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# INTERNATIONAL ECONOMIC RELATIONS AND REGIONAL CO-OPERATION IN LATIN AMERICA AND THE CARIBBEAN

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## Summary and conclusions

At each session of ECLAC, the Secretariat has submitted a paper examining the external economic relations of Latin America and the Caribbean and another on regional co-operation and integration. In keeping with this tradition of the Commission, the Secretariat is on this occasion submitting a single document in two parts, in which both of the subjects are analysed.

This is a more selective document than the reports prepared in the other two sessions held during this decade (Montevideo, 1981 and Lima, 1984). Thus, rather than attempting a full scale, extensive review of the various matters covered under the heading of economic relations and regional integration, some special studies are now being presented which contain a more far-reaching examination of certain questions which have been regarded as having priority.

In Part One of this document, consideration is given to the international economic relations of Latin America and the Caribbean, from the point of view both of the salient features of their development in recent years and factors relating to the way in which they may develop in the future and of certain policy options before the region as it faces these trends and prospects.

Part One has five chapters. In chapter I, which is an introductory chapter, consideration is given to the development of the world economy, in particular since the 1970s, and the main effects of that development on Latin America and the Caribbean, account being taken also of various data concerning the likely economic behaviour of the main industrialized countries in the near future. On that basis, an exploratory effort is made to come up with possible action alternatives for Latin America and the Caribbean on the regional and international levels.

The second chapter, containing three sections, describes in greater detail the trends in the external relations of Latin America and the Caribbean. In section A, consideration is given to what has been called the segmentation of international trade, the main emphasis being laid on the past 20 years, and attention is called to the concentration of dynamic trade circuits among certain countries and groups of countries and certain types of goods. In addition consideration is given to the causes, ways and means and repercussions of this segmentation, all with a view to explaining how Latin America and the Caribbean may best perform in the world economy. In section B, consideration is given to the behaviour in recent years of the domestic and foreign sectors of the United States economy in an attempt to appraise the way in which impulses of varying intensity and transmitted along many different channels have increasingly affected the countries of the region. Some of the prospects for the economic relations between the region and the United States are then examined, and suggestions are made concerning ways of improving the position of Latin America and the Caribbean within the framework of those relations. In section C stress is laid on the state and contingencies of economic relations (primarily trade, commercial and technological relations) between Latin America and the Caribbean and the European Economic Community, and this is followed by some suggestions for expanding and strengthening co-operation between the two regions.

In chapter III, a review is made of some of the main features of the exportation of goods from Latin America and the Caribbean. Section A, which deals with commodities, contains a description of the unfavourable development of the international commodities market during the 1980s so far, followed by observations concerning the causes of that trend. Further on, a review is made of possible joint action at international and regional level, which the countries of Latin America and the Caribbean could take in order to enhance the contribution made by commodity trade to their economic and social development. In section B, consideration is given to recent developments in world trade, with emphasis laid on what has happened in connection with the protectionism practised by the industrialized countries; an examination is made of the characteristics of protectionist practices in the United States and the EEC, and emphasis is placed on the discriminatory nature of the protectionism besetting the region's exports in the markets of the developed countries.

Chapter IV is dedicated to trade in services in Latin America and the Caribbean, and in particular, to the international initiatives taken in this connection in various multilateral forums. An analysis is made of some of the basic aspects of the possible insertion of the region in world production and international trade in services, and the chapter ends with a few suggestions concerning the formulation of policies in Latin America and the Caribbean in this connection.

The fifth and final chapter of Part One of the study deals with problems relating to external financing and debt in Latin America and the Caribbean. Consideration is given to the financial trends and prospects in the region, projections being made up to the mid-1990s; an analysis is made of the origin and nature of the external debt of Latin America and the Caribbean, and finally suggestions are made with regard to some approaches to regional action relating to the payment and servicing of the external debt.

Part Two of the document, which is dedicated to regional integration and co-operation, contains three chapters which deal, respectively, with negotiations and instruments for revitalizing regional trade, the search for modes of convergence between integration and co-operation and the services sector in intra-regional trade.

With regard to negotiations and instruments for revitalizing regional trade, dealt with in chapter I, little progress is apparent in the application of agreements adopted by high government authorities in various political forums in the region convened as part of the process initiated by the Latin American Economic Conference held at Quito in January 1984. An exception to this rule might be the round of negotiations of the countries members of the Latin American Integration Association (ALADI), held in Buenos Aires on 7 to 9 April 1986 as a result of a decision taken at the Montevideo Meeting in March 1985.

This round of negotiations was expected to reactivate interregional trade, which had been strongly affected by the bottleneck in the external sector, the drop in domestic demand and the economic crisis experienced throughout the region since 1982. It should be noted that the options for revitalizing trade among the countries members of ALADI might also be extended to the remaining countries of the region, given the flexibility of the Montevideo Treaty of 1980 and the existence of ad hoc mechanisms for this purpose.

The regional negotiations might concentrate on the strengthening of the trade channels established by medium-sized and small countries with those countries of Latin America and the Caribbean with the highest level of economic development, and consideration might also be given to goods with the greatest potential for reactivating trade. The studies carried out so far show that a considerable impact could be had on the depressed state of international trade flows if action were taken in connection with a small number of goods (200 to 300).

Once the group of projects subject to negotiation were identified, it would be necessary to select the instruments to facilitate trade in them, in accordance with the specific characteristics of the goods concerned and the ways in which they are traded in the respective markets. It should be borne in mind that in many cases customs tariffs and import duties have lost much of their impact in the face of non-tariff restrictions, suppliers' credits and State purchases. Moreover, the use of foreign trade instruments limited to the objectives of the negotiation might be expected to keep interference in national policies and in the international commitments of each country down to a minimum.

The reorientation of some trade towards Latin American and Caribbean suppliers might help to solve some big problems such as, for example, the drop in the demand for most commodities, the crisis in the industrial sector and the imbalances in intra-regional trade.

As for the search for modes of convergence between interregional integration and co-operation examined in chapter II, it has been shown that co-operation initiatives in Latin America and the Caribbean are often promoted inorganically, as in some notable cases of concerted action (for example, action relating to nuclear energy, the Latin American Association of Capital Goods Industries, the Amazon Co-operation Treaty, the Andean Reserve Fund and the Latin American Organization for the Development of Fishing).

Furthermore, the subregional integration arrangements are experiencing a prolonged and far-reaching crisis, in particular with regard to programmes for the liberation of trade through the application of traditional instruments such as customs tariffs and co-ordinated trade policies.

As a result of the two facts just mentioned, it is intended to systematize the promotion of and follow up on co-operation initiatives, by creating or strengthening units specializing in co-operation within the integration arrangements and by strengthening the Latin American Economic System (SELA), and to engage in tasks relating to the regional co-ordination of subregional co-operation efforts.

Finally, in chapter III, relating to the services sector in intra-regional trade, consideration is given to transport and insurance, as being the most important of the non-financial services which figure in the balance of payments.

On the basis of this examination, it is concluded that there is a wide margin for import and export substitution of transport services in the medium-sized and small ALADI countries and also, although to a lesser degree, in those countries of the Association which are more highly developed economically. The share of national and local transport is significantly higher in the value of the trade among the ALADI countries than it is in the value of the total trade of those countries.

The wide variety of information available makes it necessary to extend the analysis of each country in order to obtain more detailed conclusions. Similarly, in order to advance in the study of possibilities of replacing means of transport from outside the area, consideration must be given to the physical volume of shipments, and the goods traded must be grouped together in accordance with their characteristics in so far as transport is concerned.

# Part One

# THE INTERNATIONAL ECONOMIC RELATIONS OF LATIN AMERICA AND THE CARIBBEAN

# I. THE DEVELOPMENT OF THE WORLD ECONOMY AND ITS IMPACTS ON LATIN AMERICA AND THE CARIBBEAN: OPTIONS AND POLICIES

## A. INTRODUCTION

In this chapter an attempt is made to provide a frame of reference for an analysis of the development of and prospects for the world economy and their impacts on the economy of Latin America and the Caribbean and also to throw light on some matters which will undoubtedly affect the outlook for the regional economy.

Today's international economy appears slower and more unbalanced than it did in its postwar setting, that is to say in the period 1950-1970. The recessive economy of the 1980s has not given way to a vigorous recovery in the centres, except in the United States economy, and even it is showing signs of weaker expansion. The two sharpest features —which have, moreover, persisted throughout the 1980s— of the situation of disequilibrium in which the international economy is set, consist first in the tremendous lack of adjustment in the United States economy and second in the burdensome indebtedness of some of the developing economies, including those of nearly all the countries of Latin America and the Caribbean.

The slow growth of the world economy and hence of international trade is set against the need of the indebted economies of the region to expand their exports. Similarly, the macroeconomic disequilibria of the United States economy (fiscal deficit, high real interest rates, trade deficit) create uncertainties which have a particular impact on Latin America and the Caribbean in view of the region's close reciprocal trade relationship and magnitude of its indebtedness with private banks in that country. Consequently, the prospects for expanding exports to the rest of the world are closely linked not only to the general dynamism of the world economy but also and in particular to the way in which the United States seeks to resolve or correct its deep-seated external macroeconomic disequilibria.

The loss of balance and the growing disequilibrium of the world economy has not only decelerated the pace of international trade but is also altering the rules in which trade is carried out. The formulas of managed trade and counter trade, which are not always compatible with the rules and spirit of the General Agreement on Tariffs and Trade (GATT), are proliferating in North-South trade and also in relations among countries of the North, as a counterpart of the protectionism which is being practised at national level by the big industrial centres in order to preserve their national markets and guard their levels of domestic activity.

At a more important structural level, changes are occurring in the composition of international trade and in the relative participation of different countries and regions of the world. These changes are not unrelated to the economic restructuring of the centres (growing importance of production and trade in services) or to the emergence of new industrial producers and exporters in the countries of southeast Asia and other regions of the world.

A careful sounding of this changing and complex world scenario gives rise to questions which are difficult to answer. The prospects for the economy of Latin America are, however, strongly influenced by these processes. This chapter represents an attempt to provide a frame of reference for some of the thinking in this respect.

## B. THE INTERNATIONAL PANORAMA AND ITS IMPLICATIONS FOR LATIN AMERICA AND THE CARIBBEAN

### 1. Changes in world economic trends

It is in fact common knowledge that the 1970s produced some facts and processes which had a particular impact on the world economy. As regards production, the growth of the economy of the centres observed in the period 1950-1970 slowed down, although the Japanese economy showed great dynamism --far more than that observed in the United States and the European Economic Community. During this period, what are known as the newly industrialized countries also expanded. The loss of dynamism of the centres and the emergence of new and vigorous competitors in the world economy helped, in particular towards the end of the 1970s, to promote new forms of protectionism with regard to the manufactures exported by the developing regions, and that in addition to the traditional protectionism with regard to farm products practised by the Community and the United States.

Within the framework of these trends of a structural nature in the realm of production and trade, there were also some singular occurrences in the monetary, commercial and financial field to which attention should be drawn. The surplus of US dollars in the rest of the world and the diminishing gold reserves in the United States caused the dollar to be declared inconvertible in 1971. In 1973, the oil-exporting countries succeeded in imposing the first large rise in petroleum prices. The trade surpluses of the large oil exporters were recycled through international private banks and converted into substantial loans granted in particular to the developing countries. Financial flows were increasingly taken over by the private sector, intergovernmental credit institutions became less important and the same thing happened to direct private investment in international capital movements.

The unsteadying effects of these processes on international trade were apparent in so far as the deficits and surpluses resulting from the petroleum crisis were concerned, while they were more embryonic and unpredictable as regards changes in the international financial structure. During this period, however, the international trade of Latin America grew on average with considerable dynamism, and the economy of the region experienced greater openness to world trade. This, for the Latin American oil-exporting countries, was a reflection of the increase in petroleum prices, and it also reflected an attempt to promote and diversify exports. The greater openness of the United States, in particular towards the oil-producing countries, in its foreign trade coefficient was partially responsible for the expansion of Latin American exports during this phase.

This dynamism was maintained, with a few ups and downs, throughout the 1970s, both for exports and for imports; during this period international prices also followed a relatively favourable course in respect of the products exported by the region. In the second half of the decade, financial permissiveness originating in the private sector resulted in additional affluence in the external sector of the Latin American countries and helped to promote the process of indebtedness characteristic of this period. Nevertheless, during the period 1976-1980, Latin American imports surpassed exports by only 2% on average. Thus, the accumulated deficit in the goods account in those five years amounted to about US$ 5.2 million while the deficit on current account accumulated for that period totalled close to US$ 90 billion, which was mostly ascribable to financial factor services. It may therefore be concluded that the external debt created its own self-sustaining dynamic based on high real interest rates and reschedulings because of the impossibility of servicing the debt.

However, the trend towards openness and expansion in the region's international trade came to an abrupt halt at the beginning of the 1980s following a relentless reorientation of the economic policy of the United States. With the objective of combating inflationary pressures and promoting economic reactivation, a restrictive policy with a monetaristic slant was initiated in this country in combination with a slackening of tax pressure in accordance with the supply-side philosophy which, as this process was set into motion, tended to predominate among the efforts towards reactivation. The restriction of the money supply, which was aimed at combating the inflation, together with the growing fiscal deficit due, among other things, to the tax reduction and financed out of private savings, caused a rise in interest rates and a substantial inflow of financial capital to the markets of the United States.

To balance their own financial markets and avoid inflationary pressures, the remaining OECD economies raised their interest rates, thereby increasing the financial cost of investment in production in the entire developing world and helping to generate recessive pressures. As a result, the world market decelerated and later on stagnated, setting off a collapse in commodity prices which knows no equal in the past 50 years. The drop in levels of activity and employment in industrialized countries exacerbated the protectionist pressures which had been building up in the 1970s and became particularly notable in connection with agriculture and some manufactures which the developing countries produce with comparative advantages.

The staggering of tariffs, quantitative restrictions, variable surcharges, safeguard clauses, compensatory duties, technical trade barriers and export and production subsidies are some of the measures commonly adopted by the industrialized countries to protect and manage trade, not only within their trade relations with the countries of the South but also as part of their reciprocal trade.

Such protectionist measures have been resorted to by the European Economic Community and Japan in particular. The GATT regulations appear to be losing their force and are increasingly violated in this new setting. The changing circumstances are also giving rise to new foreign trade laws in the developed world. One of these is the 1984 Trade and Tariff Act of the United States of America which gives the executive branch new functions and also clarifies the terms of reference of the United States negotiators with respect to services, high-level technology and investment in trade.

It is common knowledge that the impact of these new trends and processes on the region has been devastating. The rise of interest rates, the reduced demand from the centres due to recessive and protectionist trends, the collapse of commodity prices and the withdrawal of international financing are some of the major factors responsible for the stifling of the region externally. The ratio between debt servicing and value of exports has reached limits which are hard to sustain, and the situation has grown worse due to the above-mentioned reduction in the inflow of capital, especially that of private origin, to the point where the region has become a net exporter of capital.

The recessive adjustment made in an attempt to meet the debt commitments by producing an adequate surplus in the trade balance has caused a sharp drop in the region's levels of activity and employment during the 1980s so far, so that the present per capita product of Latin America and the Caribbean is lower than in 1980.

## 2. Latin American export prospects

The examination of the future growth prospects of Latin American exports is not unrelated to the evolution of certain structural trends now observed in the international economy. In the first place, the OECD countries are changing their structures of production by making technological transformations which are giving services a greater share in the composition both of the product and of employment. These structural changes are in all likelihood part and parcel of a technological transition (microelectronics, biotechnology, energy diversification) which will continue beyond the twentieth century and which has already begun to alter the situation which existed with respect to comparative advantages, not only between centres and peripheries but also among the centres themselves. This process helps to generate tension and friction in connection with international competition, which militate against the liberation and multilateralization of commercial practices.

In the long run, during the next century, the development of the centres will be affected by profound internal structural changes, which will certainly alter international productive specialization and change the framework in which comparative advantages now operate and therefore change the composition and dynamics of world trade.

Secondly, within the industrial sector, there has been a long-term reduction in the complementarity which existed between the industrialized and the industrializing countries. Thus, the structures of industrial production have become more competitive, in particular because of the emergence of the "new industrial countries", whose manufactures are of appropriate quality and price to compete on the markets of the centres. These structural trends obstructed the re-establishment of open, multilateral trade of the kind advocated by the Havana Charter, which gave rise to GATT.

Third, the countries of Latin America and the Caribbean are in a different position from that of the other developing countries. On the one hand, their economies are much more diversified than those of the poorer countries of Asia and Africa, and they cannot hope to participate with them on an equal footing in certain types of official development aid intended for the poor nations. Nor do they benefit from trade concessions, such as those provided for in the Lomé Agreement, which the European countries tend to grant to their former colonies.1/ On the other hand, however, their economies have not achieved large-scale, highly diversified industrial production capable of competing on the markets of the centres, such as happens, for example, in the case of goods available for export from the countries of southeast Asia.

## C. PROSPECTS FOR THE WORLD ECONOMY AND THEIR IMPACT ON LATIN AMERICA AND THE CARIBBEAN

The prospects for the world economy are uncertain, and it would be particularly risky to attempt to forecast them. None of the many causes of this uncertainty is particularly relevant for Latin America and the Caribbean; i.e., the future trend of international interest rates and of the value of the region's potential export earnings.

In general, these variables are affected by the rise or reduction in dynamism of the industrial centres and their consequent demand for imports from the periphery and by the pattern of protectionism, which will determine whether these import demands are met. The economic recovery of the centres will be beneficial for Latin America: i) if it is accompanied by a reduction in protectionism; ii) if it actually makes it possible to increase the volume and unit value of Latin American exports and iii) if, it also involves a reduction in real interest rates, which have a harsh impact on debt servicing.

It is not possible in this introductory chapter to make a detailed examination of the factors underlying the behaviour of these variables in the central economies. This task is tackled more systematically in the chapters which follow. A few observations are, however, called for concerning the present trends and prospects of the United States economy because of its decisive impact on the behaviour of the international monetary and financial field. In addition, the course followed by the North American economy has, as everyone knows, a particular impact on the regional economy. As has been repeatedly stated, there is a cause-and-effect relationship between the magnitude of the deficit of the United States, the high level of real interest rates and the fragility or inadequacy of the economic recovery of the centres. On the other hand, the strong dollar, which goes along with high interest rates, sustains and increases the enormous trade deficit of the United States, which helps to stimulate exports from certain countries of the centre, in particular those of Japan; from the newly industrialized countries and also from Latin America and the Caribbean.

### 1. Structural maladjustments in the economy of the United States

What is the likelihood that the fiscal deficit of the United

States, which is a decisive factor in keeping interest rates up, can be brought rapidly under control? It would be hazardous to attempt to reply categorically to this question, but several alternatives can be seen which would have varying effects on the economy of Latin America and the Caribbean.

The first of these, which was advocated by the so-called "supply side" economists of the United States, assumed that economic growth would result in increased tax earnings and that greater earnings would be achieved with lower tax rates. It was also assumed that the high interest rates would be offset by an increase in domestic private savings, under the impetus of those high rates and the tax reductions. This increase in domestic private savings would, for its part, also exert pressure to drive the interest rates down. As it happened, however, the recent growth of the United States economy did not reduce the size of the deficit or significantly relieve the pressure on interest rates. On the other hand, domestic private savings have not lived up to expectations, and external savings constitute the major source of financing the fiscal deficit of the United States at the present time. For the first time this century, the United States has become a debtor economy. In addition, the strength of the dollar has led this country into an unprecedented trade deficit. Thus, the expectations to which this scenario gave rise have not materialized, and instead we have the present situation, which, in the case of Latin America and the Caribbean, is characterized by high rates of interest which create a debt-servicing burden, and by a notable increase in exports towards the United States.

Another scenario worthy of note might hypothetically include a classical structural containment of the fiscal deficit (reduction of public spending, increased tax earnings or both), which would have recessive effects on the North American economy due to the drop in domestic spending. On the other hand, these recessive effects could be partially offset by the reduction in interest rates and by the gradual devaluation of the dollar which would increase the competitiveness of United States products. Where the region is concerned, this alternative would be favourable because of the reduction in interest rates and the possibility of a partial "settlement" of its debt, but it would have an unfavourable effect on the sale of its exports in a depressed United States market. On the other hand, it would increase the competitiveness of commodities quoted in dollars and exported by the region to Europe and Japan.

Another projection might embody the expectations of foreign investors now purchasing dollars in the rest of the world in order to invest them financially in the United States. If these sizeable savings were more or less radically reduced as a result of the proverbial volatility of the psychological factors involved, the main source of financing the fiscal deficit and making up for the deficit in the balance of payments of the United States might be weakened. If the money supply remained restricted and real interest rates rose even further, as the result of an effort to recover the external savings lost and even to avoid a sudden and excessive weakening of the dollar, this alternative would be particularly harmful to the indebted countries of Latin America. Of course, if this process took place too intensely and abruptly, the very stability of the international financial system might be affected.

## 2. Uncertainty concerning future scenarios and ways and means of international trade

The above digressions, incomplete and superficial though they may be, are, however, useful in that they demonstrate the weakness of the region in the face of external factors and the impossibility of forecasting the future world scenario. The alternatives briefly outlined above are only a few of the possible scenarios. They may be put together in many combinations, may materialize at different rates or may embrace possibilities which have not been considered here, such as, for example, inflationary financing of the United States deficit.

The vulnerability of the world economy to financial speculation and the political options adopted in the developed world, especially in the United States, are the factors which cause the most difficulty in forecasting the future. However, in view of the widespread uncertainty which exists with regard to growth and in the light of the tremendous disequilibria which now prevail with respect to trade, payments and indebtedness, it seems reasonable to adopt prudent and cautious strategies which do not rely too much in the dynamism of the international economy or on the receptiveness of its markets.

Various factors are responsible for the collapse of the prices of commodities exported by Latin America and the Caribbean (a decline of over 32%, excluding petroleum prices, in the period 1980-1985). The first of these was the overvaluation of the dollar, which had a generally harmful effect on commodity exports quoted in dollars, causing them to become less competitive on the markets of Europe and Japan. The second factor was the rise in interest rates, which on the one hand increased the cost of maintaining enormous stocks of commodities and on the other reduced the overall prospects for economic growth and thereby dampened hopes for a future rise in the prices of the commodities affected. Third, the agricultural protectionism practised by the United States and EEC not only caused a drop in imports of farm commodities by the OECD countries but also made it necessary to compete with increased supplies in other markets. Fourth, the technological changes and new patterns of consumption caused an even further reduction in the product elasticity of demand for some industrial inputs (steel, copper, etc.) and the income elasticity of demand for some foodstuffs (such as sugar-cane) in the countries of the centre. Finally, in spite of the recovery made by the United States in the 1983-1984 biennium, the economic growth of the OECD countries in the first five years of the 1980s was lower than that maintained in the past, in particular where industry was concerned, and, as everybody knows, commodity prices always fluctuate more than does the economic growth of the centres.

