaint with that organization. However, the private sector subsequently supported the complaint submitted to WTO by the Asian countries.

In March 1997 Ecuador was visited by officials from the National Marine Fisheries Service of the United States who came to check whether the country's shrimping fleet had the TED installed and in use. The outcome of the inspection was that the United States officials found the Ecuadorian measures to be unsatisfactory, and an embargo was therefore imposed on its exports of sea shrimp to the United States. In the case of exports of farmed shrimp, it was ruled that their origin had to be verified by means of certification from an inspection company and approval from the Ecuadorian Department of Fisheries before they could be exported.

After a second inspection, carried out a month later, the embargo was lifted. Brief as this ban had been, the measure had a major impact on the shrimping industry and the 300,000 people working in it, because fishermen could no longer supplement their earnings in the domestic market by selling fish caught in the drift nets and because sea shrimp fetch higher prices than cultivated shrimp. The Ecuadorian shrimping fleet consists of 193 boats, and around 10% of total shrimp production is exported. Losses for the month during which the embargo was applied were estimated at over US$ 6 million.

268 Environmental conservation efforts are being strengthened by the participation of shrimp producers in meetings organized by a private body, Global Aquaculture Alliance, which analyses and proposes methods for developing the aquacultural industry in a way that is not environmentally harmful.

269 The Government of Ecuador claims that no more than three or four turtles a year are taken as bycatch.

(b) Cultivated shrimp

Aquaculture began to rise to prominence as a new industry in Ecuador during the 1970s, and the country eventually became the biggest producer of farm-reared shrimp in the Americas and the second biggest in the world, after Thailand. At present, around 90% of output is exported; shrimp farms cover some 150,000 hectares and have an output of 200,000 tons a year, and around 68 export firms are in operation.[270] The main destination market is the United States, which absorbed 57% of exports in 1997, while the European Union bought 28% and the Asian countries 13% (Instituto Nacional de Pesca, 1997, p. 54).

Since the end of 1997 Ecuador has been applying a new "hazard analysis critical control point" quality-control programme, so that it may export fishery and aquaculture products to the United States. This programme, which is also widely applied in Europe, is used to control the environmental conditions of production plants and ensure that the products processed there are not harmful to consumers.

Aquaculture does entail environmental problems, such as the destruction of mangrove swamps, the poor quality of water after it has passed through farms, excessive use of chemicals in production and increased sedimentation. In May 1998 the Ecuadorian or Council of Shrimp Industry Organizations, rejected a warning from Greenpeace International about a possible international boycott of Ecuadorian shrimp exports because of the indiscriminate clearing of mangrove swamps. The Council argued that the destruction of the mangrove swamp area of Ecuador predated development of the aquaculture industry.[271] However, it has been shown that the construction of aquaculture facilities has resulted in the deforestation of about 12% of the country's mangrove swamps, and it is estimated that 40,000 hectares of mangrove swamp have been destroyed since 1969 (G. Ormaza, 1997, p. 23).[272]

Subsequent research has shown shrimp companies that mangrove swamps actually play an important role in improving shrimp farm production. Since 1990 the destruction of mangrove swamps has been forbidden in Ecuador by law,[273] but the public sector acknowledges that responsibility for monitoring compliance is spread among several institutions, and the law is not adequately enforced.

As already mentioned, the temporary embargo on sea shrimp also made it difficult to export farmed shrimp, since shipments have to be accompanied by a certificate from the Government of Ecuador specifying their origin. The certificate has to be signed by both the producer and a Government official, which has increased the paperwork involved and led to higher transaction costs.

The National Chamber of Aquaculture has been looking ahead and is taking precautionary steps to deal with the possibility of an embargo on shrimp exports from countries where mangrove swamps are not properly protected. Among the priorities of the Chamber are to ensure that aquaculturalists manage mangrove swamps in an environmentally sustainable manner and to make them aware that the destruction of these wetlands runs counter to their own interests. To this end, the Chamber has produced a reforestation manual and carried out other activities aimed at encouraging producers to maintain high standards of quality.

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270 The shrimp industry provides employment for approximately 500,000 people, besides other jobs in related areas, i.e., larva laboratories, factories making shrimp-based foodstuffs, packaging plants, domestic transport and other support services.

271 See http://www.sea-world.com.

272 In 1969 there were 204,000 hectares of mangrove swamp, and this has now fallen to less than 150,000 [http://www.earthsummitwatch.org/shrimp/ecua96.html].

273 Executive Order No. 824 A of 17 June 1985.

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STATISTICAL APPENDIX

EXPLANATORY NOTES

The tables included in this appendix provide data on the imports and exports of most of the countries in the region for the period 1965-1997. This information is organized on the basis of the categories proposed in the first issue of this Overview, which was published in Spanish only under the title *Panorama de la Inserción Internacional de América Latina y el Caribe* (ECLAC, 1996, pp. 217-225). The table entitled "Classification system" outlines these categories and gives the complete heading for each group of products. These headings are abbreviated in the statistical tables themselves in order to save space.

As shown in the above-mentioned table, the product categories are based on the Standard International Trade Classification (SITC), Rev. 1, at the three- and four-digit levels. The product information presented in the tables has been obtained from the External Trade Data Bank for Latin America and the Caribbean (BADECEL) (as of 23 December 1998) and the International Commodity Trade Data Base (COMTRADE) (as of 13 November 1998).

Export data are given in current prices, f.o.b., and import data in current prices, c.i.f., except in the cases of Mexico and Venezuela, where import statistics are expressed in f.o.b. values from 1980 and 1970 onward, respectively. In addition, since 1992 Mexico has been recording the statistics for its *maquila* industry under the heading of merchandise trade; prior to that time these data had been recorded under services.

Statistical tables

The appendix includes two types of tables: a total of six tables covering a large group of countries (tables 1A through 2C); and tables on individual countries (tables 3A through 27C).

With regard to the tables on individual countries, it should be noted that, as shown in table 1, which provides information on the availability of foreign trade statistics for 32 countries in the region over the period 1965-1997, sufficient data could not be obtained on seven of the countries (Antigua and Barbuda, Bahamas, Dominican Republic, Guyana, Haiti, Montserrat, and Saint Vincent and the Grenadines). Consequently, the appendix includes individual country tables on the remaining 25 countries only: Argentina, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Ecuador, El Salvador, Grenada, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Lucia, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

Of the six tables covering a large group of countries, three (tables 1A, 1B and 1C) correspond to the 25 countries listed above; the other three (tables 2A, 2B and 2C) do not include Mexico and therefore refer to 24 countries.

The tables referring to the destinations of regional exports (tables B and C, 1-27) may give a percentage distribution for such markets even if the value of the corresponding exports is shown as zero due to the fact that, when measured in terms of millions of dollars, the value of those exports is negligible. It should also be noted that certain conventions have been used in these tables because of the limited amount of space available. Accordingly, figures for Latin America and the Caribbean appear under the heading "Region", which in this case refers to the 25 countries mentioned above plus Antigua and Barbuda, Dominican Republic, Guyana, Haiti, Saint Kitts and Nevis, and Saint Vincent and the Grenadines. By the same token, the generic heading "Asia" encompasses the following countries and territories: Australia, China, Philippines, Hong Kong SAR, Indonesia, Malaysia, New Zealand, Republic of Korea, Singapore, Thailand and the Chinese province of Taiwan.

Any differences between the sum total of percentages and 100% is due to rounding.

CLASSIFICATION SYSTEM

Category	Examples	Use	SITC [a]
A. Commodities 1. Agriculture 2. Mining 3. Energy	Fish, vegetables, fruit, timber, wool, minerals, petroleum	Final or intermediate	**Agriculture:** 001, 025, 031, 041, 0421, 043, 044, 045, 051, 054, 0711, 0721, 074, 075, 121, 211, 212, 2211, 2212, 2213, 2214,, 2215, 2216, 2217, 2218, 2311, 241, 242, 244, 261, 2621, 2622, 2623, 2625, 2631, 264, 265, 2711, 291, 292. **Mining:** 2712, 2713, 2714, 273, 274, 275, 276, 281, 283, 285, 286. **Energy:** 321, 331, 341.
B. Manufactures 1. Traditional (a) Food, beverages and tobacco (b) Other	Dairy products, edible oils, fabric, tools, furniture, footwear, printed matter, leather	Final	**Food, beverages and tobacco:** 011,012, 013, 022, 023, 024, 032, 0422, 046, 047, 048, 052, 053, 055, 061, 062, 0713, 0722, 0723, 073, 081, 091, 099, 111, 112, 122, 2219, 411, 422, 431. **Other traditional manufactures:** 2313, 2314, 243, 2511, 2626, 2627, 2628, 2629, 2632, 2633, 2634, 267, 551, 611, 612, 613, 621, 631, 632, 633, 642, 6511, 6512, 6513, 6514, 6515, 6518, 6519, 652, 653, 654, 655, 656, 657, 662, 663, 665, 666, 667, 691, 692, 693, 694, 695, 696, 697, 698, 733, 812, 821, 831, 841, 842, 851, 892, 893, 894, 895, 897, 899.
2. Scale- and natural resource-intensive goods	Petrochemicals, paper, pulp, cement, basic metals (basic manufactures)	Intermediate	**Scale- and natural resource-intensive goods:** 2312 2512, 2515, 2516, 2517, 2518, 2519, 266, 282, 284, 332, 421, 512, 513, 514, 515, 521, 531, 532, 533, 554, 561, 571, 5811, 5812, 5813, 5819, 599, 629, 641, 6516, 6517, 661, 664, 671, 672, 673, 674, 675, 676, 677, 678, 679, 681, 682, 683, 684, 685, 686, 687, 688, 689.
3. Durables (and parts and components)	Home appliances, consumer electronics, vehicles	Final (and parts and components for final goods)	**Durables:** 7241, 7242, 725, 731, 732, 735, 891.
4. Diffusers of technical progress	Machinery, scientific instruments, fine chemicals	Intermediate or capital goods	**Diffusers of technical progress:** 541, 553, 7111, 7112, 7113, 7114, 7115, 7116, 7117, 7118, 712, 7141, 7142, 7143, 7149, 715, 717, 718, 719, 722, 723, 7249, 726, 729, 734, 861, 862, 864, 9510.