The slow economic growth of those developed countries which tend to trade the most with Latin America and the Caribbean and the disequilibrium characterizing the international markets are the main factors which militate against the liberalization and multilateral aspect of trade policies. Governments participated more directly and effectively in trade negotiations as their hopes regarding the stabilizing effects of the market forces fell. As long as the disequilibrium now observed in the world economy persists, governments will probably exercise increased vigilance over their trade balances with different regions and countries, adopting attitudes of reciprocity based on principles and mechanisms which deviate increasingly from those which characterize free, multilateral trade.

The clearest and best known example of this new bias in the direction of "managed trade" is to be found in the new Trade and Tariff Act recently passed by Congress and put into practice by the Executive branch of the United States, which strengthens the facilities opened to the President to bend the rules and legislate with regard to trade in services. Attention should also be drawn to regulation 2641/84 of the European Economic Community relating to the strengthening of the common trade policy. Another conspicuous example of this trend towards managed trade based on the principle of reciprocity and on direct bilateral negotiations is the increase in counter trade and, in particular, in counter purchase. Counter trade is aimed at alleviating trade disequilibria, the shortage of foreign currency and market reductions and losses due to these factors. It is a traditional form of trade between East and West, which has been increasingly extended to North-North negotiations and also to North-South negotiations thanks to the active participation of transnational marketing corporations. In South-South trade, counter trade generally involves the active and direct participation of the governments concerned, and may operate not only bilaterally but also multilaterally when practised within the framework of regional or subregional integration and economic co-operation agreements.

## 3. Some conclusions

This restrictive scenario based on an unstable financial picture and the increasing prevalence of managed trade and counter trade, is likely to become more important in the remainder of this decade for reasons which may be summarized briefly by way of conclusion.

First, the loss of dynamism of the world economy, and in particular the current slow growth of the centres, will probably continue in the short and medium term, creating employment problems in the centres themselves and thereby giving rise to protectionist pressures, which will operate selectively, side by side with the mechanisms and expedients of managed trade. It should be noted that this observation by no means excludes the possibility in the longer term of a sharp resurgence of the dynamism of the centres, as a result of the new technologies which are emerging.

Second, the shift of the product and of employment towards service activities in the centres is part of a thorough-going technological transformation (accompanied by advances in microelectronics, biotechnology, energy diversification, etc.), which is now in full swing. This great structural transition causes additional friction as regards employment in the goods-producing activities, and the emergence of new industrial activities as a result of the technological progress made in the centres is beginning to change the framework of comparative advantages inherited from the past. While this transformation is occurring, the protectionist pressures on the more traditional sectors of the economy are increasing.

Third, within the structure of manufacturing at world level, the relative shares of the contribution of heavy and of light industry in the generation of the industrial product have been leveling off. Many peripheral countries at an intermediate stage in their development, and in particular the "new industrial countries" have begun to compete on the world market using goods produced by their heavy industry. This could strengthen commercial competition --in the short and medium terms--, particularly in the cases of the larger and more highly developed countries of the region, which are already venturing into these fields. In the longer run, it is to be expected that the exportable production of the centres will shift in the direction of activities in which higher technology is used, which are now in the most active stage of their development. But the revolutionary technological alternatives which are emerging could also be used to revive the competitiveness of industries at present obsolete in the centres.

Fourth, within the framework of these restrictive scenarios, the region is in a special and different position. On the one hand, its industrial products --and this probably excludes the products of Brazil-- will not, in the short term, reach levels of competitiveness in the world market comparable to, for example, those which the newly industrialized countries of southeast Asia can offer. On the other hand, the diversification of the region's production and its mid-level standards of living keep it, at least to some extent, from enjoying the "comparative advantage" associated with the low wage costs, which tend to prevail in the poorer countries of Asia and Africa. Nor, on the other hand, does its position as a semi-developed region allow it to aspire fully to the credit assistance and trade preferences granted within the framework of international co-operation.

Fifth, in the context of the North-South type of vertical relations, the region as a whole cannot hope to participate in the preferences which the major European countries extend to their former colonies or to benefit from the special commercial and financial ties which Japan has been establishing with the countries of southeast Asia. The primary orbit of its relationships has its hub in the United States, which has provided no special commercial preferences with respect to it. The recently established Caribbean Basin Initiative seems to have made a number of its concessions and benefits conditional upon a certain type of behaviour and on political guarantees on the part of the recipient countries in the subregion. On the other hand, it should be reiterated that the recent increase in exports towards the United States is due to the economic recovery of that country but that the short-term forecast is for a weakening of the growth trend in the United States and that in the medium term, its trade deficit appears to be approaching limits at which it will be difficult to sustain.

In light of these factors and of the general exacerbation of protectionist pressures, it will not be easy for the Latin American countries to achieve a fluid and dynamic expansion of their exports to the markets of the centres or, in general, to compete at international level. The future plans for the region's external trade activities should give consideration to this restrictive international scenario which threatens to continue throughout this decade, thereby affecting the international financial situation of the region.

## 4. Two complementary lines of action for the region

Adherence to two central guidelines may, perhaps, help to orient the action of Latin America and the Caribbean. They are complementary, and each one strengthens the other. On the one hand, the need is emerging to organize and exert stronger bargaining power which can stand up to the rest of the world and, in particular, to the developed countries. On the other hand, it has become imperative to check the deterioration of intra-regional trade and to seek mechanisms and instruments which can be applied intensively to its revitalization by strengthening regional integration and co-operation.

These two basic approaches are based on guiding principles which are permanently valid but take on new significance in the present world and regional economic scenario. Awareness of the current crisis has been expressed in political and institutional frameworks of such importance as the Latin American Economic Conference held at Quito in January 1984. The joint consideration of the problem of the debt also gave rise to a series of meetings held under the Cartagena Consensus, in which emphasis has been increasingly laid on the close relationship between debt and trade in the present regional crisis.

## D. POSSIBLE ALTERNATIVES FOR ACTION

### 1. Some strategy elements: export promotion and import substitution at regional level

The objective of promoting exports is clearly understood by the Latin American countries at the present time, and there is no need to dwell on it in this document. The unusual reduction of imports during the first five years of this decade was associated with the all too well-known and painful recessive phenomena to which consideration has already been given. The social cost of the policy responsible for this reduction is difficult to sustain in the medium term and must be replaced by a policy of import rationalization and selective substitution in order to supply the basic needs of the population and satisfy the urgent requirements for inputs and equipment needed to reactivate domestic productive apparatuses and to resume economic development.

The development and promotion of exports and the selective rationalization and substitution of imports are two complementary and indispensable ways of generating the trade surpluses needed to relieve the external asphyxia due to the debt burden now borne by the region. This does not mean overlooking or underestimating the need to continue the struggle, in the financial realm, for a more equitable distribution of the tremendous burden of the external debt.

The foreign economic policy of each country of the region is affected by a variety of factors peculiar to each of them which are associated with the nature and composition of their exportable production and their absolute and relative economic size and also with the demands and problems which arise out of the economic situation (inflation, unemployment, etc.) which obviously differ significantly in each case. Each country's commercial policy provides for foreign trade instruments, such as subsidies, tariffs and exchange rates, many of which also reflect, at least partially, conditions due to the domestic economic situation. This, however, constitutes no obstacle to the exploration of areas of convergence and co-operation within the general structure of the commercial policy which the various countries may adopt in the future.

Import substitution and export promotion are two interdependent and complementary strategies with a regional dimension, which can be viewed in combination with the efforts which each country must make at national level in this field. Many individual commercial policy instruments may be used together at regional level with the objective of export promotion and import substitution. In this connection, it is noted in an ECLAC document that "potentially the growth of intra-regional trade has a doubly dynamic effect. Over the short term, it allows for the utilization of installed capacity by increasing exports. Moreover, as far as imports are concerned, the efforts made by individual countries to substitute them can, to a large extent, enhance the productive capacity of the region as a whole, thus substantially diversifying the opportunities for substitution. In order for this two-fold effect to take place, it will be necessary simultaneously to strengthen regional trade and financial arrangements in order to make it possible to reduce the use of internationally convertible currencies. To the extent that it did not affect exports to third countries, the intensification of trade and of the concomitant effort to substitute imports at the regional level would free resources that could be used to import from the centres those goods which Latin America is not in a position to produce".2/

An import substitution process established at regional level works in combination with and provides a necessary complement for export promotion at national level. If all Latin American countries increase their imports from Latin America and the Caribbean, they will all, as a logical counterpart, be promoting their exports to the region. In this connection, the document quoted above goes on to make the following observation: "There is, however, a group of countries that are in a better position to promote both the import substitution process and the intensification of intra-regional trade. These are the large countries and some of the medium-sized countries which carry a great deal of weight --or could so-- in intra-regional trade. Some of them, such as Argentina, Brazil and Mexico, export a relatively high volume of manufactures to the region. In the case of Venezuela, its high purchasing power is due to the fact that it is an oil exporter. These countries could increase their sales within the region if they first increased their purchases from the region. Their more highly diversified productive power enables them to offer a much wider variety of goods to the region".3/

Those countries which are relatively less well developed economically and produce a smaller variety of goods for export may have to pay a certain additional cost on purchasing manufactures from the more highly developed countries of the region, by comparison with what they would pay for the same manufactures imported from the centres, but the possibility of making such a sacrifice would be offset by the savings made in convertible currencies and the internal economic reactivation realized as a result of paying for merchandise with exports of other merchandise.

Viewed in this way, import substitution on a regional scale operates like an export-promotion policy for each country participating in it, and a process is conceivable, or in any case lies within the realm of possibility, in which the region provides substitutes for imports at such a rate that its coefficient of trade with the rest of the world declines while at the same time each country within the region increases its trade as a result of its openness to trade with the other countries in the region. However, the strategy outlined by no means calls for a shift, even in relative terms, in the region's economy since, strictly speaking, the reduction in imports has been caused by the recessive adjustment. The approach proposed is aimed rather at rationalizing imports from the centre countries. In view of the current reduction in our import capacity and at creating conditions more apt to favour an increase in exports outside the region. The latter would result from the increased competitiveness which the region's goods would gradually acquire on the world's market through the well-known economies of scale and the specialization achieved as the regional market expands. From this point of view, the inward-directed development and integration process also promotes the region's autonomy and bargaining power vis-à-vis the outside world.

Within the framework of these general guidelines, mention may be made of some mechanisms suitable for use in the attainment of such objectives.

These instruments are, in general, able to function on both levels (inward-directed development and integration and outward-directed concertation and bargaining power) in illustration of the fact that everything which increases regional cohesion, also increases the region's autonomy and bargaining power vis-à-vis the rest of the world.

## 2. Regional action

Concrete measures for increasing the economic links within the region and solving the pressing problem of the external debt include, first and foremost, those already agreed to by the governments at the Latin American Economic Conference held at Quito and the second meeting of the Council of Ministers of Foreign Relations of the Latin American Integration Association (ALADI) and in the Cartagena Consensus.

Measures which might help to bring intra-regional trade back to the levels at which it once stood include:

i) use of the purchasing power of the State to increase trade with other countries and to arrange negotiations with third-party countries. The State, either directly or through its independent enterprises, purchases, on average, close to 40% of all the imports of Latin American countries in the exterior. It is also a significant importer of capital goods, fuels and foodstuffs. Negotiations between State entities and enterprises aimed at diverting some of those purchases (some 10% perhaps) towards the region would have an immediate effect on the level of regional trade. It should be borne in mind that a large number of State-controlled bodies are exempted from the payment of customs duties and other charges levied on imports which make such negotiations difficult. Furthermore, if State purchases are made primarily in the economically less well developed countries of the region, which find it more difficult to realize their export potential on the world market, it will be possible to do away with some trade imbalances which are largely responsible for the paralysis in world trade;

ii) freezing non-tariff restrictions on regional trade and proceeding towards their gradual elimination, in view of the fact that such restrictions seriously jeopardized the achievement made in reciprocal trade after a great deal of effort. Latin American countries suffer major imbalances in their economic relations with the industrialized centres, particularly in those balance-of-payments items which pertain to services, so that there is no justification for applying non-tariff restrictions to regional trade as rigorously as to trade with third-party countries;

iii) extension of the regional tariffs preference beyond its present symbolic meaning. The real effectiveness of this mechanism depends on its application in conjunction with other measures, such as the elimination of non-tariff restrictions on regional trade, the actual application of tariffs to State purchases and the lifting of the many provisions for exceptions which exist in Latin America and the Caribbean;

iv) systematic exploration of the possibilities for counter trade in bilateral and multilateral approaches to reciprocal trade, making use, wherever appropriate, of the institutional frameworks and mechanisms contained in regional and subregional economic integration arrangements. Consideration of the usefulness of this mechanism in trade relations with developed countries and their transnationals and in trade with other regions of the world;

v) joint consideration of the prospects for and viability of a scheme whereby the more highly developed countries of the region, which are usually the most active participants in regional trade, would form multinational marketing enterprises aimed at promoting greater fluidity in the recycling, within or outside the region, of products purchased under counter trade agreements, in particular products from Latin American and Caribbean countries whose exportable production is not very diverse. The presence of such marketing enterprises, organized in the manner of those in the developed world, would favour interregional trade, the formalization of counter trade agreements and the possibility of selling, in the region or abroad, products which the least developed countries in the region are able to export;

vi) enhancement of reciprocal payments and loans agreements by extending the real payment periods, increasing credit margins and channelling a large share of regional trade through such agreements; at the same time trying to link this mechanism to counter trade agreements in so far as the financial and monetary part of the payments is concerned and examining the possibility of extending initiatives such as that represented by the Andean peso of the countries in the Andean group to the rest of the region;

vii) strengthening and development of export credit financing and insurance mechanisms, in particular with regard to manufactures of durables and to capital goods. In connection with the latter, it is possible that, in view of the large variety of possibilities offered by the capital goods produced for export among the countries of the region, it would be preferable to use export subsidies for some of those Latin American countries which are farthest ahead in this branch of industry instead of granting tariff preferences in the less well developed purchasing countries. Thus, the cost of the subsidy in local currency would be borne by the exporting country rather than by the purchasing country, which would pay in foreign currency a price equivalent to that which would be paid for a product from an industrialized country;

viii) exploration of mechanisms designed to ensure that the surplus countries of the region --usually those of large size and further ahead in development-- would use some of the foreign currency derived from their trade to promote joint investments which would diversify and increase the products available for export in their deficit trading partners;

ix) consideration of the advisability of sponsoring negotiations among entrepreneurs in the public and private sectors and including the importers and exporters of the region for the purpose of setting up new trade links on the countries and holding discussions with the agents most directly involved concerning the potential and obstacles of intra-regional trade. Initiatives aimed at those goals have already been taken in the Andean Group. It is also necessary to create a flexible and up-to-date system of information on possibilities for reciprocal trade and regional import substitution, which would facilitate the formulation of policies designed not only to increase intra-regional trade but also to co-ordinate the bargaining power and negotiating efforts of Latin American countries which are purchasers or exporters of a product commonly traded in the rest of the world. There are of course only a few of the measures which may be applied to activate the economic links among the countries of the region.

At the institutional level, stress should be laid on the need to strengthen regional and subregional integration and co-operation bodies and make them more operational, since those are the entities which can implement the agreements and guidelines issued by governments at the highest political level. There is need to find out how to narrow the gap between political will and the implementation of decisions, which are in many cases watered down or are far removed from the purpose for which they were originally designed.

One particularly significant issue is the strengthening of the links within ALADI between the Andean Group and the other member countries, since this could provide the Association with a new dynamic and at the same time strengthen the Andean Group itself.

### 3. International negotiations

#### a) The external debt

The tremendous size of the external debt and its burdensome servicing is one of the most serious problems with which the region has had to cope. It has created a thorny situation involving an external bottleneck and clearly demonstrates the dependence of the countries and the limitations on their freedom to adopt the economic policy decisions which they regard as most appropriate when viewed in the internal and external contexts.

There can be no doubt that the management and renegotiation of the external debt has engaged the efforts and capacities of the economic authorities of the region to the hilt, in particular over the past two years. In spite of the fact that the renegotiations were carried out separately for each country of the region with IMF and the creditor banks, progress was also made in the direction of agreeing on some basic criteria and establishing a flexible and effective consultation and follow-up mechanism through the Cartagena Consensus. These basic criteria were laid down by 26 Latin American and Caribbean countries in the Quito Plan of Action, while ten countries members of ALADI (Paraguay was not present) and the Dominican Republic participated in the Cartagena Consensus.

The external debt will continue to be a crucial issue for the large majority of countries of the region for many years, in particular if the high real interest rates and currently feeble and inadequate financial flows are maintained.

The scenarios which are suggested, if there are no decisive changes in interest rates and in the access to new financing which is less burdensome than at present, reflect situations involving a serious bottleneck in the external sector of many Latin American countries, at least for all that remains of this decade and into the 1990s, which will undoubtedly have a negative impact on their rates of economic development.

The alternative of carrying the discussion of the Latin American debt into the political arena of the industrialized countries seems to have taken shape in the proposals recently made by the Secretary of the Treasury of the United States (the Baker Plan). The countries of Latin America have, however, made the inadequacy of this proposal clear, in particular through the Cartagena Consensus. Moreover, the accumulation of factors which are negative for the region, such as high interest rates, the curtailment of financial flows, the deterioration in the terms of trade, the growing protectionism practised by the industrialized centres and certain structural maladjustments in the world economy which have still not been corrected, can induce —and indeed are inducing— countries to take a more categorical attitude than they have so far. Thus, for example, the recent sudden and very pronounced drop in oil prices will doubtlessly force some of the region's large exporters to change their negotiating position where the debt is concerned.

b) Conditions for strengthening international trade

International co-operation continued to be necessary for solving many of the problems besetting the world economy. The North-South dialogue has deteriorated in the 1980s. Its indispensable revitalization calls for a new strategy and for approaches to negotiation, in which the groundwork and rules of play used in the past are exchanged for others which will allow the developing countries greater participation and weight in international negotiations.

i) Content of the negotiations. A lesson which can be usefully drawn from the experience gained in North-South dialogue in a number of forums involves the restricted and segmented content or climate in which these negotiations have been carried out.

For the developing countries, this segmentation of issues and of the negotiations in general has been very costly, basically for two reasons. First, it has made the process of co-ordination and joint action more difficult for them, and second, it has brought their bargaining power to very low levels.

ii) Ways and modes of negotiation and procedures followed. Experience with previous rounds of multilateral trade negotiations, in particular those conducted within the framework of GATT, has shown that a global negotiation has limitations in so far as an attempt is made to co-ordinate and integrate the interests of all countries.

Given the asymmetry in the powers deployed by developed and developing countries, it has always turned out that the negotiations are focused primarily on solving the trade problems besetting the industrialized countries, and the United States, the European Community and Japan in particular, in their reciprocal relations, so that the interests and objectives of the developing countries are confined to a marginal position.

The alternatives to a new round of multilateral negotiations with global participation by developed and developing countries could be either a basically North-South negotiation or an arrangement whereby the developing countries enter into these negotiations with each of the main industrialized countries or groups of countries separately rather than with all of them at once. Another alternative or complementary possibility which might be worth exploring would be to seek to hold a special regional negotiation on problems which confront it more specifically in its dealings with the developed market economy countries and with countries with centrally planned economies. Without abandoning the negotiating platform which the region has constructed with the other developing regions (in particular, the Buenos Aires platform adopted in 1983), negotiations could be sought with these groups of countries on problems and issues of particular importance in their international economic relations.

It should, however, be stressed that a basic prerequisite for developing countries being able to enjoy and benefit from any of the types of negotiation suggested above will be the strengthening and enhancement of the mechanisms for concertation and co-ordination among them in organizing a reply to the challenge represented by the stagnation of international co-operation and a joint strategy for dealing with it. Obviously, the preparation, co-ordination and implementation of this ambitious and difficult task would be much easier if the Group of 77 had its own specialized secretariat, such as OECD represents for the industrialized countries.

c) New rules and principles governing trade relations

The main requirements for the success of a new and more equitable, healthy and dynamic system of trade have already been noted by UNCTAD and are briefly outlined as follows:

i) The trade system of the future has to support the process of dynamic growth and structural change of the world economy. Protectionism and its discriminatory aspects in particular are to a significant degree a reflection of the structural rigidities which characterize the world economy. The hypothesis that structural adjustment would automatically take place if the market forces were brought freely into play has proved historically incorrect. It is therefore necessary to regard structural adjustment policies as a new dimension of the future trade system.

ii) There is need to create a satisfactory system of safeguards in order to be certain that the problems and difficulties which will inevitably arise at times are solved in a transparent, predictable, non-discriminatory and equitable manner.

iii) It is necessary to pay attention to the way in which processes outside the present system of trade or not absorbed adequately by it are dealt with in the future. These processes include restrictive trade practices, a large share of farm commodity trade, trade in services, and the transactions of transnational corporations and of State trading enterprises.

iv) The trade system of the future must provide a framework in which the development of trade relations among subsystems can be provided for satisfactorily. Not only do integration and economic co-operation groupings, such as EEC, the European Free Trade Association (EFTA) and the Council for Mutual Economic Assistance (CMEA), exist in Europe, but there is also a growing tendency towards such subsystems, at the subregional, regional and interregional levels, in the developing world.

v) Another important aspect of the new system concerns the treatment which should be granted to developing countries. The Generalized System of Preferences meets this issue only partially. Apart from the fact that it has still not been permanently incorporated into the trade system, its scope and impact have been weakened by the introduction of new concepts such as those of graduation and reciprocity. The future trade system should resolve all these shortcomings and establish a meaningful link between trade and development.

vi) The multilateral trade system which was created in the postwar period was never called upon to operate in isolation but had to be supported by other mechanisms in order to obtain the objectives of full employment, currency stability and transfer of sufficient resources to developing countries.

It is obvious that the achievement of the objectives referred to, which are geared to a New International Economic Order, will not depend exclusively on action undertaken by the developing countries in this connection.

An important consideration which will have to be highlighted in future negotiation is that the present order does not work for the developing countries. The changes and reforms which must be negotiated must be aimed at meeting the interests of all the parties to the benefit of the international community as a whole.

d) <u>The halting and reversal of protectionist trends</u>

The action which could be agreed upon at regional level is basically of two kinds. The first kind of action is basically of a preventive nature and is aimed at avoiding the application of new measures, and the second kind is aimed at responding to protectionist measures which are applied to the region and affect its interests.

It would also be of great importance for the region to be able to obtain accurate information concerning the operation of mechanisms for taking protectionist decisions in the main industrialized markets so that they can attempt to take action which prevents injury and does not result in interminable processes of reprisal.

With respect to measures taken in response to protectionism, Latin America should be better prepared to apply retaliatory measures to exports to the region from developed countries. A symmetrical treatment could also have a preventive side in that industrialized countries considering the application of protectionist measures would give careful consideration to the negative impact which the retaliatory measures which the countries of the region could adopt might have on their economies or enterprises. At the same time, the use of such measures would put the negotiations on a more political footing; broaden their scope in that they would no longer be confined to a single sector or commodity once the range of commodities covered in them was extended, and increase the participation of various interests affected by such measures. This would make it easier to look at the problem as a whole and could result in more appropriate and rational solutions from everybody's point of view.

# II. TRENDS IN THE EXTERNAL ECONOMIC RELATIONS OF LATIN AMERICA AND THE CARIBBEAN

## A. SEGMENTATION OF INTERNATIONAL TRADE

### 1. Nature of the segmentation of international trade

The concentration of the large trade circuits involving certain countries to the exclusion of others and certain types of products (services are not considered here) and not the rest is a phenomenon which may be termed "segmentation of international trade".

The segmentation of trade may have its origins in ancient historic, economic and political sources, some of which are related to past colonial or political ties binding nations which are now independent. Nevertheless, our main concern in this paper is to examine the processes which have heightened this phenomenon over the past 15 years.

Foremost among such processes are those rooted in certain policies applied by governments, which have given rise to great debate in international gatherings. Some discriminatory trade practices which are important at present were adopted shortly after the Second World War and integrated into the GATT regulations. Trade preferences among economies making up regional or subregional groupings aimed at increased integration constitute the most typical example.

However, discrimination with regard to trade flows from and among countries not participating in such groupings has in recent years been expressed in new ways which have tended to promote the segmentation of international trade. These new forms of discrimination have been related in particular to the kind of protectionism which has predominated in the trade policy of the industrialized countries and its practice outside the purview of the rules and obligations associated with the application of the GATT regulations.

The protectionism which has emerged particularly in the past decade is essentially bilateral and is increasingly foreign to the use of the principle of multilaterality to resolve current problems. Agreements with voluntary restraints based on bilateral reciprocity have become more common, and, what is more, new schemes of preferences have sprung up as a result of this process.

The various kinds of counter trade (barter, counter purchase, buy-back deals, or bilateral, triangular and multilateral payments agreements) have been supported or promoted by public authorities, and might now embrace 20% to 25% of world trade, according to estimates made by UNCTAD.

The accentuation of the commercial and financial disequilibrium observed in international economic relations may have given rise to the increase in these discriminatory practices. A recent study on counter trade states in this connection that when market machinery appears to be illusionary or non-existent in so far as its ability to keep the balance is concerned, and the mechanisms of international co-operation demonstrate their inefficiency to check the drift towards structural disequilibrium (or even their total failure to operate), it is then that the new rules of play based on reciprocity come into force. The deficit and debtor countries are urgently compelled to seek equilibrium by exercising vigilance over their balances of payments at bilateral level or with the main surplus countries as a whole.4/

The large marketing enterprises have played an important role in arriving at these counter trade and managed trade agreements. They have also taken very significant action in other cases to create trade circuits or to activate circuits already in existence and have succeeded in opening up or expanding markets for the commodities in which they trade.

The financing granted by international banks over the past decade has also been an important factor in maintaining and expanding dynamic trade flows in this setting of growing disequilibria of the world economy. The internationalization of banking has been another salient characteristic of the world economy, especially over the past decade.

Both in the period of rapid expansion of international liquidity to which they contributed prior to 1981 and in the period of the debt crisis which more recently affected the developing countries, the large international banks have openly influenced the development of international trade. The figures relating to the external debt show that it is very much concentrated in a small number of countries. Those countries enjoyed advantages in the conduct of their foreign trade by comparison with other economies which did not have similar access to sources of private financing.

The internationalization of production processes is something else which has gathered steam in the past 15 years and has contributed to the segmentation of international trade. Thus, the stages of work necessarily involved in the production of a final good are divided from design to termination, in various packages of operations carried out in plants located in different countries.

The novelty here does not lie in the actual division of the sequence of production on an international scale since this has been traditional in industrial processes relating to the use of raw materials and other inputs of agricultural or mining origin. In the past 15 years, however, this practice has been intensified by incorporating two special features which affect the trends of international trade.

First, the internationalization of production processes has been extended within the various branches producing manufactures, and secondly it has been promoted by large transnational corporations. The latter frequently produce a given article from the design to the marketing stage, and this sets up trade flows among different countries within the same firm; in other cases, the corporations control the entire process through direct means, completing only part of it directly. Finally, there is also the case of simple co-participation in which there are no special control instruments but all the participating enterprises have a very direct interest in the output of the total process.

An examination of the growing internationalization of production processes shows the leading role played by important economic phenomena which, although they do not always cause them, lie at the root of the new discriminatory trade practices of governments and the activities of large marketing enterprises and international banks, which have affected the conduct and structure of international trade over the past 15 years.

The internationalization of production reflects the degree of dynamism shown by international capital movements, the effects of technological change on the productivity of production factors and the differences in the cost of the latter. Thus a combination of economic forces are brought into play, and they are responsible for the basic conditions needed for the creation of trade flows and for the replacement of old trade flows by new ones.

## 2. Some asymmetries in world trade in recent decades

In the past 20 years, the world economy has been marked by instability and growing disequilibria. In global terms of production and trade, however, different stages are observed, which are reflected in the figures shown in table 1.

In the last five years of the 1960s, the postwar cycle of expansion ended, and in the next five years the first signs of the crisis now afflicting the central economies became evident. The monetary system based on the Bretton Woods agreements broke down, and the first impact of the rise in oil prices was felt. The resulting instability ended in 1975 with the contraction of world production and exportation. This was followed by two 4-year periods with opposing characteristics. As table 1 shows, there was a period of revived expansion between 1976 and 1979 followed by another period of unrelieved stagnation between 1980 and 1983.

Table 1

WORLD PRODUCTION AND TRADE

(Average annual percentage change in volume)

| Period | Production | Exports | Year | Production | Exports |
|---|---|---|---|---|---|
| 1963-1973 | 6 | 8.5 | 1978 | 4 | 5.5 |
| 1973-1983 | 2 | 3.0 | 1979 | 4 | 6.0 |
| 1974 | 2.5 | 3.5 | 1980 | 1 | 1.5 |
| 1975 | -1 | -3.0 | 1981 | 1 | 0.0 |
| 1976 | 7 | 11.0 | 1982 | -2 | -2.0 |
| 1977 | 4.5 | 4.5 | 1983 | 3 | 2.0 |

Source: GATT, International trade 1980/1981, Geneva, 1981, and International trade 1983/1984, Geneva, 1984.

Within this global evolution of world production and trade, the tendency of the latter to segment has increased. Instability, disequilibria and segmentation seem to be related to similar phenomena which have structurally affected the development of the main market economies. Some of these phenomena are considered below; however, the phenomenon which is a cause for concern in and of itself is not reflected in the aggregated indicators shown in table 1, but rather in the asymmetries displayed as its component parts have developed.

The tendencies of international trade to segment are reflected in the changes in the composition of international trade and also in performance of trade flows by types of products and by countries of origin and destination. World trade trends during this period show great asymmetries owing to the concentration of the more dynamic trade flows on certain types of goods (it is worth repeating here that this analysis does not take services into account) and among a limited number of countries.

## a) The dynamism shown by trade in manufactures

The most outstanding feature in the development of the composition of world trade by types of products is the sharp decline in the relative share of primary products, with the exception of mineral fuels. Between 1960 and 1980, their share in world trade fell from 43.2% to 23.5% (see table 2). The sharpest contraction recorded was in agricultural raw materials (from 10.8% to 3.8%).

The share of mineral fuels in commercial trade remained relatively stable during the 1960s and the first years in the

Table 2

SHARES OF MAJOR COMMODITY GROUPS IN WORLD EXPORTS

(Percentages)

| Products (showing SITC sections and chapters) | 1960 | 1965 | 1970 | 1975 | 1980 |
|---|---|---|---|---|---|
| All food products (0+1+4+22) | 19.4 | 18.4 | 14.7 | 13.2 | 11.2 |
| Agricultural raw materials (2 minus (22+27+28)) | 10.8 | 8.1 | 5.8 | 3.9 | 3.8 |
| Minerals, ores and metals (27+28+67+68) | 13.0 | 12.2 | 12.8 | 9.7 | 8.5 |
| All non-fuel primary commodities | 43.2 | 38.7 | 33.3 | 26.8 | 23.5 |
| Fuels (3) | 9.9 | 9.6 | 9.2 | 19.4 | 23.7 |
| Manufactures (5 to 8 minus (67+68)) | 45.7 | 50.1 | 55.5 | 52.1 | 51.3 |
| All products (0 to 9) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total value of world exports (in billions of US dollars) | 127.9 | 186.4 | 312.1 | 872.2 | 1 973.0 |
| Excluding fuels | | | | | |
| All food items | 21.5 | 20.3 | 16.2 | 16.4 | 14.7 |
| Agricultural raw materials | 12.0 | 9.0 | 6.4 | 4.8 | 5.0 |
| Minerals, ores and metals | 14.4 | 13.5 | 14.1 | 12.0 | 11.1 |
| All primary commodities | 47.9 | 42.8 | 36.7 | 33.2 | 30.8 |
| Manufactures | 50.7 | 55.4 | 61.1 | 64.6 | 67.2 |
| All products excluding fuels | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total value of world exports, excluding fuels (in billions of US dollars) | 115.2 | 168.5 | 283.4 | 703.0 | 1 505.4 |

Source: UNCTAD, World Commodity Trade: Review and Outlook (TD/B/C.1/236), Geneva, 4 May 1983.

1970s, declining only slightly between 1960 and 1970 (from 9.9% to 9.2%). The increase in petroleum prices resulted in a sudden change in their percentage share, which rose to 19.4% in 1975 and to 23.7% in 1980. Since then this figure has tended to decline.

Trade in manufactures followed a path opposite to that observed with regard to primary products. Their relative share in total world trade rose notably in the 1960s (from 45.7% in 1960 to 55.5% in 1970).

The dynamism of trade flows of manufactures is more apparent when mineral fuels are excluded, as may be observed in the penultimate line in table 2. The relative share of manufactures increased steadily, rising from 50.7% in 1960 to 61.1% in 1970 and to 67.2% in 1980.

This demonstrates a fact of importance for the analysis of the segmentation of international trade: dynamic flows in international trade in goods occur primarily in connection with manufactures. In the course of the two decades considered, manufactures increased their share in world trade (excluding fuels) from half to over two-thirds.

The drop in the share of trade in primary products in general has been characteristic of the entire postwar period, upholding the forecast made by ECLAC back in 1950. Those estimates were based on consideration of the following factors:

"a) The share of primary goods in global spending or demand declines as income rises;

"b) Commodity substitutions are becoming increasingly widespread;

"c) As technical progress is made the share of primary inputs in the value of finished goods decreases;

"d) Protectionist policies and other instruments in the industrialized countries narrow the access of commodities to markets."5/

These factors have remained valid, having a negative effect on demand for primary products. In recent decades, technological progress seems to have intensified the substitution of the commodities referred to in b) and c) above, with consequent effects on both their volume and their terms of trade.

b) The predominance of the developed countries in world trade

The many alterations which have been made in international economic relations during the past twenty years have resulted in no substantial change in the geographical orientation of the main trade flows. The centre-periphery system has continued to be characterized by the predominance of the industrialized market economies in international trade 6/ (see table 3).

Table 3

WORLD EXPORTS BY MAJOR AREAS, 1963-1982

(In billions of US dollars and showing percentage shares)

| Destination / Origin | Year | Industrial areas | | Developing countries: Traditional oil-exporters | | Developing countries: Others | | Eastern countries | | World | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Value | % | Value | % | Value | % | Value | % | Value | % |
| Industrial areas | 1963 | 70 | 45.1 | 4 | 2.3 | 18 | 11.7 | 4 | 2.3 | 99 | 64.0 |
| | 1968 | 118 | 49.5 | 6 | 2.6 | 25 | 10.5 | 6 | 2.7 | 161 | 67.0 |
| | 1973 | 294 | 51.1 | 16 | 2.8 | 53 | 9.2 | 18 | 3.2 | 391 | 68.0 |
| | 1975 | 381 | 43.5 | 47 | 5.4 | 83 | 9.5 | 33 | 3.7 | 558 | 63.0 |
| | 1978 | 585 | 44.9 | 79 | 6.1 | 121 | 9.3 | 42 | 3.2 | 846 | 64.0 |
| | 1979 | 735 | 45.0 | 77 | 4.7 | 151 | 9.2 | 51 | 3.1 | 1 034 | 63.0 |
| | 1980 | 845 | 42.5 | 100 | 5.0 | 184 | 9.3 | 59 | 3.0 | 1 217 | 61.0 |
| | 1981 | 796 | 40.6 | 119 | 6.1 | 191 | 9.7 | 57 | 2.9 | 1 196 | 61.0 |
| | 1982 | 768 | 41.7 | 114 | 6.2 | 172 | 9.3 | 52 | 2.8 | 1 135 | 61.0 |
| Traditional oil-exporting developing countries | 1963 | 7 | 4.3 | 0 | 0.0 | 2 | 1.3 | 0 | 0.1 | 9 | 5.0 |
| | 1968 | 11 | 4.6 | 0 | 0.0 | 2 | 1.0 | 0 | 0.1 | 14 | 5.0 |
| | 1973 | 33 | 5.7 | 0 | 0.0 | 7 | 1.3 | 1 | 0.2 | 42 | 7.0 |
| | 1975 | 87 | 9.8 | 1 | 0.1 | 21 | 2.5 | 2 | 0.3 | 113 | 12.0 |
| | 1978 | 111 | 8.6 | 2 | 0.1 | 28 | 2.1 | 3 | 0.2 | 146 | 11.0 |
| | 1979 | 164 | 10.0 | 3 | 0.2 | 41 | 2.5 | 4 | 0.2 | 213 | 13.0 |
| | 1980 | 276 | 11.4 | 4 | 0.2 | 61 | 3.1 | 5 | 0.2 | 299 | 15.0 |
| | 1981 | 206 | 10.5 | 4 | 0.2 | 56 | 2.9 | 4 | 0.2 | 273 | 13.0 |
| | 1982 | 159 | 8.6 | 3 | 0.2 | 52 | 2.8 | 5 | 0.3 | 222 | 12.0 |

Table 3 (concl.)

| Destination / Origin | Year | Industrial areas | | Developing countries: Traditional oil-exporters | | Developing countries: Others | | Eastern countries | | World | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Value | % | Value | % | Value | % | Value | % | Value | % |
| Other developing countries | 1963 | 16 | 10.2 | 0 | 0.3 | 4 | 2.8 | 2 | 1.0 | 23 | 14.0 |
| | 1968 | 21 | 8.7 | 1 | 0.3 | 6 | 2.4 | 2 | 0.8 | 30 | 12.0 |
| | 1973 | 48 | 8.3 | 2 | 0.4 | 13 | 2.2 | 4 | 0.8 | 68 | 11.0 |
| | 1975 | 63 | 7.2 | 6 | 0.7 | 19 | 2.2 | 8 | 0.9 | 99 | 11.0 |
| | 1978 | 106 | 8.1 | 11 | 0.8 | 30 | 2.3 | 10 | 0.8 | 159 | 12.0 |
| | 1979 | 131 | 8.0 | 13 | 0.8 | 42 | 2.6 | 12 | 0.7 | 201 | 12.0 |
| | 1980 | 162 | 8.1 | 18 | 0.9 | 55 | 2.8 | 16 | 0.8 | 256 | 12.0 |
| | 1981 | 166 | 8.5 | 20 | 1.0 | 60 | 3.1 | 16 | 0.8 | 268 | 13.0 |
| | 1982 | 158 | 8.6 | 19 | 1.0 | 58 | 3.1 | 15 | 0.8 | 255 | 13.0 |
| Eastern countries | 1963 | 4 | 2.3 | 0 | 0.1 | 3 | 1.7 | 12 | 8.0 | 19 | 12.0 |
| | 1968 | 6 | 2.6 | 1 | 0.2 | 4 | 1.5 | 17 | 7.0 | 27 | 11.0 |
| | 1973 | 16 | 2.7 | 2 | 0.3 | 7 | 1.2 | 33 | 5.7 | 57 | 10.0 |
| | 1975 | 24 | 2.8 | 4 | 0.4 | 10 | 1.1 | 48 | 5.5 | 86 | 9.0 |
| | 1978 | 34 | 2.6 | 7 | 0.5 | 16 | 1.2 | 70 | 5.3 | 126 | 9.0 |
| | 1979 | 46 | 2.8 | 7 | 0.4 | 19 | 1.2 | 79 | 4.8 | 152 | 9.0 |
| | 1980 | 57 | 2.9 | 7 | 0.4 | 24 | 1.2 | 89 | 4.5 | 178 | 8.0 |
| | 1981 | 57 | 2.9 | 11 | 0.6 | 26 | 1.3 | 91 | 4.6 | 185 | 9.0 |
| | 1982 | 59 | 3.2 | 13 | 0.7 | 26 | 1.4 | 95 | 5.2 | 193 | 10.0 |
| World | 1963 | 100 | 64.4 | 5 | 2.9 | 28 | 17.9 | 18 | 11.6 | 155 | 100.0 |
| | 1968 | 160 | 67.4 | 8 | 3.2 | 28 | 15.8 | 26 | 10.7 | 238 | 100.0 |
| | 1973 | 401 | 69.7 | 21 | 3.6 | 82 | 14.4 | 57 | 9.9 | 574 | 100.0 |
| | 1975 | 568 | 64.8 | 58 | 6.6 | 136 | 15.7 | 92 | 10.5 | 875 | 100.0 |
| | 1978 | 852 | 65.5 | 99 | 7.6 | 200 | 15.3 | 126 | 9.7 | 1 303 | 100.0 |
| | 1979 | 1 099 | 67.2 | 100 | 6.4 | 259 | 15.8 | 147 | 9.0 | 1 635 | 100.0 |
| | 1980 | 1 316 | 66.2 | 131 | 6.6 | 332 | 16.7 | 172 | 8.7 | 1 989 | 100.0 |
| | 1981 | 1 248 | 63.7 | 155 | 7.9 | 342 | 17.4 | 170 | 8.7 | 1 960 | 100.0 |
| | 1982 | 1 167 | 63.3 | 151 | 8.2 | 316 | 17.1 | 169 | 9.2 | 1 843 | 100.0 |

Source: GATT, International Trade 1982-1983, Appendix, Geneva, 1983.

Table 3 shows that during the 1960s, the 1970s and the first years in the 1980s, the industrialized market economy countries maintained a share in world trade higher than 60%, whether they were countries of origin or countries of destination of exports. Although the rise in real prices made their share go down in 1975 and 1980 (a drop of nearly 5% on the first occasion and of over 1% on the second), there has been no sustained drop in these trade circuits. In addition, trade by the industrialized countries among themselves represents over 40% of world exports.

Exports by the countries members of the Organization of Petroleum Exporting Countries (OPEC), which are designated in the table as "traditional oil-exporting developing countries", have, of course, behaved in accordance with the vicissitudes of the international hydrocarbons market. In any case, this group has been the recipient of an increasingly large trade flow.

Exports from "other developing countries" show a dynamism which was unexpected in view of the drop in the share of primary products in world trade. The share of these export flows in total world trade has been rising steadily since 1975 (11.3% in 1975, 12.9% in 1980 and 13.8% in 1982). This trend reflects the rapid growth in exports of manufactures from a group of third world countries, a point which will be dealt with later on.

The increase in trade among developing countries, including those which are not members of OPEC as well as those which are, is also worthy of note. From 1973 on, their share in world trade has risen steadily --from 3.9% in 1973, to 6.9% in 1980 and to 7.1% in 1982, when international trade flows contracted. Nevertheless this still represents a relatively small share of world trade as a whole and does not threaten the primacy maintained by the industrial countries in it.

The pre-eminence of the developed countries in international trade shows up more clearly in the case of manufactures. Table 4 shows that over 80% of export flows of manufactures originate in the industrialized countries and also that over half of the manufactures traded are traded among those countries exclusively.

In addition, the participation of the developed countries in trade in primary products, which increased in the 1960s and the 1970s,7/ is developing in a way which strengthens the position of those countries' economies in world trade as a whole. The hefty rise in productivity, particularly in the United States, and the increase in protectionism in the industrialized countries in general, in combination with the insufficient growth in production shown in the developing countries have been decisive factors in this phenomenon. Thus, the economies of the northern hemisphere have been less strongly affected by the marked decline in the participation of primary products in world trade mentioned above.

Table 4

EXPORTS OF MANUFACTURES BY GROUPS OF COUNTRIES */

(Percentages)

| From / To | Year | World (1) | Developed market economies (2) | Developing market economies (3) | Centrally planned economies (4) |
|---|---|---|---|---|---|
| 1. World | 1965 | 100.00 | 64.34 | 23.46 | 11.43 |
| | 1970 | 100.00 | 68.37 | 20.32 | 10.83 |
| | 1975 | 100.00 | 61.67 | 25.94 | 11.90 |
| | 1980 | 100.00 | 64.00 | 26.33 | 9.20 |
| | 1981 | 100.00 | 61.52 | 29.28 | 8.63 |
| | 1982 | 100.00 | 61.97 | 28.35 | 9.00 |
| 2. Developed market economies | 1965 | 84.24 | 60.84 | 19.89 | 3.03 |
| | 1970 | 84.95 | 63.84 | 17.09 | 3.49 |
| | 1975 | 84.34 | 56.41 | 22.25 | 5.30 |
| | 1980 | 82.75 | 57.11 | 21.44 | 3.89 |
| | 1981 | 81.47 | 54.04 | 23.50 | 3.53 |
| | 1982 | 80.60 | 54.09 | 22.46 | 3.49 |
| 3. Developing market economies | 1965 | 4.12 | 2.03 | 1.62 | 0.20 |
| | 1970 | 5.00 | 3.06 | 1.70 | 0.29 |
| | 1975 | 6.33 | 3.71 | 2.33 | 0.23 |
| | 1980 | 9.13 | 5.30 | 3.45 | 0.30 |
| | 1981 | 10.47 | 5.96 | 4.05 | 0.35 |
| | 1982 | 10.70 | 6.24 | 3.98 | 0.36 |
| 4. Centrally planned economies | 1965 | 11.63 | 1.47 | 1.95 | 8.21 |
| | 1970 | 10.06 | 1.48 | 1.53 | 7.04 |
| | 1975 | 9.33 | 1.55 | 1.36 | 6.36 |
| | 1980 | 8.12 | 1.58 | 1.45 | 5.02 |
| | 1981 | 8.05 | 1.52 | 1.73 | 4.75 |
| | 1982 | 8.69 | 1.64 | 1.90 | 5.15 |

Source: United Nations, Monthly Bulletin of Statistics, March and May 1984 and May 1981.