Source: ECLAC, *El comercio de manufacturas de América Latina: evolución y estructura, 1962-1989*, Estudios e informes de la CEPAL series, No. 88 (LC/G.1731-P), Santiago, Chile, 1992. United Nations publication, Sales No. S.92.II.G.12; J.C. Ferraz and others, *Made in Brazil: desafíos competitivos para a indústria*, Rio de Janeiro, Editora Campus, 1996; J.C. Ferraz, D. Kupfer and L. Haguenauer, “The competitive challenge for Brazilian industry”, *CEPAL Review*, No. 58 (LC/G.1916-P), Santiago, Chile, April 1996; P. Guerrieri and C. Milana, *L’Italia e il commercio mondiale: mutamenti e tendenze nella divizione internazional del lavoro*, Rome, Il Mulino, 1990.

[a] SITC = Standard International Trade Classification (Rev. 1).

Appendix - Table 1

LATIN AMERICA AND THE CARIBBEAN: AVAILABILITY OF FOREIGN TRADE DATA, BY COUNTRY, 1965-1997

	Reporting country	Table	1965		1970		1980		1990		1994		1995		1996		1997	
1	Antigua and Barbuda	—-	...	...	M	X	M	X	...	...	...	...	...	...	...	...	...	...
2	Argentina	3	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
3	Bahamas	—-	...	X	M	X	M	X	...	...	...	...	...	...	...	...	...	...
4	Barbados	4	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
5	Belize	5	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
6	Bolivia	6	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
7	Brazil	7	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
8	Chile	8	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
9	Colombia	9	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
10	Costa Rica	10	M	X	M	X	M	X	M	X	M	X	M	X	M	X	...	X
11	Dominica	11	...	...	M	X	M	X	M	X	M	X	M	X	M	X	...	...
12	Ecuador	12	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
13	El Salvador	13	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
14	Grenada	14	...	...	M	X	M	X	M	X	M	X	M	X	M	X	...	...
15	Guatemala	15	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
16	Guyana	—-	M	X	M	X	M	X	...	...	...	...	...	...	...	...	...	...
17	Haiti	—-	...	...	M	X	M	X	...	X	...	...	...	...	...	...	...	...
18	Honduras	16	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
19	Jamaica	17	M	X	M	X	M	X	M	X	M	X	M	X	M	X	...	...
20	Mexico [a]	18	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
21	Montserrat	—-	...	...	M	...	M	X	...	...	...	...	...	...	...	...	...	...
22	Nicaragua	19	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
23	Panama	20	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
24	Paraguay	21	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
25	Peru	22	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
26	Dominican Republic	—-	M	X	M	X	M	X	...	...	...	X	...	X	...	...	...	...
27	Saint Vicent and the Grenadines	—-			M	X	M	X	...	...	M	X	M	X	...	X	...	X
28	Saint Lucia	23	...	...	M	X	M	X	M	X	M	X	M	X	M	X	...	...
29	Suriname	24	M	X	M	X	M	X	M	X	M	X	M	X	...	...	...	...
30	Trinidad and Tobago	25	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
31	Uruguay	26	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X
32	Venezuela [b]	27	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X

Source: ECLAC, on the basis of official figures.
M = Imports, c.i.f.
X = Exports, f.o.b.
[a] From 1980 onward, statistics on Mexico's imports are expressed in f.o.b. values.
[b] From 1970 onward, statistics on Venezuela's imports are expressed in f.o.b. values.