*/ Manufactures: SITC, Sections 5 to 8 minus Chapter 68.

The role played by the developing countries as a market for exports from the developed countries has been important to the development of trade of the latter. During the 1970s and up to 1971, the third world countries were the destination of a growing share of the exports of the industrialized economies. As may be seen in table 3, the share of such export flows in total world trade rose from 12.9% to 15.5% during this period.

Where manufactures are concerned, this phenomenon is sharply pronounced. As may be seen in table 4, in 1970 exports of manufactures from developed market economy countries to developing countries rose to 17.1% of total world trade in manufactures, a figure which was to rise to 23.5% in 1981. In 1982, sales of manufactures to developing countries represented shares in total exports of manufactures of 40% for Japan, 38% for the United States and 22% for the EEC countries.8/

The developing countries have become important markets in the main industrial branches as a whole and, in particular, to those devoted to iron and steel, metal articles, engines and machinery and electric goods.

c) Expansion of exports of manufactures by the developing countries as a whole

The primacy maintained by developed countries in trade in manufactures has, however, suffered a relative decline in the past two decades owing to the thrust of industrial exports from the developing countries as a group. Table 4 shows an unmistakable rise in the share of this group in trade in manufactures, which stood at 4.1% of the world total in 1965 and had risen to 10.7% in 1982.

The dynamism of these flows was greater than those originating in the developed market economy countries and those from the socialist countries. The share of the former in world trade dropped from 85% to 80.6% between 1970 and 1982, while that of the latter fell from 11.6% in 1965 to 8.1% in 1981.

Up to 1981 the growth of industrial exports from the third world countries as a whole was brisk. Although this growth was lower than in the period 1965-1983, in the eight years following that period these exports continued to increase rapidly, far surpassing, in volume terms, the growth shown by other commodities, as may be observed in table 5. The recessive economic situation in 1982 affected this trade flow, but it contracted less than did that of exports of manufactures from the developed countries, as may be deduced from the figures shown in table 5. Available estimates point to another increase in 1983, smaller than that observed in the 1970s but still very significant in the international context.

Table 5

EXPORTS OF DEVELOPING COUNTRIES, BY CLASS OF PRODUCTS

(Average annual percentage change in export volumes)

| Year | Manufactures | Food | Non-food | Metals and minerals | Fuels |
|---|---|---|---|---|---|
| 1965-1973 | 14.9 | 1.3 | 3.7 | 6.3 | 6.4 |
| 1973-1980 | 10.6 | 6.0 | 1.5 | 5.9 | -1.3 |
| 1981 | 16.3 | 19.7 | 2.5 | 2.6 | -21.9 |
| 1982 | -1.6 | 5.0 | -6.1 | -2.1 | 5.1 |
| 1983 a/ | 6.0 | 0.9 | 1.7 | -1.9 | 6.1 |

Source: World Bank, World development Report 1984, Washington, D.C., p. 28.

a/ Estimated.

This expansion of exports of manufactures from the developing countries has radically changed the share of the various types of product within the total merchandise exports by these countries. On the basis of UNCTAD data, the share of manufactures in total exports in 1965 may be estimated at 11.7%; in 1982 this share had nearly doubled (22.9%). If fuels are excluded, the difference is even more sharply accentuated, with the estimated share rising from less than 20% to close to 50% during the same period.

One aspect of this phenomenon which deserves consideration is the destination of these exports. The developed countries have provided their main market, absorbing close to 58% of them (see table 6). The manufactures traded among developing countries have been maintaining a stable percentage of close to 37% of the total industrial exports of the group. As for purchases by the countries with centrally planned economies, which represented only 5% of total sales in 1970, they subsequently fell to under 4%.

Although the majority of exports of manufactures by the developing countries are directed towards the developed countries, their impact on the domestic consumption of these countries remains slight. The World Bank estimates their average share in that consumption at 3.4% in 1980, with figures higher than 15% shown only in connection with wearing apparel, footwear and leather goods. Next in order of importance are radio and television sets (6.7%) and textiles (5.4%).9/

Even though exports from developing countries represent a very small proportion of the consumption of industrial

Table 6

DESTINATION OF EXPORTS OF MANUFACTURES FROM DEVELOPING COUNTRIES

| Year | Percentage distribution by destination | | | | Value a/ (billions of US dollars) |
|---|---|---|---|---|---|
| | Developed economies | Developing economies | Centrally planned economies | World | |
| 1965 | 55.9 | 39.2 | 4.7 | 100 | 4.2 |
| 1970 | 59.8 | 35.1 | 5.2 | 100 | 9.5 |
| 1975 | 58.7 | 36.9 | 3.7 | 100 | 31.6 |
| 1980 | 58.1 | 37.7 | 3.2 | 100 | 99.5 |
| 1982 | 58.4 | 37.3 | 3.4 | 100 | 111.5 |

Source: United Nations, Monthly Bulletin of Statistics, various issues.

a/ Total value of exports from developing countries to all regions in the world, in current dollars for each year.

commodities in the developed countries, their share in that consumption is significantly different in each case. The United States and Japan receive a higher proportion of manufactures from the third world than does EEC, although the latter imports more in relation to its consumption. In 1980, only 5.7% of all the manufactures imported by EEC came from developing countries; that share was as high as 21.4% for the United States and 26.3% for Japan (see table 7).

There are of course various degrees of commercial openness. It is greater in the case of the Community, but there flows from developed countries and, in particular, from other members of EEC, still play a leading role. On the other hand, the United States and Japan have increased their openness to imports of manufactures from developing countries, tightening their economic links with those countries in areas which are not confined to commerce.

Table 7 shows great dynamism in trade in industrial commodities towards the United States and Japan from the countries of South and South-east Asia, whose share in imports of manufactures by the United States was 6.5% in 1965 and rose to 18.2% in 1980. With reference to Japan, their share rose from 0.5% to 22.8% during the same period. It may also be seen that these flows are replacing flows from Europe. In the case of Japan, there has also been a decline in industrial imports from the United States, to the benefit of those from Asian and, to a lesser extent, Latin American countries.

Table 7

ORIGIN OF MANUFACTURES IMPORTED BY THE UNITED STATES, JAPAN AND EEC a/
(Percentage shares of total)

From developed countries

| Imports by: | Total | Europe | United States | Canada | Japan |
|---|---|---|---|---|---|
| United States | | | | | |
| 1965 | 89.9 | 47.3 | - | 21.6 | 19.8 |
| 1970 | 87.5 | 37.0 | - | 28.0 | 21.4 |
| 1980 | 77.2 | 30.5 | - | 19.4 | 25.2 |
| Japan | | | | | |
| 1965 | 96.5 | 39.5 | 63.3 | 1.4 | - |
| 1970 | 86.6 | 35.5 | 47.7 | 1.3 | - |
| 1980 | 68.9 | 28.5 | 35.6 | 1.4 | - |
| EEC | | | | | |
| 1965 | 95.3 | 78.2 | 13.0 | 1.1 | 1.8 |
| 1970 | 95.3 | 78.6 | 12.1 | 1.1 | 2.6 |
| 1980 | 91.9 | 76.7 | 9.4 | 0.7 | 4.4 |

From developing countries

| | Total | Latin America | Africa | Asia b/ |
|---|---|---|---|---|
| United States | | | | |
| 1965 | 9.5 | 2.7 | 0.2 | 6.5 |
| 1970 | 12.1 | 2.4 | 0.1 | 9.5 |
| 1980 | 21.4 | 3.0 | 0.1 | 18.2 |
| Japan | | | | |
| 1965 | 0.9 | 0.3 | 0.0 | 0.5 |
| 1970 | 10.3 | 0.6 | 0.1 | 9.2 |
| 1980 | 26.3 | 1.7 | 0.0 | 22.8 |
| EEC | | | | |
| 1965 | 2.9 | 0.3 | 0.8 | 1.6 |
| 1970 | 2.9 | 0.5 | 0.5 | 1.7 |
| 1980 | 5.7 | 0.6 | 0.6 | 4.0 |

Source: C. Ominami, Les transformations dans la crise des rapports Nord-Sud, Nanterre, October 1984, p. 89.
a/ SITC, Sections 5 to 8, minus chapter 67 and 68.
b/ Excluding Western Asia.

d) Concentration of exports of manufactures in a few developing countries

Exports of manufactures from developing countries are distributed very unevenly among those countries. There is, moreover, a tendency towards concentration which has persisted over the past decade, since those economies which initially took the lead have maintained it.

Table 8 shows the participation of some regions in trade circuits; the pre-eminence of the Asian countries (the Middle East is excluded from the table) in these circuits is readily apparent from table 8. The ALADI countries maintained a growth rate similar to, and, up to 1975, even higher than, that shown by the Asian countries. In the past decade, however, the thrust of exports from the Asian economies was greater than that of the other regions in the world. Moreover, in the two decades covered, exports of manufactures from developing African countries have been unable to keep up with the growth shown in other regions, and their participation in total exports of manufactures has steadily declined.

Table 8

ORIGIN OF EXPORTS OF MANUFACTURES BY DEVELOPING COUNTRIES

| Year | Percentage distribution by origin | | | | Value a/ (billions of US dollars) |
|---|---|---|---|---|---|
| | All developing countries | Asia b/ | ALADI | Africa | |
| 1965 | 100 | 64.0 | 12.0 | 13.4 | 4.2 |
| 1970 | 100 | 65.9 | 13.0 | 8.8 | 9.5 |
| 1975 | 100 | 65.9 | 14.6 | 5.6 | 31.6 |
| 1980 | 100 | 73.2 | 13.9 | 3.4 | 99.5 |
| 1982 | 100 | 74.3 | 12.4 | 2.9 | 111.5 |

Source: United Nations, Monthly Bulletin of Statistics, various issues.

a/ Value of exports of manufactures from all developing countries, in billions of US dollars at current market prices. Relates to total exports shown in the first column.
b/ Excluding Western Asia.

Table 9 gives separate entries for the countries which lead the developing countries in exports of manufactures. Five Asian countries —Taiwan,*/ South Korea, Hong Kong, Singapore

*/ The Chinese Province of Taiwan. It has been included in this list and in others further on in this document for practical purposes only.

Table 9

POSITION OF THE SEVEN DEVELOPING COUNTRIES WHICH LEAD IN EXPORTS OF MANUFACTURES
(Percentages)

| | 1965 | 1980 |
|---|---|---|
| Taiwan b/ | 4 | 18 |
| South Korea | 2 | 15 |
| Hong Kong | 19 | 14 |
| Singapore | 7 | 9 |
| India | 18 | 5 |
| Brazil | 2 | 7 |
| Mexico | 3 | 2 |

Source: Clairmonte and Cavanagh (1983), on the basis of UNCTAD data. Cited by C. Ominami in Les transformations dans la crise des rapports Nord-Sud, Nanterre, October 1984, p. 101.

a/ Percentage share of exports of manufactures from each country in total exports of manufactures from developing countries.

b/ Chinese province of Taiwan. Included in this list of countries for practical purposes only.

and India-- are shown as having the largest shares in this trade. They alone were responsible for 50% of industrial exports by developing countries in 1965 and for 61% in 1980.

However, within the growth pattern under discussion, significant changes have occurred. Taiwan and the Republic of Korea, which accounted for only 6% of the manufactures which all the developing countries sold outside their borders in 1965, exported one-third of those manufactures in 1980. At the other extreme is India, whose share in this trade dropped sharply from 18% to 5% in a period of 15 years, causing India to fall from first to sixth place among developing countries exporting industrial goods.Hong Kong, which was in second place in 1965, has also seen its share drop (from 19% to 14%), but even so its dynamism made it worthy of inclusion by OECD in the category of newly industrializing countries, along with Taiwan, the Republic of Korea and Singapore.10/

Brazil and Mexico are the only non-Asian countries which rank high among the developing countries which export manufactures, and they have been included in that same select group. Brazil has seen its exports of industrial goods grow at a rate which has been surpassed only by the Republic of Korea and Taiwan and has decisively increased its role in external sales of manufactures by countries members of ALADI and by Latin American countries in general. In 1970 its share in the former amounted to 29.4% and in the latter, to 23.0%, while in 1982 these figures were 56.3% and 50.1%, respectively.

On the other hand, the participation of Mexico in regional exports of manufactures has diminished. Its share in those of ALADI fell from 31.7% in 1970 to 14.5% in 1982. Even the third ranking exporter of industrial goods in Latin America —Argentina— has performed more dynamically, although its share in exports of manufactures by ALADI countries also fell, from 20% to 13.5%, during the same period.11/

It may be observed that together with the tendency towards concentration there is also a certain amount of diversification in the developing countries which gives rise to significant flows of manufactured exports. Actually, the number of countries which exported over US$ 100 million (at 1975 prices) worth of manufactures rose from 18 in 1965 to 22 in 1970 and to 47 in 1979.12/ Table 10, prepared by OECD, groups 37 of these 47 countries by value exported and growth rates in the period 1972-1978. (The countries excluded for various reasons are China, Iran, Jamaica, Kuwait, Lebanon, Liberia, Saudi Arabia, Trinidad and Tobago, Venezuela and Vietnam.)

The OECD analysts focused their attention on the countries shown in the last column in the table. Five of them (subgroup A) are regarded as island economies dedicated basically to the labour-intensive production for export of simple manufactures. They may be regarded fundamentally as extra-territorial centres of production of other countries. This accounts for their having managed to exceed the limit of US$ 100 million so fast. It is most due to the establishment of a complex of economic activities of an industrial nature which would provide a foundation for a sustained penetration of the international markets for products manufactured in secondary processing activities. On the contrary, the trade restrictions in the industrial countries will limit the expansion of their exports as they manage to control a significant portion of the market for the categories (primarily textiles and wearing apparel) in which these island economies specialize.

The economies of the countries in subgroup B are more complex, but they do not show significant industrial development either. Processing for other countries, in their capacity as extra-territorial production centres, appears also to have played an important role in these countries, and in Tunisia in particular. Indonesia has the size of market and the resources derived from petroleum needed to allow it to develop a more extensive industrial foundation. However, even in 1979 manufactures represented only 3% of its exports (close to 8% if petroleum is excluded).

As for Chile, Peru and Uruguay, they seem to have achieved positive results in the years considered in the table, owing primarily to policies which favoured the expansion of certain export lines. However, the achievements

Table 10

DEVELOPING COUNTRIES EXPORTERS OF MANUFACTURES, BY GROWTH RATES OF EXPORTS OF MANUFACTURES, 1972-1978 a/

| Dollar value in 1979 b/ | Less than 6.9% c/ | 6.9% to 13% | Over 13% d/ |
|---|---|---|---|
| US$ 100 million to US$ 1 billion | Egypt<br>Colombia<br>Dominican Republic<br>El Salvador<br>Guatemala | Bangladesh<br>Turkey<br>Cote d'Ivoire<br>Kenya<br>Costa Rica | A) Macao<br>Malta<br>Mauritius<br>Sri Lanka<br>Haiti<br><br>B) Morocco<br>Tunisia<br>Jordan<br>Indonesia<br><br>C) Chile<br>Peru<br>Uruguay |
| US$ 1 billion to US$ 2 billion | Pakistan | Argentina | Thailand<br>Malaysia<br>Philippines |
| US$ 3 billion to US$ 6 billion | Yugoslavia<br>Mexico | India<br>Israel | Brazil<br>Singapore |
| Over US$ 10 billion | | Hong Kong | South Korea<br>Taiwan e/ |

Source: OECD, "The new wave of industrial exporters", in The OECD Observer, Paris, 1982, p. 27.

a/ Average annual growth rates at constant prices (1975).
b/ Values at 1979 prices and exchange rates.
c/ 6.9% is the average growth rate for the world.
d/ 13% is the growth rate of the newly industrialized countries not members of OECD (four Asian countries, Brazil, Mexico and Yugoslavia).
e/ Chinese province of Taiwan. Included in this list for practical purposes only.

were not firmly based since between 1980 and 1982 exports of manufactures from these three countries declined sharply —from US$ 417 million to US$ 261 million (37.4%) in the case of Chile; from US$ 553 million to US$ 384 million (30.1%) in Peru and from US$ 402 million to US$ 330 million (17.9%) in Uruguay.

The economies of Thailand, Malaysia and the Philippines seemed to be following in the steps of the Republic of Korea and Taiwan, although the Philippines has arrived at a stage of stagnation in the 1980s. In the three cases referred to, industrial goods accounted for over 20% of their total exports in 1979.

The rise of industrial exports from these three countries have received strong support from the four economies of south-east Asia which were their forerunners in this type of development (Taiwan, the Republic of Korea, Hong Kong and Singapore). Some production processes and some lines of products have been transferred, by means of subcontracting or direct investment, to these three countries when wage costs rise in the four relatively more industrialized countries. These four countries have also been purchasers of cheap manufactures produced in Thailand, Malaysia or the Philippines.

However, not even the latter three countries have produced export flows which can contain the tendency to concentrate industrial exports since the five developing economies which play the most significant role in exports of manufactures are generating approximately two-thirds of that trade. Of those five countries, of which Brazil is one, only the "gang of four" (Taiwan, the Republic of Korea, Hong Kong and Singapore) have made production for the international market the keystone of their growth.

In short, it can be confirmed that the dynamism shown by the circuits of trade in goods is confined to manufactures and to trade among a small number of countries, only about half a dozen of which are developing countries.

### 3. Dynamic circuits and segmentation in international trade

The rapid review of trends in international trade carried out in the preceding sections has made it possible to identify a general tendency towards concentration of the more dynamic trade flows in a limited number of countries and among goods of a certain type. This results in what has been defined as segmentation of international trade. Before an examination is made of some of the factors which seem to have contributed to this phenomenon, attention should be drawn to some dynamic links which work together to create a climate of segmentation in world trade.

In the first place, mention should be made of the trade links among developed market economies. In particular, it is worth being more specific concerning the relations between the United States, EEC and Japan, which respond more directly to increases in productivity, changes in relative competitiveness and the growing internationalization of the production processes and financial activities observed in recent decades.

In the second place, the links created in trade within EEC are a case apart and the result of an economic integration process which has been very dynamic in the past two decades.

Third, reciprocal trade among the CMEA countries also deserves special consideration because of the special characteristics of the ties which bind them and influence their commercial behaviour.

A fourth case, finally, is that of the developing countries which have managed to integrate their trade into the most dynamic flows of commodity trade. Here the limitations imposed by the centre-periphery relationship did not prevent some half a dozen countries from contributing to the expansion of trade in manufactures and taking the lead in that phenomenon.

a) Commercial links between developed market economy countries

Trade among developed market economy countries grew at an accelerated rate during the third quarter of this century. Between 1950 and 1975, merchandise trade among them increased at an average annual rate of 8%, being largely responsible for the fact that their economic growth achieved comparatively high rates (higher than 4% a year).13/

Many factors have been influential in the dynamism observed in the trade flows between Europe and North America. Geographical proximity of course eliminates one natural barrier to trade --transport costs. The fact that these commercial ties date back many years means that areas of specialization have already been created among the countries involved and that markets are known and adapted to foreign products; in other words, the passage of time has meant that various aspects of their production and consumption structures now complement each other.

But in the postwar period, the most noteworthy feature of this phenomenon was the vigorous development of transnational corporations which extended beyond national borders and set up branches in other countries. The expansion of these corporations was geographically centred in the United States, Canada and Europe. The financial houses were not left behind in the internationalization of activities so that financial links which were already operating intensely prior to the War grew in number.

All these developments have resulted in stronger technological links and have given rise to fairly brisk competition caused by the different levels of productivity of the industrial systems of the various countries and the factor payments made by them. Technology and productivity have not played the same role in the agricultural sector since, for a number of reasons, the developed countries have kept agriculture out of their commercial dealings with each other. Thus, for example, way back in 1955, the United States formally decided to exclude trade in farm commodities from the GATT regulations.

The protectionist trends which took shape in the mid-1970s have tended to affect other sectors, including industrial sectors, such as the textile and steel sectors. However, the magnitude of the trade relations among the developed countries, the intensity of the financial links involved and the strong bonds created by the political and military undertakings among the governments concerned have given rise to an array of negotiating forums and instruments which make it difficult for significant regression to take place.

A distinction needs to be drawn between the commercial relations of Japan with the developed market economies of Europe and North America and those among the latter. While it is true that Japan's relations have followed a pattern similar to that of the other countries for more or less the same reasons, the Japanese economy has displayed very special features in its postwar behaviour.

In the first place, Japan has an outstanding capacity to take the lead in the technological progress made in numerous fields of industrial production. The growth rate of its production also stands out as being higher and more sustained than in the other developed countries, partly as a result of the increases in productivity and the high investment rates maintained throughout the years.

From the point of view of international trade, attention should be drawn to Japan's efforts to reduce the entry of foreign merchandise into those markets for specific goods in which competition from imports is considered undesirable. In spite of a significant increase in the degree to which it is open to the exterior, Japan has tenaciously protected industrial branches which are at a disadvantage vis-à-vis external competition until they can succeed in conquering markets in the exterior.

Finally, it must be pointed out that Japan's transnational corporations have played a relatively minor role in the country's external relations, by comparison with that played by such corporations in other developed economies. However, large enterprises specializing in foreign trade ("sogo-shosha") have played a very important role in the development of Japan's commercial relations.

In the development of the centre-periphery system during the postwar period, the hegemony of the United States as a world economic centre has declined substantially due to the more dynamic expansion of some European countries and, in particular, of Japan, which became a leading world economic power in the 1950s.

Japan's share in world trade has been growing. Its exports, which represented 4.5% of total world exports in 1965, saw their share rise to over 7.5% at the beginning of the 1980s. In the three-year period 1980-1982, the main destinations of those trade flows were the United States, which absorbed more than 25% of them, followed by the Asian countries, which together accounted for somewhat less than one-fourth and, third, Europe, with 15% (EEC, 12%). Latin America and the Caribbean and developing Africa received 10% of all Japanese exports, while the remaining 20% were divided among Canada, countries with centrally-planned economies, the OPEC countries and Australia, New Zealand and South Africa. The Republic of Korea, Taiwan, Hong Kong and Singapore received over 60% of all Japanese exports to Asia (17%, 16%, 15% and 13%, respectively), while smaller percentages went to Indonesia (12%), Malaysia (7%) and the Philippines (5%).

During the 1970s a significant change occurred in the origin of foreign merchandise absorbed by the Japanese economy. In 1970 its principal suppliers were the United States (30%), the market economy countries of Eastern and Southern Asia (15%) and the countries of the Middle East (13%). In 1980, 13% of its imports originated in the Middle East, 23% in the other market economies of Asia and only 17% in the United States.

This change is very much attributable to the fuel imports so essential to Japan which it receives from the Middle East, Indonesia and Malaysia. However, these figures also reflect the tremendous dynamism achieved by imports of manufactures from developing Asian countries, in particular the Republic of Korea, Taiwan, Singapore, Hong Kong and the Philippines.

The notable increase in world trade in the postwar period resulted in much greater interdependence among the central economies as well as between peripheral economies and their centres. Over the past three decades the value of the exports: gross-domestic-product ratio has doubled in all parts of the world, both developed and developing. This ratio rose significantly, although to a lesser extent, in the socialist countries (see table 11).

Thus, the pressure exerted by the effective external demand on national levels of production and employment has increased. At the same time, the global domestic demand now has a greater impact than before on production in other countries. In many cases, a sharp distinction is no longer drawn between internal and external policies. Actually, tax, sectoral or investment-promotion policies may have as much or even more of an impact on tariffs or quotas in international trade flows.

This being the case, the reduction of those flows or the application of restrictive policies produces an immediate reaction in the countries affected, which try to offset the

Table 11

RATIO OF EXPORTS TO GROSS DOMESTIC PRODUCT

(Percentages)

| Year | Developed countries | | | Countries with centrally planned economies | Developing countries | World |
|---|---|---|---|---|---|---|
| | All | United | Japan | | | |
| 1950 | 10.1 | 4.5 | 9.2 | ... | 12.8 | 10.6 |
| 1960 | 11.7 | 5.1 | 10.8 | 5.3 | 15.6 | 11.1 |
| 1970 | 13.7 | 5.7 | 10.8 | 5.8 | 15.9 | 12.5 |
| 1975 | 17.6 | 8.5 | 12.8 | 8.0 | 24.2 | 16.9 |
| 1980 | 20.6 | 10.2 | 14.0 | 8.9 | 26.8 | 19.6 |

Source: UNCTAD, Trade and development report 1984, Part III, Geneva, 1985.

negative effects which reach them from the exterior. In this respect, it is symptomatic that the wave of protectionism was accentuated just after the 1975 drop in trade and that a chain reaction then took place in respect of the first measures adopted by the United States and EEC. The second wave of protectionism was noted in 1981-1982, in the midst of a deep world recession and severe exchange-rate disequilibria.

The special links which exist between various economies are of relevance for coping with protectionist trends. These links are forged to prevent the reduction of the trade flows affected by protectionist measures. Thus privileges are created in respect of some countries, while there is discrimination against the rest. In this way the protectionism applied recently has been of a bilateral nature while multilaterality is used less and less as a basic principle in resolving existing problems.

b) The European Economic Community (EEC)

The links created within EEC are part of a successful economic integration process adopted among developed market economies. The proportion of world merchandise trade generated among them is higher than that generated by any other country or association of countries. Although their growth rates were lower than the average rates for the rest of the world in the 1970s, both their export and their import trade has represented over 30% of the world total since the beginning of the 1980s.

In the period of greatest expansion, the economies of the countries members of the Community grew as a result both of the expanded market, particularly in their industrial sector, and of common policies adopted in respect of trade with third-party countries, especially in their farm sectors. Intra-regional trade rose from somewhat higher than one-fourth the foreign trade of the member countries as a whole in 1948 to half that trade in the 1970s and early 1980s.

In the 1970s, the rate of expansion fluctuated and subsequently declined, resulting in a serious situation of stagnation from 1980 on. At the same time growing protectionism emerged against the rest of the world, which only a few countries in a privileged position vis-à-vis the members of the Community have managed to overcome. Protection is particularly notable with regard to farm commodities, iron and steel, textiles and chemicals.

### c) Countries members of the Council for Mutual Economic Assistance (CMEA)

In 1949 the eastern European countries with centrally planned economies and the Soviet Union set up a new kind of economic community. Public ownership of the means of production and the centralized planning of economic activities by the State means that the international trade of these countries differs from that of other countries in that it reflects a priority set by the government in economic plans which allocate tasks and resources at various levels to the different units which make up the economic system of each country.

Since its establishment, CMEA has dedicated itself to the task of narrowing the gap in the levels of economic development achieved by its members. For this reason, the pattern of trade relations has not been structured in accordance with the classic division between producers of primary goods and producers of manufactures.

From the point of view of international trade flows, an outstanding feature of CMEA is the preponderance of trade among its own members. This has slackened off in the past 15 years largely because of the changes which have occurred in trade in fuels. But even so, during the first years in the 1980s, these countries continued trading over 50% of their exports among themselves.

There are political as well as economic reasons for the concentration on reciprocal trade. In connection with the economic reasons, attention should be drawn to the wide variety and abundance of natural resources in the Soviet Union and the enormous demands and possibilities associated with the intensive development of the CMEA countries, in particular by accelerating the industrialization of the least developed among them.

During the first two decades of CMEA's life, marked priority was granted to the economic development of its members to the detriment of their relations with the rest of the world. Although during the past 15 years trade with the market economies has appeared more dynamic, the necessities imposed by economic planning call for medium and long-term agreements based on counter trade, so that special trade circuits have been created which can be changed only through a complicated procedure in which they are adapted to national economic plans.

In short, the segmentation of the international trade of the countries members of the CMEA, which was fostered for political and economic reasons and because of the demands imposed by the planning processes in the socialist countries, appears to be having an attenuating effect on that trade, which had been markedly exclusivist since the 1950s. However, the fact that foreign trade is now broader in scope does not alter the nature and characteristics of trade in centrally planned economies. The special circuits have been made more complex but they are still determined by the objectives and targets established in the economic plans.

d) <u>Leading exporters of manufactures among developing countries</u>

The Republic of Korea, Taiwan, Hong Kong and Singapore in Asia and Brazil in Latin America are the countries which have thus been able, in their own right, to enter the rapidly expanding international trade in manufactures. As has been seen the dynamism of their trade has been as great or even greater in many aspects as that of the trade originating in the industrialized countries.

These four Asian countries' experiences with industrialization for export purposes have merited special attention because of the impressive rate of growth and change of their structure of production over the past three decades. In this respect, one currently held view of these experiences which has gained general acceptance lays stress on the high degree of openness of these economies and on a supposedly low degree of public intervention.

However, there are elements which are more basic to the successes achieved by these economies. Perhaps the most important of these is the preference for industrialization reflected in the development strategies applied. This industrialization is of course aimed at penetrating international markets. However, the fact that the goods exported were of industrial origin had a dynamic impact which would not have been obtained with strategies based on the exploitation of natural resources, which, moreover, are not found in great abundance in these countries.

In the Republic of Korea, the industrial product in 1954 represented 5% of the national product. The share of the industrial sector rose to 32% in 1978, while that of the primary goods sector dropped from 50% to 19%. In Taiwan, the share of industry in the product rose from 10% to 42% between 1952 and 1979, while primary production dropped from 37% to 11%. In the city-State of Singapore, the share of industry in the product rose from 13% to 24% between 1960 and 1979 at the expense of the share of services, which dropped from 79% to 70% in the same period.14/

A salient feature of the industrialization processes of these countries is the concentration on the exportation of consumer goods with a high imported content, whose production is highly labour-intensive. Thus, a special link has been established between this group of countries and Japan, which differs from that between them and the United States and Europe.

Actually, their exports have successfully penetrated the markets of the United States, Europe and other OECD countries, resulting in a trade surplus. In 1979, they were responsible for 29.3% of the wearing apparel imports of all the OECD countries; 16.9% of the leather, footwear and travel articles imports; 18.5% of all imports of wood and cork manufactures and 10.5% of those of electric machinery.15/

On the other hand, with respect to Japan and Japan alone, these four economies have shown persistent and significant trade deficits (see table 12, in which these deficits are shown as positive balances in favour of Japan).

It is worth pausing to consider the trade relations maintained by these four newly industrialized Asian countries with Japan. These relations are characterized by the establishment of highly dynamic trade circuits in the manufacturing sector which are, however, very much confined to these countries. These two characteristics of their trade mean that these countries are following the main trends which have led to the segmentation of international trade in recent decades.

In a recent study the structure of the trade relations between Japan and the Republic of Korea, where industrialization has perhaps arrived at the highest degree of diversification, is analysed as follows: "Textile products, together with yarns and threads, represent 57% of Korea's exports to Japan. Clear specialization is to be observed even in the trade relations within this branch, since Korea mainly exports clothing, silk products and cotton yarns, while importing capital- and technology-intensive products such as synthetic fibres and garments made therefrom. The second most important branch of Korea's exports to Japan is that of electrical and electronic equipment, where a clear tendency to specialization connected with the 'technological density' of these products is likewise to be observed. This branch includes household appliances, electronic components and electrical machinery and equipment, Korea's specialty being the export of such household appliances and goods as radios, television sets, watches and pocket calculators —all labour-intensive items. In the other two groups, the advantage

Table 12

JAPAN'S TRADE BALANCE WITH THE FOUR ASIAN DEVELOPING COUNTRIES WHICH LEAD IN EXPORTS OF MANUFACTURES

(Millions of US dollars at market prices for each year, values FOB)

| | 1965 | 1970 | 1975 | 1980 |
|---|---|---|---|---|
| Korea | | | | |
| Exports a/ | 180 | 818 | 2 248 | 5 368 |
| Imports b/ | 21 | 229 | 1 310 | 2 995 |
| Balance | 159 | 589 | 938 | 2 373 |
| Taiwan c/ | | | | |
| Exports a/ | 218 | 700 | 1 824 | 5 141 |
| Imports b/ | 94 | 251 | 812 | 2 293 |
| Balance | 124 | 449 | 1 012 | 2 848 |
| Hong Kong | | | | |
| Exports a/ | 289 | 700 | 1 379 | 4 743 |
| Imports b/ | 16 | 92 | 246 | 568 |
| Balance | 273 | 608 | 1 133 | 4 175 |
| Singapore | | | | |
| Exports a/ | - | 423 | 1 522 | 3 869 |
| Imports b/ | - | 87 | 400 | 1 493 |
| Balance | - | 336 | 1 122 | 2 376 |

Source: OECD, Anuario de comercio, various issues.
a/ Exports from Japan to each country.
b/ Imports to Japan from each country.
c/ Chinese province of Taiwan. Included in this list for practical purposes only.

is on the side of Japan. Even within the branch of electronic components there is a specialization, since Japan is a net importer of batteries and integrated circuits —for which the production technology is wellknown— while it exports semi-conductors".16/

The same type of link has existed between Japan and the other three countries in the group, although there is a greater degree of complementary specialization between Japan and Korea. Thus, the relative loss of markets in the United States, Europe and the rest of the world which Japan could experience because of the penetration of manufactures from these three countries is offset by the exportation of capital goods and intermediate products of Japanese origin incorporated in such manufactures.

With regard to the activity of the transnational corporations in the nine industrialized Asian countries, it is true that such corporations have played a decisive role in some industrial branches and that in Singapore sales of products to the exterior predominate. However, this cannot, by extension, be said of the experiences of this group of countries as a whole.

A number of studies have shown that national enterprises control over 70% of the industrial exports of the Republic of Korea and 90% of those of Hong Kong, while for the countries of southeast Asia as a whole it has been estimated that the share of exports made by transnational corporations does not amount to 20%. Actually, the activities of these corporations in developing countries in general have not been preferentially oriented towards exports but rather towards the domestic market.

In spite of this, it may be seen that certain industrial branches have been decisively favoured by transnational corporations. This is the case of the electronics branch in Korea. Japanese and North American corporations, whether they are mixed or work through single-ownership branches, sought to benefit from the comparative advantages associated with low labour costs by subcontracting work and managed to control 54% of the production and 72% of the exports of this sector. However, it is estimated that foreign corporations were responsible for only 15% of the exports of the manufacturing industry as a whole.

Transnational corporations have played a decisive role in the development of certain lines of export, but the same cannot be said of their contribution to the overall results achieved by these Asian countries. The impact of foreign enterprises as a whole has been only moderate (except in the case of Singapore). In addition, their role has been made subordinate to strategical industrial objectives, which are defined internally in each country.

Brazil is the only country in Latin America which has managed to maintain a growth rate of exports of manufactures comparable with those recorded by the four principal Asian developing countries which export industrial goods. Mexico was also classified as a newly industrializing country by OECD in its 1979 study cited above. More recently, however, the dynamism shown by its exports has been channelled towards petroleum, so that in 1970 and 1982 the growth rates of its exports of manufactures were lower than those for Latin America as a whole. Moreover, the share of manufactures in total Mexican exports dropped from 32.5% in 1970 to 9.5% in 1972, the latter figure being lower than the 17.2% recorded for the region as a whole the same year. In Brazil, on the other hand, industrial goods, which represented 13.3% of the country's total exports in 1970, saw their share rise to 38.3% in 1982.

The outcome of Latin America's export effort may also be measured on the basis of Hirselman's index, in which the concentration of exports by product is measured. Between 1960 and 1970, this index shrank by more than half (falling from 0.58 to 0.22), reflecting a substantial diversification in exports of goods.17/

Brazil's success with exports is in some aspects similar to that of the four Asian countries considered above, although it differs in many other aspects. One of their main points in common is the tenacious effort made to industrialize, and this has been characteristic of the national development strategy persistently applied in Brazil for a number of decades. Thus, an industrial apparatus which had already made significant progress in the 1950s has continued to be diversified.

However, not only is there a difference between Brazil and the four Asian countries considered in the degree of industrialization which had been attained when the export effort began. Brazil has been industrialized by having recourse basically to its vast domestic market; exports play an important role in the industrial effort, but they are not the decisive element on which it rests.

Transnational corporations have also played a more significant, although less than a decisive, role in Brazil than in the Asian countries; their share in total exports amounts to close to one third, while they accounted for one half of the country's industrial exports in 1979.18/ Moreover, Brazil has subjected them to a clearly defined policy which ensures that they contribute to the objectives of its industrial strategy. In this it has differed from a number of Latin American countries in which policies more liberal towards transnational corporations have been followed.19/

## 4. Economic processes playing a predominant role in the segmentation of international trade

The four types of trade links briefly described in the preceding section by groups of countries operate in very diverse situations. They are, however, alike in that their dynamism springs from trade in manufactures and that they operate between economies which are relatively highly industrialized or are in the process of rapid industrialization. From a more functional point of view, reference will now be made to those economic processes which play a predominant role in the segmentation of trade.

a) Preponderance of the industrial dynamics

International trade in manufactures has shown notable growth in contrast with the much slower growth rate where primary products are concerned. This means that the growth of international trade is affected by the constantly changing approaches taken to industrial development in the different countries and groups of countries, in particular the more advanced. The latter are therefore seen as the principal actors in the expansion of international trade, and what happens in their industrial apparatuses sets the trend for the structuring of patterns of trade.

The concentration of commercial dynamism in trade in manufactures and the fact that it is concentrated in countries with sufficient industrial development to react to the rapid changes undergone by productive processes are two sides of the same coin.

The segmentation of international trade appears to be rooted basically in the same structural gap which separates the industrialized world from those countries which must continue to depend basically on the production and exportation of primary products. Countries in this situation remain outside the more dynamic trade flows because their industrial activities have not reached that stage of development at which they can adapt to and participate in the new modes adopted for the production of and trade in manufactures by those centres which are the most advanced in the production of technology and by those which succeed in raising their productivity appreciably by applying them.

The high technological content of industrial activities even helps to raise productivity in the production of primary goods in the developed economies. In those countries it is easier for technological innovations to emerge and be put into general use in agriculture and mining. This is one of the main reasons why the developed countries have, to the surprise of many, been able to take the lead in trade in primary commodities over developing countries specializing in their production.

In the last analysis, the application of technological innovations to industry, which has resulted in considerable improvements in the productivity of the production factors, and the internationalization of the manufacturing processes seem to be the two phenomena responsible for the most significant changes in world trade flows.

b) Two stages in the segmentation of international trade

The achievement of very high levels of productivity gives rise to changes in production and trade which have extensive and varied social and political repercussions. Those who stand to gain from this have a choice of ways in which to divide the benefits, since the degrees to which labour, capital and the State participate may be different. There are also various ways in which the agents receiving these profits may allocate them to different types of consumption or investment. Those who stand to lose because their systems of production have become obsolete are confronted with similar options regarding the distribution and allocation of their losses.

Logically enough, these decisions are easier for the profit-makers than for the losers. The latter must decide where the heaviest loss must be borne rather than what sector to advance. It is not unusual, in cases of economic and social transformation of significant scope and impact, for the political authority to intervene and establish public policies in an attempt to manage the losses. When the economy as a whole is in expansion, such losses are usually absorbed or offset internally. If this does not occur, an attempt is frequently made to cut the losses at the expense of third parties. This is true of protectionist policies, and it is not by chance that they have re-emerged at times of recession and crisis.

From this analysis it may therefore be seen that there are two stages in the process of trade segmentation. An early stage, which may be termed "spontaneous segmentation", consists in the concentration of export flows in those countries which take the lead in increased productivity in a given branch of industry. Exports from economies which are unable to stay ahead in the race for innovations and cost reductions lose momentum and tend to be overtaken.

However, when this happens, the reaction is to manage the losses (smaller earnings on capital, reduction or stagnation of wages, unemployment, etc.), which leads to the establishment of protectionist policies. This would be the second stage, which might be called "intentional segmentation".

The advantages achieved by countries in the lead in technological progress usually enables them to successfully offset the effects of protectionism, if only in categories not subject to protection, since they have increased their economic power and also their bargaining power vis-à-vis countries protecting themselves against the advances they have achieved. However, commercial trade will remain hamstrung in a number of ways.

Third-party countries which have not initially participated in the competition suffer more permanent effects. It becomes more difficult to engage in competition. They must compensate for the protectionist barriers as well as for differences in productivity, with the result that the acquisition of comparative advantages becomes more uncertain, time-consuming and costly. In this second stage of the process of segmentation, a deliberately stronger effort is made to exclude these countries from commercial competition; however, in practice, the exclusion mechanism has already been set into motion when the application of technological innovations had created differences in productivity and given rise to costs which had not existed previously.

c) Internationalization of the production processes

Cost differences created in order to promote international trade in a given category are effected not only by applying technological innovations to the production processes. They are also obtained by having recourse to comparative advantages resulting from each country's peculiarities in terms of the resources it possesses, its social and institutional organization and the levels at which it remunerates the production factors and its ways of doing so.

Technological progress is not unconnected with the capacity for benefiting from these comparative advantages and is of course fundamental in transport, communications and trade. But this capacity is used differently in each individual category for the express purpose of reviewing the impact had by other factors which provide a more direct explanation for the internationalization of the production processes.

Actually, although the internationalization of production processes is depicted as being very characteristic of the evolution of the world economy in recent decades, there is nothing new about it since it was involved in all inter-country trade in raw materials and other goods already widely traded at world level in the past century.

Meanwhile, it may be said that the present rate and type of internationalization are characteristic of this age. It is practised within the various industrial branches and often also within a single enterprise.

From the point of view of the segmentation of international trade, there is need to ask why internationalization has been concentrated in a few countries, of which basically only five are developing countries, to the exclusion of the rest. The truth is that in the early 1970s this was not expected to be the case. It was commonly predicted that a new international division of labour would be established, which would result in a substantial redeployment of industry in the direction of a large number of developing countries. These countries would take over the labour-intensive industries, while the developed countries would specialize in industries with higher technological content.

There were some differences in the way in which this prospect was viewed. Some people felt that the developing world, or at least a significant part of it, would enter into new stages of its industrialization. Others argued that, as a consequence of what the transnational corporations were doing, the subordinate and dependent position of the developing countries would become even further consolidated. Everyone agreed, however, that there would be a very extensive industrial redeployment favouring a wide variety of third world countries.

Contrary to these predictions, the past 15 years have been marked by a concentration of the dynamic trade flows and a tendency for investment to be directed very selectively towards the developed and a few developing countries. This has occurred in an international context of growing disequilibria and latent instability, particularly in the financial realm.

d) International relocation of industrial activities

The transnational corporations have played a major role in the relocation of industry which has taken place in this period, since their activities have proliferated rapidly. According to estimates made by the United Nations Centre on Transnational Corporations (CTC), at the beginning of the 1970s there were close to 10 000 transnational corporations which controlled 30 000 subsidiaries all over the world. It was estimated that by the end of that decade the number of those corporations would rise to some 11 000 and that there would be over 80 000 subsidiaries. The transnational corporations have created their own sphere of action which to a large extent is not touched by national conditions and in fact determines them.

Direct foreign investments were not, however, attracted primarily by the cost of labour as had been expected by those who were predicting an industrial redeployment over a decade previously, but rather sought to re-establish the levels of profitability by trying to benefit more from other characteristics of the economies receiving them.

In the first place, the size of the domestic market seems to have been a more important factor than cheap labour. This would explain the concentration of investments in Europe and the United States and, among the developing countries, in Brazil and Mexico as well as, to a comparatively lesser extent, in the countries of southeast Asia.20/ Among the latter, the world market has been a priority concern among national enterprises, except in Singapore. Another factor, which is related to market size, is the attraction exerted by the integration processes; but this is not only a matter of having greater access to integrated markets, but relates in particular to the comparative advantage enjoyed by transnational corporations in international operations, owing to the very nature of their activities.

These corporations are also attracted by economies in the process of rapid industrialization with high rates of investment because they enable the corporations to benefit from the dynamic effects of the thrust generated by industrial growth. Other technological and financial factors, such as the availability of natural resources (the chemical industry in the Middle East, for example) and geographical proximity (e.g., subcontracting firms in Mexico), have played a significant role in decisions to invest in transnational corporations.

Thus, the trade flows set in motion by the internationalization of the production processes which these corporations have to a large extent developed have benefited not the poor countries where wages are lower but other countries with other characteristics and have been concentrated in the industrialized and, also, more recently, in the newly industrializing countries.

The relocation of industries seems to be part of a defensive strategy devised by the transnational corporations to ensure that markets are not penetrated by competitive imports. Instead of seeking an autonomous increase in the rate of returns under an offensive strategy, they have tried to re-establish their position in their markets partially by operating under conditions comparable to those of their competitors.

In conclusion it may be observed, with regard to the developing countries, that this defensive strategy calls for the partial transfer of specific operations and does not result in a massive redeployment of production. Thus, relocation operates on a restricted basis in that an activity already under way is not transferred but its growth is, so that production and employment losses in the country of origin are limited. In addition, these relocation processes are reversible since technological progress may make it again profitable to conduct an activity in the country from which it was originally moved.

## B. THE ECONOMIC POLICIES OF THE UNITED STATES AND THEIR EFFECTS ON LATIN AMERICA AND THE CARIBBEAN

Economic trends of current importance include the growing interdependence of a number of national and regional economies, and this deserves special attention, not only from those engaged in scientific research but also from governments, which need to give consideration to numerous external factors, which sometimes have decisive effects on the development of national economies.

"Interdependence" in this sense by no means implies an egalitarian or balanced view of international economic relations. Actually, the emergence of such expressions as "North-South" and "centre-periphery" now suggests a real possibility of potentially unequal situations and positions in which the degree to which a country is dependent is inversely proportional to the amount of economic power it wields and the extent to which it is developed. The vulnerability of a national economy in the present international situation is determined by many factors of a variety of types. However, it is in general true that the industrialized countries are more often pressure-makers than the objects of pressure, while the developing countries are in the opposite position.

No national economy may be compared with that of the United States as a pressure-maker owing to the weight that the latter country carries in the world economic setting. Thus, the performance of that country is a factor of major impact on the international scene, and any relationship of interdependence there may be between the United States and Latin America and the Caribbean will inevitably be unequal and unbalanced since the United States depends very little on the tone set by the Latin American and Caribbean economies while the latter are extremely vulnerable to the consequences of the real and financial performance of the United States.

In this situation, consideration of the present state of and trends followed by the United States economy and of the mechanisms whereby the course taken by one economy puts pressure on the performance of other economies to some extent related to it will be of help in forecasting the effects it may have on the region. In addition, the central economy acts on the so-called peripheral economies in certain specific ways, which should be taken into account.

## 1. The evolution of the United States economy and its mechanisms for exerting influence on the countries of Latin America and the Caribbean

### a) The economic policy of the United States in recent years

From the moment they took power in January 1981, President Ronald Reagan and his Republican Administration announced a radical change, of markedly anti-statist bias, in the economic policy of the United States. Its approach to the structural and long-term problems of the United States economy consisted basically in reducing the State's intervention in economic management and slowing down the more spontaneous elements in the operation of the market mechanisms.

As early as February 1981, President Reagan presented the United States Congress with an economic recovery programme in which it was proposed to reduce the growth of government spending and taxation, reform or eliminate unnecessary and unproductive or counterproductive regulations and promote a coherent monetary policy aimed at maintaining the value of the dollar.21/

In addition, convinced that the rising prices, high unemployment and the slow rise in productivity were the result of too much government regulation, President Reagan called for a change in course and said that the government's power to tax should not be used to regulate the economy or bring about social change.22/

In the policies for the 1980s defined in the Economic Report of the President of February 1982, the predominant theme was also that of a free market: "My first and foremost objective has been to improve the performance of the economy by reducing the role of the Federal Government in all of its many dimensions ... We should leave to private initiative all the functions that individuals can perform privately".23/

In that report President Reagan said he was sensitive to the fact that domestic economic policy in the United States could have significant impact on its trading partners and on the entire system of world trade and finance, but he insisted that a sustained and vigorous growth at home would be the most important contribution the United States could make to the development of the world economy.

According to the same report, "the Administration's approach to international economic issues is based on the same principles which underline its domestic programmes: a belief in the superiority of market solutions to economic problems and an emphasis on private economic activity as the engine of non-inflationary growth".24/

Reaffirming the Administration's commitment to free trade, President Reagan has said that the expansion of the international trade system is the main tool of economic growth for many of the developing countries. His preference for economic liberalism and internal economic adjustments as a means of contributing to world development has gone hand in hand with a conservative and at the same time active approach to North American foreign policy. Thus, the energy with which statist practices are being eliminated from the United States can be compared with the restrictive treatment accorded to governments regarded as being not very co-operative. In actual fact, the policy governing the international economic relations of the United States and the practice of that policy are imbued with the prevailing ideological and political spirit.

The United States Trade and Tariff Act of 1984 stipulates that beneficiaries of that country's Generalized System of Preferences may not include countries members of OPEC or communist countries, unless they are not dominated by international communism. For its part, the Government of the United States makes use, for purposes of negotiation, of trade embargoes and restrictions and rejects financial assistance for political reasons, and the same is true of its dealings with multilateral economic bodies.

Just as in economic relations with developing countries the basic principle followed by the Republican Administration is "trade, not aid", the direct effect of the economic policy of the United States on Latin America and the Caribbean is determined primarily by the degree of commercial protectionism which it authorizes or introduces.

When the broader repercussions of that economic policy on the countries of the region are examined, it must be borne in mind that within the macroeconomic policies, specific policies such as the industrial, technological, fiscal, monetary, commercial, labour and other policies, may be distinguished. Because of the pressures exerted by groups with different interests, the objectives and accomplishments of different specific policies can hardly coincide, and in fact they frequently contradict each other, which tends to make the macroeconomic policy less consistent and to rob it of its identity in that various combinations of specific policies are generated. The commitment which emerges from these complex interactions is often far removed from the objectives proclaimed explicitly, and for that reason the diagnosis must focus more on practical results than on intentions and purposes.

This explains why, for example, at a time when the United States is involved in a heated debate concerning the advisability or otherwise of having any industrial policy at all, there is in fact a policy which includes federal programmes providing for aid to industries. Among such programmes mention should be made of the system for accelerated depreciation of fixed assets, the preferential treatment accorded to capital gains and credit on investments deductible from corporation taxes.

The importance of the specific economic policies of the United States resides in their capacity to exert an influence on the international situation at any given moment and to affect bilateral and multilateral economic relations. Thus, its monetary policy may cause a rise in the interest rate or may contribute to its decline, with corresponding repercussions on the external debts of the Latin American and Caribbean countries. Its investment policy may contribute to the growth of United States investments abroad or may stimulate the flow of foreign capital towards the United States. An effective labour policy which is heedful of social needs may to some extent alleviate the protectionist pressures applied by workers, which, in the absence of such a policy, would be hard to resist. A restrictive fiscal policy can keep inflation under control and limit the fiscal deficit and the federal debt, thereby impacting on interest rates and on the parity of the dollar (two variables of importance for the external sector of the Latin American economies); but at the same time it can slow the growth of the United States economy, exerting a strong recessive pull.

Owing to the conflicts between them, the various specific economic policies of the United States frequently counteract each other. It may, however, be concluded that in recent years they have resulted in a sharp rise in real interest rates, a significant revaluation of the dollar, a massive and increasingly larger inflow of foreign capital into the United States and growing recourse to protectionism by that country.

In actual fact, real interest rates in the United States (calculated by taking into consideration the nominal preferential rates and the price deflators implicit in the gross national product) did not exceed 2.5% a year between 1970 and 1978, averaging 1.6% during this period. In 1979 the real rate rose to 4.1%, in 1980 to 6.1% and between 1981 and 1984 it averaged 8%.25/

The dollar, for its part, recovered notably between 1981 and March 1985, and, in spite of having lost 25% of its value between the latter date and December 1985, it remains relatively strong.

Although the United States is one of the world's most open markets, in recent years it moved in the direction of greater protectionism. The proportion of manufactures subject to non-tariff restrictions rose from 20% in 1980 to 30% in 1983,26/ and the number of investigations relating to anti-dumping and countervailing duties rose from 62 in 1980 to 160 in 1982 (exports from the region were the subject of 6 and 37 of these cases, respectively).27/ Moreover, the United States has recently introduced new restrictions on the imports of meat, sugar, footwear, steel, leather goods and textiles.

Although the United States was a net exporter of capital prior to 1982, that situation was reversed that year, and in 1984 net capital entries to the country amounted to US$ 102 billion.28/

The consequences of the processes referred to for Latin America and the Caribbean are varied and will be examined in detail later in this paper; however, some negative net effects may be anticipated from now on.

In a study published by SELA in 1984 on current economic policies of the United States and how they affect the region, a detailed analysis is made of specific economic policies of the United States, the debates held on them in that country and their impact on the performance of the United States economy in 1983 and on the region. The conclusion reached in this study is that the combination of an expansive fiscal policy and a restrictive monetary policy results in an economic policy which is not very stable and that in the United States domestic economic policy decisions are in general taken without due consideration given to the effect they would have internationally. As a result, the region is facing a potentially conflictive situation in various areas and will be called upon to make a great effort to somehow disassociate the servicing of the external debt from the terms prevailing on the international financial markets and, in particular, from the instability resulting from the combination of specific policies comprising the economic policy of the United States.29/

In theory, that economic policy affects the rural economies in two different ways. When acted upon directly and in the short term, they are most affected by the type and degree of protectionism engendered by the specific economic policies as a whole and by their repercussions on interest rates and capital movements. The developing countries will also be affected (and probably to a greater extent) indirectly and in the medium and long term by the way in which the economy of the United States reacts to its current policies. Thus, a more efficient macroeconomic policy which manages to lay the groundwork for the economic growth of the United States within a new economic cycle of long duration could contribute to the development of the developing countries, provided that the growth shown by the United States involves a reasonable amount of participation by products from peripheral economies.

b) Main components of the economy of the United States and how its behaviour affects the Latin American countries

The mechanism by means of which the economic evolution of the United States affects the economies of other countries is made up basically of factors which generate pressure, the channels through which that pressure is transmitted and the basic characteristics of those other countries which make them receptive and vulnerable to the impact.

Virtually every sector of the United States economy makes itself felt in the Latin American and Caribbean economies. Some sectors, such as industry, construction, energy, transport and communications, have repercussions on the economies of the region because they consume imported goods; on the other hand, other basic industries and agriculture have an influence because they are competitors. In addition, in a number of industries the importer and competitor functions are superimposed in that they consume raw materials from the region and produce manufactures and semi-manufactures which compete with similar products from Latin America and the Caribbean on the markets of the United States, the region and the rest of the world.

Scientific and technological innovations and the growth of labour productivity in the United States as well as structural changes in the economy of that country result in reduced consumption of basic commodities and traditional semi-manufactures, and this has repercussions in the countries of Latin America and the Caribbean.

Within the area of domestic trade and services, the following elements of the United States economy may affect these countries: domestic consumption of various products, volume of sales, level of stocks of commercial enterprises, prices of goods and services, consumer spending and structure of the consumption of goods and services.

In the financial area, the behaviour of the following variables in the United States economy is particularly relevant to the economic evolution of Latin America and the Caribbean: the parity of the dollar, interest rates, the fiscal deficit, the domestic debt, liquidity and inflation.

As the dollar has become an internationally recognized means of payment, currency in circulation and as means of savings, its fluctuations have acquired particular significance for nearly all other economies and makes itself felt both negatively and positively both when its value is high and when it is low.

The preferential interest rate established for their clients by the banks of the United States is of considerable importance for Latin America and the Caribbean because the larger share of the external debt of the region is contracted at a variable rate of interest. In addition to affecting the LIBOR rate and other international interest rates, the preferential rate also has an effect on that part of the region's debt which was not contracted with banks of the United States.

The upward movement of the preferential rate produces the following adverse effects on the Latin American and Caribbean economies: i) loans and credits become more expensive; ii) there is an increase in the cost of servicing the debt contracted at a variable interest rate; iii) the enterprises of the United States tend to reduce their stocks and reserves, forcing the prices of raw materials down; iv) it becomes more attractive to invest in the United States, with the result that the availability of capital on the international financial market declines and v) the growth of the United States economy is restrained, which affects the economic expansion of Latin America and the Caribbean.

The evolution of the external sector of the economy of the United States has had various effects of great forcefulness; those of its aspects which have most affected the countries of the region include exports, imports, trade in services and the movement of United States capital.

The volumes, values and structure of exports from the United States to the countries of Latin America and the Caribbean have been more limited in their influence than have imports from the region; nevertheless, they can affect trade balances, domestic price levels, structures of production and consumption and employment. Exports of services may also help to change the structure of production and consumption.

The movement of capital away from and towards the United States has a constant repercussion on Latin America and the Caribbean, both directly and in the way it affects the international financial market. Capital enters and leaves the United States in the following main flows: direct foreign investment, foreign portfolio investment; commercial bank credits; trade financing; government loans; lending through international financial organizations; deferred payments and flight of capital.

In the capital exports of the United States, each of these flows has its own impact on the economy of the recipient country; nevertheless, there are always positive and negative aspects of that impact, of which the former prevail in the short and medium term and the latter in the long term.

North American imports of foreign capital reduce the availability of resources on the international financial market and help to empty the region of capital through repatriation of profits and interest, return of private United States assets and flight of capital.

The impact had by the behaviour of the various elements of the economy of the United States is transmitted to other countries through the channels along which bilateral and multilateral economic relations are conducted: i) trade in goods, ii) trade in services, iii) direct investments, iv) credit relations, v) monetary/financial relations, vi) transfer of technology and vii) development assistance.

The behaviour of the various components of the economy of the United States may affect the economies of the region, reaching it along one or more conduits, and the impact may have opposite effects when transmitted through different channels. Thus the application in the United States of a technological process which permits savings in a given raw material may, when transmitted by trade in goods, produce a depressive effect in a country which exports the commodity in question. The impact of the same action, when transmitted to the same country through transfer of technology, may, in a longer term, help to modernize its industry and reduce domestic consumption of that raw material.

The relative strength of the impact is determined by the correlation of various factors, such as the power of the impulse generated, the intensity of those forms of international relations along which the impact may be channelled and the vulnerability of the recipient country to the impact received, which depends on its significance for that country's economy.

In short, the objectively unavoidable process of increasing the participation of the regional economies in the international economic circuit, necessarily makes them increasingly vulnerable to the impulses generated within that circuit since when the receiving end of the channels of transmission is enlarged, the impulses of greater intensity are internationalized, and the effect produced is more extensive and far-reaching.

## 2. Present situation of and prospects for the economy of the United States

### a) Nature of the structural adjustment in the economy of the United States

The recent phase of expansion experienced in the United States has been atypical in some aspects and has revealed a situation in which a number of dissimilar conditions combine. The singularity of that expansion is due to a complex interaction between the conjunctural factors involved (interest rates, parity of the dollar, flow of imports, etc.) and the special type of economic cycle which began with the crisis of 1980-1982.

The duration of that crisis is considered to have been three years since the first and third quarters of 1981 provided only a brief breathing spell and did not mark the beginning of real economic reactivation. Its length and its particularly harsh nature are attributable to the fact that it marked the conclusion of a very long economic cycle, which began with the Great Depression, and the beginning of a new cycle, created and fueled by the so-called scientific and technological, or third industrial, revolution.

The most salient characteristic of the present cycle (which, according to N. Kondrátiev, is a wave of long duration) is a considerable change in the economic and social structure of developed capitalism. The scientific and technological revolution in the United States has brought the progress made by the society into conjunction with its radical transformation, in terms of production and employment as well as of distribution and consumption, giving rise to trends and impacts which are going to determine the structures of society for several decades.

Now more is needed than the type of adjustment called for by a "normal" cyclical crisis, which is designed to correct the lack of proportion accumulated during the previous cycle and to put the economy on a more even keel by adjusting production and consumption. What is imperiously required at present is a structural adjustment, a substantial change in the structures of production and consumption, and the adaptation of the productive forces to a higher level of operation since they need more appropriate conditions if progress is to be made.

In the course of a transformation of this kind, the sectoral structure of the economy and the composition of each economic sector change; i.e., the process is one of intersectoral and intra-sectoral adjustment. In the economy as a whole, the production of services gains on the production of goods, and as this occurs, the balance among different sectors also changes. The relative importance of the components of each industrial sector is altered, as some fall behind and others advance at different growth rates.

In practice, in the United States the replacement of the goods-producing sector by the services-producing sector has taken place over a long period of time but has accelerated and consolidated in recent years. Between 1978 and 1984 (both years of high economic growth), jobs in the manufacturing industry dropped by more than one million, while the number of employees in services grew by nearly 10 million (see table 13). While in 1978 each job in the manufacturing industry was matched by 2.95 jobs in services, in 1984 the latter side of that ratio rose to 3.62 —a very rapid change for a period of only six years. The economy of the United States has been becoming increasingly service-oriented, with services no longer constituting an auxiliary and complementary sector of the economy and now functioning relatively autonomously.

At the same time, the industrial structure has changed as a result of the expansion of the high technology sectors, the decline of traditional industries, which for decades were regarded as the backbone of development and its most dynamic element, and the change in the structure of consumption, both personal and industrial.

In the political orbit, the initiation of the structural adjustment coincided with the coming into office of President Reagan and the Republican Administration. Although the free market policy of the Administration, which allows the process of adjustment to follow its natural course, probably played an indirect role in making the crisis and the depression more severe and widespread, at the same time it permitted a more efficient and forceful adjustment, whose more spontaneous dynamic began to introduce important improvements in the economic and social structure of the United States and marked the appearance of some direction-changing trends in the development of the industrialized capitalist countries.

b) Characteristics and evolution of sectors producing goods and services

After the cyclical crisis of 1980-1982, the economy of the United States recovered rapidly in 1983 (the gross national product grew by 3.4%), grew in 1984 (6.6%) and slackened in 1985 (2.3%).30/

The product growth data do not adequately reflect the notable differences which characterized the performance of the various economic sectors and their components. As a result of the structural adjustment, the recovery and expansion of the economy were markedly unequal and did not even affect some sectors. A number of industries experienced only a slight upturn, barely enough to rise above the levels recorded during the recent depression and below those reached during the previous expansion, which meant that their relative importance to the economy diminished irreversibly.

Table 13

STRUCTURE OF EMPLOYMENT AND UNEMPLOYMENT IN THE UNITED STATES

(Not seasonally adjusted; thousands of persons, as of December of each year)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|
| Civilian labour force, total | 95 855 | 97 912 | 97 282 | 99 613 | 99 093 | 102 941 | 106 273 |
| Agriculture | 3 387 | 3 359 | 3 394 | 3 209 | 3 411 | 3 456 | 3 385 |
| Mining | 904 | 992 | 1 069 | 1 206 | 1 053 | 969 | 973 |
| Construction | 4 397 | 4 615 | 4 387 | 4 026 | 3 815 | 4 086 | 4 469 |
| Manufacturing | 20 729 | 20 983 | 20 175 | 19 676 | 18 193 | 19 143 | 19 603 |
| Service-producing | 61 251 | 64 088 | 65 318 | 65 734 | 65 604 | 67 828 | 71 047 |
| Government; federal, State and local | (15 471) | (16 002) | (16 236) | (15 917) | (15 758) | (15 869) | (16 082) |
| Unemployed | 6 012 | 6 087 | 7 785 | 9 571 | 12 036 | 9 195 | 8 191 |
| Rate of unemployment | 5.9 | 5.9 | 7.4 | 8.8 | 10.8 | 8.2 | 7.2 |

Source: United States Department of Commerce, Survey of Current Business, September 1979; August 1981; September 1981 and August 1982, 1983, 1984 and 1985.

Something can be learned about the present situation and about certain tendencies on the part of the production sector of the economy of the United States by examining the evolution of that country's iron and steel industry (see table 14). In 1978 steel production reached its highest level --137 million short tons--, while in 1984 only 92.5 million tons were smelted; in the same period the installed capacity fell from 158 million to 135 million tons.

Although this phenomenon is in part explained by foreign competition as reflected in the rise in imports and the decline in exports, its most important cause was the lower consumption of steel by the economy of the United States. While the share of imports in the United States steel market expanded considerably, this occurred more because the market shrank than because imports increased. In six years the apparent consumption of steel dropped by 38 million tons, which shows that the steel produced in the United States is being replaced more by other materials which compete with it than by steel from abroad.

A phenomenon deserving of more detailed study is the pattern of consumption of basic inputs by the North American economy. Table 15 supplies the available statistics on apparent consumption of eight basic inputs which for decades were regarded as vital for the development of an industrialized economy --petroleum, iron ore, aluminium, refined copper, lead, tin, zinc and natural rubber. Between 1972 and 1984, their consumption experienced various conjunctural fluctuations in keeping with the two economic cycles of that period, but more long-term trends can also be observed, such as the downward trend in their consumption in both relative and absolute terms (see table 16).

In order to yield the same magnitude of gross national product, the economy of the United States needs an increasingly lower level of basic inputs. Thus, for every billion dollars of GNP in 1972, 5.1 million barrels of petroleum and 1 728 tons of copper were consumed, while in 1984 (at constant prices) only 3.5 million barrels of petroleum and 1 242 tons of copper were required. The same pattern was followed in nearly all the cases examined.

Of even greater importance is the drop in consumption of basic inputs in absolute terms. All of them, with the exception of aluminium, reached their maximum levels of consumption between 1973 and 1978, after which their consumption began to decline more or less rapidly. In 1984, when its economy was in full swing, the United States used less petroleum, iron ore, lead, tin and zinc than in 1972, less copper than in 1973 and less natural rubber than in 1977.

The downward trend in the relative consumption of basic inputs in recessive crisis phases is the reason why its decline in absolute terms has been more marked than that of the gross national product.

Table 14

SITUATION IN THE IRON AND STEEL SECTOR IN THE
UNITED STATES, 1977-1984

(Thousands of short tons) a/

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|
| Installed capacity | 159 864 | 157 870 | 156 354 | 153 620 | 154 314 | 154 085 | 150 504 | 135 275 |
| Raw steel production | 125 333 | 137 031 | 136 341 | 111 835 | 120 828 | 74 577 | 83 379 | 92 528 |
| Exports of steel mill products | 2 003 | 2 422 | 2 818 | 4 101 | 2 904 | 1 842 | 1 199 | 980 |
| Imports of steel mill products | 19 307 | 21 135 | 17 518 | 15 495 | 19 898 | 16 663 | 17 070 | 26 171 |
| Visible consumption | 142 637 | 155 744 | 151 041 | 123 229 | 137 822 | 89 398 | 99 250 | 117 719 |

Source: United States Department of Commerce, Survey of Current Business, December 1979, 1980, 1981, 1982, 1983 and 1984 and September 1985.

a/ One short ton = 0.90718 metric tons.

Table 15

CONSUMPTION OF SOME BASIC INPUTS IN THE UNITED STATES, 1972-1984

| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross national production (billions of US dollars at 1972 prices) | 1 171 | 1 235 | 1 214 | 1 202 | 1 275 | 1 341 | 1 399 | 1 483 | 1 481 | 1 514 | 1 485 | 1 535 | 1 639 |
| Petroleum, domestic demand (millions of barrels) | 5 990 | 6 317 | 6 078 | 5 958 | 6 384 | 6 728 | 6 870 | 6 757 | 6 224 | 5 861 | 5 583 | 5 559 | 5 756 |
| Iron ore, consumption at iron and steel plants (millions of tons) | 121.9 | 139.3 | 131.1 | 107.9 | 116.2 | 110.2 | 118.2 | 116.9 | 90.8 | 96.5 | 56.1 | 62.2 | 67.0 |
| Aluminium (production + imports - exports) (thousands of tons) | 5 109 | 5 258 | 5 629 | 4 702 | 5 333 | 5.961 | 6 215 | 6 103 | 5 561 | 6 726 | 5 179 | 5 572 | 6 824 |
| Refined copper (thousands of tons) | 2 023 | 2 217 | 1 960 | 1 398 | 1 810 | 1 998 | 2 193 | 1 890 | 1 890 | 1 855 | 1 624 | 1 767 | 2 036 |
| Lead (thousands of tons) | 1 347 | 1 398 | 1 451 | 1 177 | 1 296 | 1 435 | 1 300 | 1 358 | 1 070 | 1 059 | 1 075 | 1 149 | 1 207 |
| Tin (thousands of tons) | 70.3 | 75.8 | 65.8 | 55.8 | 62.9 | 68.0 | 63.1 | 62.5 | 56.4 | 54.4 | 53.5 | 55.8 | 50.4 |
| Zinc (thousands of tons) | 1 287 | 1 364 | 1 168 | 839 | 1 029 | 1 001 | 1 023 | 1 008 | 811 | 834 | 710 | 775 | 849 |
| Natural rubber (thousands of tons) | 651 | 696 | 720 | 670 | 731 | 780 | 765 | 739 | 586 | 635 | 661 | 676 | 751 |

Source: United States Department of Commerce, Survey of Current Business, August of each year between 1975 and 1985.

Table 16

**CONSUMPTION OF SOME BASIC INPUTS IN THE UNITED STATES, IN RELATIVE TERMS, 1972-1984**
(For every US$ 1 billion of gross national product, at constant prices for 1972)

| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross national product (billions of dollars) | 1 171 | 1 235 | 1 214 | 1 202 | 1 275 | 1 341 | 1 399 | 1 483 | 1 481 | 1 514 | 1 485 | 1 535 | 1 639 |
| Petroleum, domestic demand (thousands of barrels) | 5 115 | 5 115 | 5 007 | 4 957 | 5 007 | 5 017 | 4 911 | 4 556 | 4 203 | 3 871 | 3 760 | 3 621 | 3 512 |
| Iron ore, consumption at iron and steel plants (thousands of tons) | 104 | 113 | 108 | 90 | 91 | 82 | 84 | 79 | 61 | 64 | 38 | 41 | 41 |
| Aluminium (production + imports - exports) (tons) | 4 363 | 4 257 | 4 637 | 3 912 | 4 183 | 4 445 | 4 442 | 4 115 | 3 755 | 4 443 | 3 488 | 3 630 | 4 164 |
| Refined copper (tons) | 1 728 | 1 795 | 1 614 | 1 163 | 1 420 | 1 490 | 1 568 | 1 274 | 1 276 | 1 225 | 1 094 | 1 151 | 1 242 |
| Lead (tons) | 1 150 | 1 132 | 1 195 | 979 | 1 016 | 1 070 | 929 | 916 | 722 | 699 | 724 | 749 | 736 |
| Tin (tons) | 60 | 61 | 54 | 46 | 49 | 51 | 45 | 42 | 38 | 36 | 36 | 36 | 31 |
| Zinc (tons) | 1 099 | 1 104 | 962 | 698 | 807 | 746 | 731 | 680 | 548 | 551 | 478 | 505 | 518 |
| Natural rubber (tons) | 556 | 564 | 593 | 557 | 573 | 582 | 547 | 498 | 396 | 419 | 445 | 440 | 458 |

Source: United States Department of Commerce, Survey of Current Business, issues during the period 1975-1985.

In its structural adjustment process, the industry of the United States has seen its situation worsen on account of short-term factors such as high real interest rates, a revalued dollar, the entry of imports on a massive scale and the loss of competitiveness of some sectors.

The most seriously affected industries have been those producing textiles, footwear and leather goods. In 1984 imported shoes accounted for over 70% of all the shoes sold; during that year, one shoe factory closed every four days, on average. At present, imports of wearing apparel supply close to 40% of the clothing market of the United States, and the country's wearing apparel industry stays afloat only because of import quotas.31/

The country's machine tool industry is gradually yielding the domestic market to imports, since they are growing more rapidly than the demand. The transport and farm machinery industries are in a similar situation.

At the same time, within the goods producing sector various industries are maintaining a higher than average growth rate, showing relatively stable expansion even in the face of stronger foreign competition. Since the high technology sector is the beneficiary of the present structural adjustment, it has ample room for development and expansion, although some consolidated areas are now showing signs of saturation because competitors have become more numerous.

Industries which continued to show rapid growth in 1985 and whose prospects for the coming years are good, even if an economic crisis should occur, include those producing chips; electronic connectors; electronic components; electronic medical equipment; computers; radio, television and communication equipment and lithographic plates.

Industries which supply the Pentagon, either with weapons or other materials, are in a special position. Firms in the industrial-military complex have a stable market whose growth is ensured owing to the present Administration's intention to create new weapons systems, on which billions of dollars will be spent, and to continue to raise military budgets in the years to come.

The production of goods in general is no longer a salient characteristic of the economy of the United States, in which services are increasingly taking a leading role. While in 1972 the production of goods generated 47% of the gross national product as opposed to 42% in the case of services, since 1976 the production of services has exceeded that of goods, and in 1984 services were responsible for 48% of the product, as opposed to 42% in the case of goods.32/

Because of the special nature of the services sector (multiform and heterogeneous), there is no common measure for gauging its expansion, and the data used to demonstrate its dynamism are in many cases indirect (employment, sales, inventories, wages and salaries, etc.), so that the picture which emerges is varied and vague.

A large segment of the sector is made up of government purchases of services, represented first and foremost by the wages and salaries of local, State and federal government employees. One area of great importance is the acquisition of services by the defence sector of the federal government --US$ 57.8 billion in 1984 (or 25.5% of all government purchases of services).33/

Domestic trade is one of the most extensive activities of the services sector, and the pattern of its sales by periods and the growth of its inventories may provide a fairly reliable idea of the trends prevailing both within the sector and in the economy as a whole.

In 1984 retail sales amounted to US$ 1.3 billion, showing an increase of 10.5% over 1983, and the rise in consumer demand gave a sharp boost to the production sector in spite of the large share of imports in the supply. In the first half of 1985, however, retail sales grew by only 5.8% over the same period in 1984, which suggests a slackening in the growth rate of demand.34/ Analysts warn that buying might have slowed because of weak growth in disposable personal income and a record level of consumer debt, which has reached 19.2% of disposable income.35/

The United States Department of Commerce, has, on the basis of the employment criterion, named the following services as high growth areas: data processing; personal supply; securities brokerages; radio, television and music stores; office work and legal services.36/ The growth of employment in services between 1978 and 1984 shows that the services sector, like the agricultural sector, is less vulnerable to cyclical factors than are the manufacturing industry and construction. It is by nature also very stable when confronted by foreign competition and may even be able to benefit from the inflow of imported goods.

Price trends in the economic reactivation phase of the current cycle have been atypical in some respects, as a result partly of monetary control by the Federal Reserve and partly of the revaluation of the dollar and the entry of imports on a massive scale. Owing to these anti-inflationary factors, producer and consumer prices rose slowly, growth rates in consumer prices being 3.8% in 1983, 4.0% in 1984 and an estimated 3.8% in 1985.37/

As services are less markedly affected by foreign competition, their prices are comparatively less susceptible to being driven down by the increase in imports. Thus, in 1984 service prices rose by 5.6%, while goods prices rose by 3.1%, and the general index, by 4%.38/

The performance of employment and unemployment in the recent expansion phase has confirmed the trend of the past three decades towards a rising rate of unemployment with each successive economic cycle, in both its low and its high phase (see table 17). A number of scientific and technological advances, including the automatization of industry, bear some

Table 17

UNEMPLOYMENT IN THE UNITED STATES IN PHASES OF CRISIS
AND EXPANSION, 1969-1985

(Thousands of persons, data not seasonally adjusted)

| | Periods of highest unemployment | | | Periods of lowest unemployment | | | |
|---|---|---|---|---|---|---|---|
| | 1970 (December) | 1975 (May) | 1982 (December) | 1969 (December) | 1973 (October) | 1979 (May) | 1985 (August) |
| Rate of unemployment | 6.2% | 8.9% | 10.8% | 3.5% | 4.6% | 5.6% | 7.0% |
| Total number of unemployed | 5 146 | 8 250 | 12 036 | 2 846 | 4 100 | 5 774 | 8 127 |
| Number of persons affected by long-term unemployment (15 weeks or more) | 1 084 | 2 529 | 4 732 | 392 | 756 | 1 086 | 2 264 |
| Number of persons affected by long-term unemployment as a percentage of total number of unemployed | 21.1% | 30.7% | 39.3% | 13.8% | 18.4% | 18.8% | 27.9% |

Source: United States Department of Commerce, Survey of Current Business, May 1970, 1971 and 1974; December 1975 and 1979; May 1983 and November 1985.

of the responsibility for a high and steadily rising rate of chronic and structural unemployment and for a substantial change in the social structure.

Although a large number of new jobs are being created in the economy of the United States, this is not happening at a rate high enough to reduce unemployment. Services have not expanded enough to absorb the growing labour force, and the direction taken by the United States economy and by some other developed economies, presages that this phenomenon of growing structural unemployment may continue into the future.

Obviously, the behaviour of the economy of the United States between 1980 and 1985 reflected both the classical vicissitudes of a typical cycle and the complexities of a profound structural transformation. Owing to the free market economic policy of the Reagan Administration, the adjustment of the economic and social structure has come up against a minimum of barriers and obstacles which might have slowed it down and given it less impact.

The adjustment process in this relatively open economy has been accelerated by external competition, which has made the structural transformation more painful but at the same time more intense and rapid.

If far-reaching and radical protectionist measures were to be taken, the industry of the United States might experience some relief, so that the production of some activities would raise and unemployment would fall a little, even in the final stage of the period of expansion prolonging it somewhat. The calculations made by a number of economists confirm that this would be viable in the short term, but they say that the cost of continuing to protect the industries in the midst of a structural adjustment process would, in the medium and long terms be greater than the advantages obtained.

Trends in recent years show that the traditional basic industries are handing their role of engines of the United States economy over to new industries which can contribute more consistently to efforts to increase production, show greater agility in the application of new materials and technologies, are better able to supply the market with new products on short notice and, above all, show greater flexibility and capacity in adapting to changes which occur in national and international markets.

c) State of the financial system and the external sector

The evolution of the United States financial system in 1985 reflected the growing concern of the Administration and the Federal Reserve over the fiscal deficit and the federal debt.

In the United States the deficit for fiscal year 1985 (October 1984-September 1985) amounted to a record US$ 212 billion,39/ which raised the total federal debt to

US$ 1.8 trillion. Net interest payments amounted to US$ 128.1 billion in 1985, and it is estimated that they will amount to US$ 137 billion in fiscal 1986.40/

The threat to the financial stability of the United States led to a compromise between the Administration and Congress with regard to spending reductions, and in December 1985 legislation was adopted which calls for balancing the federal budget in 1991, establishing a deficit ceiling of US$ 144 billion for fiscal 1987, which begins in 1 October 1986.

Largely because of the heavy responsibility borne by the high interest rates for the rapid increase in the debt, the Federal Reserve laid less stress on anti-inflationary measures and expanded the money supply. In May 1985 the Federal Reserve banks lowered the discount rate from 8% to 7.5%, and the preferential rate fell from 10.7% in December 1984 to 9.5% in June 1985.

Although the real average interest rate fell from 8% a year in 1984 to 6.4% in 1985, it may still be regarded as high in comparison with the historic values. Reasons for the persistence of high real interest rates include the excessively high fiscal deficit, monetary control and high real rates of return on capital. The accelerated depreciation of capital goods applied since 1981 was responsible for a rapid rise in returns on capital invested in the production sector, so that in order to compete with this, the financial sector has been offering somewhat higher rates. As for the productive sector, it has been inclined to borrow at relatively high rates, provided it obtains a high rate of real return on investment.

In addition, the swollen fiscal deficits have forced the State to compete increasingly with the private sector in the capital market, which tends to force interest rates up.

Although the preferential rate has been fixed since June 1985, in the financial market there has been doubt as to its future, even in the short term. An important factor behind this situation is the behaviour of the Federal Reserve, which seeks to avoid a resurgence of the inflation without raising the cost of money. Combining a restrictive strategic posture with the pragmatic tactic of injecting more liquidity in the economy, the Federal Reserve is succeeding in taking a flexible approach to the fluctuations of the present economic situation. However, this policy is hard for the economic agents to interpret and provides no degree of certainty concerning the way things may go in the future, because the economic situation may be such that the interest rate could again fluctuate within relatively wide margins.

Similar uncertainty has surrounded the performance of the dollar, which experienced large changes in the period 1984-1985, giving rise to doubts concerning its future. And since the correlation of those factors which determine the movement of the dollar is highly volatile, the Latin American countries will continue to face an unstable and uncertain monetary market in the next few years.

The foreign trade of the United States in the period 1983-1985 was marked by growing disequilibrium, in that exports remained below their 1981 level, while imports were on the rise (see table 18). It is estimated that in 1985 the trade deficit exceeded US$ 140 billion, i.e., the equivalent of 4% of the gross national product of the United States. The massive entry of imports into the United States seems to have been caused primarily by a marked growth in demand during the 1983-1985 expansion phase, while many other economies had a relatively depressed domestic demand. The loss of the competitiveness of United States industry (partly due to higher wages) also played an important role in the feeble behaviour of exports and the strong performance of imports.

The rise in the dollar contributed to the loss in competitiveness of the United States vis-à-vis the Western European countries, although it did not have the same effect in countries with currencies tied to the dollar. The largest increases in sales to the United States were realized by Canada and Japan, in spite of the fact that their currency depreciated only moderately with respect to the dollar.

Imports absorbed a substantial proportion of the growth in demand, taking over from national production, which saw its growth slowed by foreign competition. The significant increase in the share of imports from developing countries in imports of the United States (twice as high as the increase in the share of Western Europe and 7.5 times as high as that of Japan), as well as the notable trade deficit with the majority of the developing countries has enabled the present Administration to claim that its "Trade, not aid" policy has been basically right.41/

So long as there are countries which stand to gain by promoting their exports to the United States, a selfish attitude on the part of other countries with respect to trade with the United States would be mistaken and even counterproductive. An effort to obtain the maximum surplus balance in bilateral trade, without worrying about the position taken by the United States, would reflect a short-term view, an immediatist position, which, if applied universally, would be almost bound to produce negative results. If the United States did not succeed in increasing its exports and reducing its trade deficit, protectionist pressures would be stepped up, there would be a greater possibility of new trade restrictions, the expansion of the United States economy would slow down to some extent and its deficit on current account would grow, thereby increasing the need for external financing, causing interest rates to rise.

In recent years current account of the United States has tended to move in a way which is increasingly unfavourable for the country, showing a deficit which is very much on the rise (estimates for 1985 come close to US$ 120 billion). Although

Table 18

INTERNATIONAL TRANSACTIONS IN THE UNITED STATES

(Millions of dollars)

| | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|
| Exports of merchandise, excluding military | 223 966 | 236 254 | 211 217 | 200 257 | 220 316 |
| Imports of merchandise, excluding military | 249 308 | 264 143 | 247 606 | 261 312 | 328 597 |
| Trade balance | -25 342 | -27 889 | -36 389 | -61 055 | -108 291 |
| Exports of services | 120 701 | 136 638 | 137 107 | 131 944 | 142 105 |
| Imports of services | 84 580 | 97 670 | 103 896 | 103 801 | 123 942 |
| Balance of trade in services | 36 121 | 38 968 | 33 211 | 28 143 | 18 163 |
| Balance on current account | 3 723 | 4 471 | -11 211 | -41 563 | -101 532 |
| United States assets abroad, net increase | 84 776 | 109 294 | 118 045 | 49 490 | 20 447 |
| Direct investment, net increase | 18 546 | 8 691 | -3 008 | 4 881 | 4 503 |
| Foreign assets in the United States, net increase | 50 261 | 77 921 | 87 866 | 81 722 | 97 319 |
| Direct investment, net increase | 10 854 | 21 301 | 10 390 | 11 299 | 22 514 |
| Treasury securities in hands of foreign individuals, net increase | 2 679 | 2 932 | 7 004 | 8 731 | 22 440 |

Source: United States Department of Commerce, "U.S. International transactions ...", Survey of Current Business, December 1981, 1982 and 1983 and September 1984 and 1985 (table 1-2).

the primary cause for this growing disequilibrium is undoubtedly the increasingly higher trade deficit, there are other factors which make the situation worse. In 1981, earnings on assets of the United States abroad were US$ 46 billion higher than outflows due to foreign held assets in the United States. In 1982, that surplus fell to US$ 42 billion; in 1983, to US$ 36 billion, and in 1984, to US$ 19 billion, as a result, in every case, of rising payments of profits on the foreign capital currently invested in the United States. During the same period the earnings/outflow ratio in respect of a number of other services worsened, so much as that the surplus in the services account is no longer large enough to cover an appreciable share of the growing trade deficit.

The radical shift in the movement of United States capital has been of exceptional economic and financial importance. Traditionally, more capital left the United States than entered it, which meant that the country was a net exporter of capital to the rest of the world. A change in this trend came in 1982 when a surplus of US$ 11.3 billion was recorded in the country's capital account. In 1983 the surplus reached US$ 36.8 billion, and it is estimated that in 1984 it amounted to US$ 101.7 billion.42/

This tremendous influx of capital in the United States has been used to wipe out the current account deficit. The country has absorbed a large additional amount of goods and services corresponding to its current account deficit and has paid for them with money on loan from foreign sources, corresponding to its capital account surplus.

The United States is able to live so far beyond its own economic means only because it issues the world economy's key currency --the dollar--, and its external debt is made up almost entirely of its own national currency. Thus, the United States is able to take advantage of the privilege of issuing this key currency to finance both its consumer needs and the needs of its economic growth out of external savings, thereby offsetting the relatively low rate of domestic saving. According to OECD statisticians, in the period 1963-1983, the average rate of saving of the United States (gross savings as a percentage of the gross national product) was only 18.9%, compared with 25% in the other OECD countries and 34% in Japan.43/

More than 80% of the capital entering the United States has been concentrated in portfolio investments —bank deposits, shares, bonds and Treasury securities. These securities have become an important instrument of external financing of the United States economy; in 1984 alone, their purchase by foreign individuals and governments experienced a net rise of US$ 27.1 billion.44/

The country's financial experts recognize that a considerable proportion of the foreign capital entering the United States is not included in the government statistics and that foreign investments are actually far higher than the amounts reported.

The flight of capital from many countries in the world, including the Latin American and Caribbean countries, towards the United States is caused both by the politically, economically and financially unstable conditions prevailing in those countries and by the attraction of the United States as a relatively secure haven --a factor which would continue to apply even in a less favourable economic situation.

When both the volume and the proportion of the resources which the United States receives from the international financial market increase, the consequences are similar to those which occur when the Federal Government exerts pressure on the national financial market in obtaining financing from it. On an international scale, the same phenomenon whereby the weaker competitors are displaced occurs, with the same consequences for market conditions —a shortage of liquidity, a rise in interest rates, harder terms for debtors, etc.

Whereas flows of capital imported by the United States have increased, the flows of capital away from this country are declining notably. The net increase in its assets abroad amounted to US$ 118 billion in 1982, and dropped to US$ 49.5 billion in 1983 and to US$ 20.4 billion in 1984.45/

Many United States economists are highlighting the growing vulnerability of the financial system of the United States, one of the pillars of which is short-term foreign investment, and are calling attention to the negative economic consequences which might accompany a withdrawal of speculative capital.

In conditions of high fiscal deficits, a sharp reduction in the inflow of foreign capital would raise interest rates and cause investments in capital goods and housing to contract notably, having short- and long-term negative effects on the United States economy.

In short, the United States is experiencing a serious financial disequilibrium internally (fiscal deficit) and externally (current account deficit) but is managing to redress it to a considerable extent through the inflow of foreign savings. However, since the problem has not been resolved, but is spreading, the likelihood is growing that a serious domestic and international financial crisis will be unleashed.

d) Prospects for the evolution of the economy of the United States

The expansion phase of the economic cycle now underway is already showing signs of exhaustion, characterized by growth rates which are markedly lower than in the period 1983-1984. The present period of recessive growth may be regarded as the phase immediately preceding a new cyclical crisis which may well occur in the second half of 1986 or the first half of 1987.

Actually, the duration of the present expansion and the beginning of the next cyclical crisis will depend on a variety of short-term factors, such as the Administration's fiscal policy and the Federal Reserve's monetary policy. The economy may even continue to grow for some time if consumers continue to spend freely, if the inflation remains low, if interest rates do not rise suddenly and if the growth of imports decelerates sufficiently to allow national industry to increase its share in the meeting of the demand.

For this combination of factors to occur, a number of different economic trends and policies will have to be brought into line. An expansive monetary policy can start an inflationary spiral, causing interest rates to rise sharply; nevertheless, an overly restrictive policy can have a similar effect. Another sudden drop in the dollar or a crisis of confidence among foreign investors can reduce the foreign capital entering the United States, which would tighten the competition between the government and the private sector on the domestic capital market, resulting in a rise in interest rates.

A drop in the dollar would make imports more expensive, tending to drive inflation up. In a recent buying spree, consumers piled up an unprecedented debt and left accumulated savings at the lowest level ever, so that at any moment consumer spending may begin to contract. As excessively high fiscal deficits are driving interest rates up, the Administration is trying to cut budget expenditures, but a reduction sufficiently drastic to have a significant impact on the deficit could result in an across-the-board contraction of the domestic demand.

This delicate balance is precisely what is causing uncertainty with respect to development prospects. Any sudden upheaval in the national and international economic situation can gradually throw the situation out of balance, putting the United States economy in serious difficulties in a matter of months. Of the three pillars on which its present economic expansion rest (increased domestic demand, inflow of external savings and the armaments race), only the armaments race displays any degree of stability. Actually, increased military might now plays the same role of motivating and prolonging economic growth as that played by the Korean war in the 1949-1953 expansive phase and by the Vietnam war in that of 1961-1969.

The latest tax adjustments in the United States, which have increased disposable personal income and thus motivated greater spending by consumers, have also lowered fiscal earnings, contributing to the deficit and therefore having opposing effects on the economy.

Between 1980 and 1985, the international situation had increasingly marked repercussions on the traditionally highly self-sufficient economy of the United States, owing to the accentuated growth of commercial, credit, monetary and technological flows. In this respect, the growing vulnerability of the United States to external factors could be seen in the serious effects which the inflow of imports in 1984 had on industrial production, the structure of employment, the indexes of inflation and the balance of payments on current account.

The intense internationalization of the dollar has tended to rob the economic authorities of the United States of a considerable portion of their control over their national currency. According to diverse estimates, some US$ 150 billion to US$ 200 billion, or the equivalent of 20% of the annual budget of the government of the United States, changes hands throughout the world every day in buying and selling operations.

In such circumstances, the measures taken by the Administration and the Federal Reserve to bring the dollar down or to support it would have a fairly limited range because basically the parity of the dollar is determined in the international market on the basis of the confidence in it inspired by the rate of return on investments in the United States, the conditions offered by the country as a safe haven and the outlook for its economy.

A more likely way to succeed would be that of concerted intervention by the central banks of the Group of Five (the United States, the Federal Republic of Germany, France, Japan and the United Kingdom) to keep the value of the dollar at a level where the indispensable flexibility is combined with a certain amount of stability. In this connection, a tacit agreement on the establishment of the margins desired for the value of the dollar would help to provide a certain amount of stability for the international monetary market if it were followed by the closer alignment of the monetary and fiscal policies of the leading industrialized countries and, above all, of the national tax systems which have an effect on saving, investment and capital movements.

So long as no solution is found to its trade and fiscal deficit problem, the United States will probably require a tremendous inflow of external savings and will therefore have to keep the confidence of foreign investors. Interest rates will probably have to stay relatively high in order to attract foreign capital to the country.

By and large, recent trends in the economy of the United States demonstrate its capacity for adjustment to the requirements of the scientific and technological revolution. In spite of a certain amount of inertia which can be explained by the very vastness of the economy and its polymorphic character, the market mechanism has responded to the impact of the adjustment, as is reflected in the contrast between the traditional production structure and the multitudinous technological innovations. Nevertheless, in the absence of a clearly defined industrial policy and active participation by the State in the transformation of the economic structure, this growth process is taking the form of spontaneous interaction of market forces, giving rise to unfavourable social effects which are, moreover, aggravated by intense foreign competition.

It is also possible that as new economic structures take shape in the United States, the impact of the transformation now underway may make itself felt with growing forcefulness throughout the world capitalist system, being transmitted along all the channels of international economic relations and the commercial, monetary, financial and technological channels in particular.

## 3. An attempt to evaluate the effects on Latin America of economic trends in the United States

### a) Differences between countries and areas of Latin America and the Caribbean

Bilateral trade with the United States is still of considerable importance in the international economic relations of the countries of Latin America, which shows the potential of this means of transmitting the positive and negative impulses generated by the North American economy. In 1983, 39% of all the exports from the 19 Latin American countries as a whole were directed towards the United States, and 36% of the imports of the same group came from that country.46/

However, these aggregates conceal the considerable differences which exist between the countries of the region in terms of what the United States market means to their trade. These differences were accentuated in the period 1983-1984, when the trend towards greater geographic diversification of Latin American exports was reversed and some countries recorded a pronounced increase in the share of their exports destined for the United States.

Among the of ALADI countries, Brazil and Mexico saw their exports grow during this period, almost solely because of the role played by the United States market; Colombia and Ecuador managed to compensate fully for the sudden fall in their exports to the rest of the world by means of their increased sales to the United States; and Chile, Peru, Uruguay and Venezuela to a large extent had the same experience. Only Argentina and Paraguay kept to the same degree of export diversification (see table 19).

Outside of ALADI, Costa Rica, El Salvador, Guatemala, Panama and the Dominican Republic also showed a marked increase in the share of exports destined for the United States, while Haiti and Honduras kept their share high. A case apart is Nicaragua, whose exports to the United States fell from 38.6% of their total exports in 1980 to 14.3% in 1984.

Although the growth of the sales to the United States enabled a number of Latin American countries to obtain the additional foreign exchange earnings they so badly need in order to service their external debt, some of those countries were still highly vulnerable to the possibility of change in the economic situation in the United States or in the economic policy of the present Administration.

Statistics show that Latin American exports to the United States have provided an important means of transmitting the impact of economic trends in that country to Latin American economies, and this at very high levels of potential risk in the cases of Mexico, Panama, Ecuador, Haiti and the Dominican Republic.

Table 19

**LATIN AMERICA: EXPORTS TO THE UNITED STATES AND THEIR SHARE IN THE TOTAL EXPORTS OF EACH COUNTRY**

(In millions of dollars)

| | 1980 | | | 1981 | | | 1982 | | | 1983 | | | 1984 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | To US | % | Total | To US | % | Total | To US | % | Total | To US | % | Total | To US | % |
| Argentina | 8 025 | 718 | 8.9 | 9 143 | 864 | 9.4 | 7 623 | 1 022 | 13.4 | 7 836 | 775 | 9.9 | 8.512 | 849 | 10.0 |
| Bolivia | 1 036 | 267 | 25.8 | 995 | 266 | 26.7 | 899 | 261 | 29.0 | 787 | 161 | 20.5 | 610 | 145 | 23.8 |
| Brazil | 20 132 | 3 510 | 17.4 | 23 329 | 4 111 | 17.6 | 20 168 | 4 131 | 20.5 | 21 853 | 5 061 | 23.2 | 27 008 | 7 710 | 28.5 |
| Colombia | 3 945 | 1 069 | 27.1 | 2 956 | 693 | 23.4 | 3 095 | 723 | 23.4 | 3 073 | 897 | 29.2 | 3 340 | 1 139 | 34.1 |
| Chile | 4 688 | 589 | 12.6 | 3 949 | 592 | 15.0 | 2 710 | 801 | 21.6 | 3 850 | 1 083 | 30.8 | 3 658 | 951 | 26.0 |
| Ecuador | 2 476 | 806 | 32.6 | 2 540 | 984 | 38.7 | 2 140 | 1 025 | 47.9 | 2 228 | 1 260 | 56.6 | 2 629 | 1 601 | 60.0 |
| Mexico | 15 557 | 10 072 | 64.7 | 19 641 | 10 716 | 54.6 | 21 209 | 11 129 | 52.5 | 21 416 | 12 416 | 57.9 | 24 226 | 14 341 | 59.2 |
| Paraguay | 310 | 17 | 5.5 | 297 | 17 | 5.7 | 330 | 9 | 2.7 | 269 | 23 | 8.6 | 376 | 21 | 5.6 |
| Peru | 3 915 | 1 258 | 32.1 | 3 247 | 1 090 | 33.6 | 3 386 | 1 046 | 30.9 | 3 186 | 1 094 | 34.3 | 3 331 | 1 274 | 38.2 |
| Uruguay | 1 058 | 83 | 7.8 | 1 175 | 95 | 8.1 | 1 032 | 77 | 7.5 | 1 063 | 104 | 9.8 | 1 509 | 524 | 34.7 |
| Venezuela | 19 261 | 5 344 | 27.7 | 20 002 | 5 114 | 25.6 | 16 731 | 4 506 | 26.9 | 14 935 | 4 702 | 31.5 | 15 424 | 6 200 | 40.2 |
| Costa Rica | 981 | 331 | 33.7 | 1 008 | 327 | 32.4 | 871 | 292 | 33.5 | 889 | 283 | 31.8 | 1 174 | 494 | 42.1 |
| El Salvador | 1 070 | 439 | 41.0 | 797 | 137 | 17.2 | 700 | 248 | 35.4 | 741 | 286 | 38.6 | 859 | 337 | 39.2 |
| Guatemala | 1 518 | 420 | 27.7 | 1 226 | 223 | 18.2 | 1 120 | 306 | 27.3 | 1 159 | 405 | 34.9 | 1 205 | 436 | 36.2 |
| Honduras | 829 | 438 | 52.8 | 728 | 399 | 54.8 | 668 | 351 | 52.5 | 741 | 395 | 53.3 | 778 | 409 | 52.6 |
| Nicaragua | 414 | 160 | 38.6 | 476 | 135 | 28.4 | 370 | 82 | 22.2 | 433 | 99 | 22.9 | 440 | 63 | 14.3 |
| Haiti | 226 | 128 | 56.6 | 329 | 261 | 79.3 | 377 | 296 | 78.5 | 420 | 320 | 76.2 | 450 | 359 | 79.8 |
| Panama | 350 | 173 | 49.4 | 317 | 167 | 52.7 | 308 | 128 | 41.6 | 299 | 161 | 53.8 | 252 | 153 | 60.7 |
| Dominican Republic | 963 | 503 | 52.2 | 1 187 | 795 | 67.0 | 809 | 437 | 54.0 | 804 | 541 | 67.8 | 1 211 | 971 | 80.2 |
| Latin America | 86 754 | 26 325 | 30.3 | 93 342 | 26 986 | 28.9 | 85 546 | 26 870 | 31.4 | 86 027 | 30 066 | 34.9 | 96 991 | 37 977 | 39.2 |

Source: International Monetary Fund, Direction of Trade Statistics, Yearbook 1985.

If the cost of servicing the external debt is high, export earnings provide an absolutely indispensable flow of foreign exchange; this explains the vulnerability of countries which depend too much on a single market for their exports. On the other hand, if a large share of an economy's imports come from a single country, this results in relatively less vulnerability provided that in case of need it is feasible to replace that country by other suppliers, which is comparatively less difficult to do because at present competition among exporters is stronger than among importers.

The majority of Latin American countries have an imports structure which is geographically more diversified than their exports structure. However, the imports of Mexico, Haiti and Venezuela are highly oriented towards the United States, which puts them in a potentially dependent and more or less vulnerable situation (see table 20).

Table 20

LATIN AMERICA: SHARE OF EXPORTS TO THE UNITED STATES AND IMPORTS FROM THE UNITED STATES IN TOTAL TRADE OF EACH COUNTRY, 1984

(Percentages)

| Exports | | Imports | |
|---|---|---|---|
| Paraguay | 5.6 | Paraguay | 9.9 |
| Argentina | 10.0 | Uruguay | 10.9 |
| Nicaragua | 14.3 | Bolivia | 16.2 |
| Bolivia | 23.8 | Brazil | 16.6 |
| Chile | 26.0 | Nicaragua | 16.8 |
| Brazil | 28.5 | Argentina | 18.5 |
| Colombia | 34.1 | Panama | 20.9 |
| Uruguay | 34.7 | Chile | 23.4 |
| Guatemala | 36.2 | Peru | 29.4 |
| Peru | 38.2 | Guatemala | 33.8 |
| El Salvador | 39.2 | Ecuador | 33.9 |
| Latin America (average) | 39.2 | Colombia | 35.0 |
| Venezuela | 40.2 | Latin America (average) | 36.0 |
| Costa Rica | 42.1 | Costa Rica | 38.4 |
| Honduras | 52.6 | El Salvador | 41.8 |
| Mexico | 59.2 | Honduras | 42.7 |
| Panama | 60.7 | Dominican Republic | 44.3 |
| Ecuador | 60.9 | Venezuela | 49.3 |
| Haiti | 79.8 | Haiti | 66.9 |
| Dominican Republic | 80.2 | Mexico | 67.2 |

Source: International Monetary Fund, Direction of Trade Statistics, Yearbook 1985.

In spite of the appreciable increase in exports from Latin America to the United States and a marked decrease in the region's imports from that country, in 1984 trade with the United States was still operating at a deficit for seven of the 19 Latin American countries considered (see table 21). Bolivia, Costa Rica, Guatemala and Honduras had small surpluses, while Chile, Uruguay, Peru and the Dominican Republic recorded surpluses of between US$ 200 million and US$ 500 million. As for Brazil, Ecuador, Mexico and Venezuela, they showed positive balances of over US$ 1 billion in their trade with the United States.

The international financial relations of the countries of Latin America include a whole spectrum of credit, investment, payments, flight of capital and other flows. The capacity for transmission of the effects of the massive capital movements is difficult to measure accurately. What is clear, however, is that nearly all the countries of the region are seriously affected by these financial movements, which involve enormous volumes of money by comparison with the monetary flows of Latin America, which tend to be restricted.

In 1984, the 19 countries of Latin America had to disburse US$ 36 billion in net payments of profits and interest, and the preliminary estimate for 1985 is for US$ 35 billion.47/ The balance-of-payments statistics for 1983 recorded the following outflows for profits, interest and amortization payments and transfers of capital: Mexico, US$ 22.6 billion; Brazil, US$ 21.2 billion; Argentina, US$ 12.8 billion; Venezuela, US$ 9.2 billion; Chile, US$ 3.7 billion; Ecuador, US$ 3.4 billion; Peru, US$ 3.2 billion; Colombia, US$ 2.3 billion; Uruguay, US$ 1.3 billion; Bolivia, US$ 900 million; Costa Rica, US$ 500 million, and Paraguay, US$ 250 million.48/

These capital outflows are a constant cause of concern when sufficient resources are not available to make the payments required. Although the Latin American countries have succeeded in offsetting these flows abroad with capital loans to them, the need to get deeper into debt in order to be able to meet the obligations incurred sets up a vicious circle, from which no "normal" escape rate comes to mind.

The sums quoted refer to total outflows from each Latin American country regardless of destination, and no data are available as to exactly what share of the capital leaving and entering goes to or comes from the United States. It is, however, possible to make some rough estimates since the amount of the debt of certain Latin American countries with the United States banks is known (see table 22).

Between 1981 and 1983, the debts of the Latin American countries referred to in table 22 with United States banks soared, rising by 52.7%. In addition, in 1983 the debts of the following countries of the region with American banks represented a sizeable share of their total external debt: Mexico, 38.7%; Colombia, 36.0%; Chile, 34.8%; Ecuador, 34.5%;

Table 21

LATIN AMERICA - UNITED STATES: MERCHANDISE TRADE, 1982-1984

(Millions of US dollars)

| | 1982 | | | 1983 | | | 1984 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Exports | Imports | Balance | Exports | Imports | Balance | Exports | Imports | Balance |
| Argentina | 1 022 | 1 177 | -155 | 775 | 987 | -212 | 849 | 884 | -35 |
| Bolivia | 261 | 144 | 117 | 161 | 112 | 49 | 145 | 116 | 29 |
| Brazil | 4 131 | 3 164 | 967 | 5 061 | 2 627 | 2 434 | 7 710 | 2 526 | 5 184 |
| Colombia | 723 | 1 896 | -1 173 | 897 | 1 686 | -789 | 1 139 | 1 595 | -456 |
| Chile | 801 | 916 | -115 | 1 083 | 704 | 379 | 951 | 748 | 203 |
| Ecuador | 1 025 | 741 | 284 | 1 260 | 498 | 762 | 1 601 | 591 | 1 010 |
| Mexico | 11 129 | 9 006 | 2 123 | 12 416 | 4 883 | 7 533 | 14 341 | 8 746 | 5 595 |
| Paraguay | 9 | 52 | -43 | 23 | 35 | -12 | 21 | 56 | -35 |
| Peru | 1 046 | 1 116 | -70 | 1 094 | 900 | 194 | 1 274 | 751 | 523 |
| Uruguay | 77 | 135 | -58 | 104 | 52 | 52 | 524 | 88 | 436 |
| Venezuela | 4 506 | 5 206 | -700 | 4 702 | 2 812 | 1 890 | 6 200 | 3 377 | 2 823 |
| Costa Rica | 292 | 318 | -26 | 283 | 374 | -91 | 494 | 432 | 62 |
| El Salvador | 248 | 233 | 15 | 286 | 290 | -4 | 337 | 444 | -107 |
| Guatemala | 306 | 432 | -126 | 405 | 365 | 40 | 436 | 414 | 22 |
| Honduras | 351 | 274 | 77 | 396 | 329 | 67 | 409 | 354 | 55 |
| Nicaragua | 82 | 148 | -66 | 99 | 145 | -46 | 63 | 123 | -60 |
| Haiti | 296 | 329 | -33 | 320 | 403 | -83 | 359 | 461 | -102 |
| Panama | 128 | 549 | -421 | 161 | 456 | -295 | 153 | 498 | -345 |
| Dominican Republic | 437 | 486 | -49 | 541 | 459 | 82 | 971 | 646 | 325 |
| Total | 26 869 | 26 322 | 547 | 30 067 | 18 115 | 11 952 | 37 975 | 22 848 | 15 127 |
| Brazil+Mexico +Venezuela | 73.6% | | | | 73.8% | | | | 74.4% |

Source: International Monetary Fund, Direction of Trade Statistics, Yearbook 1985.

Venezuela, 33.7%; Argentina, 25.8%; Brazil, 25.6%; Uruguay, 21.3% and Peru, 20.4%.49/

As they have realized how much danger is represented by their swollen Latin American portfolio, private banks in the United States have begun to take measures to reduce it gradually. Thus, a number of banks has been refusing to grant new credits to many countries in the region and are participating in the renegotiations of the debts while at the same time selling their Latin American portfolio at a discount. This desire to reduce or at least not to increase their exposure to the risks of Latin American bankruptcy has resulted in the decline in Latin American debts with these banks, as reflected in the figures available up to mid-1985 (see table 22).

Table 22

BANKS IN THE UNITED STATES: CLAIMS ON SELECTED LATIN AMERICAN COUNTRIES

(Millions of dollars, at end of each period)

| | 1981 | 1982 | 1983 | 1984 | 1985 June |
|---|---|---|---|---|---|
| Argentina | 7 527 | 10 974 | 11 749 | 11 043 | 11 416 |
| Brazil | 16 926 | 23 271 | 24 667 | 26 315 | 26 540 |
| Colombia | 2 018 | 3 211 | 3 745 | 3 499 | 3 207 |
| Chile | 3 690 | 5 513 | 6 072 | 6 839 | 6 680 |
| Ecuador | 1 531 | 2 062 | 2 307 | 2 420 | 2 493 |
| Mexico | 22 439 | 29 552 | 34 802 | 34 824 | 32 384 |
| Peru | 1 218 | 2 357 | 2 536 | 2 384 | 2 286 |
| Uruguay | 157 | 686 | 977 | 1 088 | 1 013 |
| Venezuela | 7 069 | 10 643 | 11 287 | 11 017 | 10 996 |
| Guatemala | 124 | 124 | 129 | 158 | 145 |
| Panama | 6 794 | 10 210 | 7 848 | 7 707 | 6 856 |
| Total | 69 493 | 98 423 | 106 119 | 107 294 | 104 025 |

Source: Board of Governors of the Federal Reserve System, Federal Reserve Bulletin, October and December 1985.

Bank debts represent only part (the larger part, to be sure) of all debts with the United States, and if debts with non-banking institutions were also taken into account, the figures would be somewhat higher. When consideration is also given to the fact that the capital which leaked out of Latin America in the period 1983-1985 was transferred primarily to the United States and to the tremendous role played by North American corporations in the transfer of profits, it may be concluded that monetary flows to the United States in the case of the various latin American countries can be estimated as comprising anywhere from a third to considerably more than half of total capital movements towards the exterior.

Another important phenomenon which was recorded in the period 1982-1984 within the system of financial relations operating between the United States and Latin America was a marked reduction in the flow of private direct investments from the United States towards the region. One indication of this is the fact that in those three years the repatriation of capital amounted to US$ 10.5 billion more than the total value of the investments made in Latin America.50/

Consideration of total monetary flows in both directions shows that Mexico is the Latin American country with the most intense financial relations with the United States, both in absolute terms and in terms of their relative importance for the national economy. For this reason, Mexico is very vulnerable to any impulse generated by the current financial situation in the United States, such as fluctuations in the exchange and interest rates and variation in financial flows.

Panama, Colombia, Chile, Ecuador and Venezuela make up a group of countries whose financial links with the United States have formed a large share of their external economic relations, which has also made them very sensitive to the type of direct impact which is transmitted through monetary flows.

In the case of Argentina and Brazil, the large volumes of capital moved to and from the United States represent a more moderate share of their total international financial relations, and those two countries, like Peru and Uruguay, are therefore relatively less exposed to the monetary effects generated by the economy of the United States.

The direct impact transmitted via the commercial and financial flows between the United States and Latin America is, however, only one of the effects generated by the economic policy and trends of that country. Other effects are transmitted through economic relations with other areas in the world's economy, and the extent of their repercussion depends on the ways in which the Latin American countries take part in the international economy, with all that means in terms of bilateral and multilateral flows of goods, services, foreign exchange and technology.

While the role played by Brazil in the international economy is, when quantified in absolute terms, very great, and substantial, commercial and financial external flows may transmit enormously intensive effects, the relative weight carried by the external sector in the national economy is less substantial, so the country has a greater capacity to absorb these effects with only moderate changes in its productive sector. In addition, the broad geographical and structural diversification of its external sector gives the country more room in which to operate.

Mexico maintains extensive relations with the United States in the fields of commerce, finance, co-operation and productive integration, and its external sector is pre-eminently oriented towards that country, which, in relative terms, weighs more heavily in Mexico's economies and in that of Brazil. Therefore, in spite of Mexico's special relationship with the United States, the Mexican economy tends to be more vulnerable than that of Brazil to the effect of the current cycle of the economy of the United States and the process of structural transformation under way in that country. A cyclical crisis in the United States would have a serious impact both on the external sector of Mexico and on that portion of Mexico's production which is integrated with United States firms.

Although the value of the commercial and financial flows of other Latin American countries is not so high in absolute terms, the share of the external sector in their economies is, in general higher, which makes them more vulnerable in relative terms. One example of a country in the region with a high degree of external openness is Panama, and the values of its external trade in both directions are comparable with its gross national product, while its financial flows involve values many times greater than the product.51/

The external vulnerability of Bolivia, Costa Rica, Honduras and Venezuela is high, in relative terms, and commercial and financial flows carry great weight in their economies. Chile, Ecuador, El Salvador, Haiti, Peru and Uruguay are those countries within the region whose economies display a medium level of external openness, their commercial and financial flows representing approximately 60% of their gross domestic product. Argentina, Colombia, Guatemala, Paraguay and the Dominican Republic, on the other hand, show moderate external openness in that their commercial and financial flows amount to about 40% of their gross domestic product.

Another characteristic which increases an economy's vulnerability is the predominance of raw materials in its exports, especially if those exports involve a single commodity or a very limited group of commodities, as is the case of petroleum for Ecuador, Mexico and Venezuela; copper for Chile; coffee for Colombia, Guatemala and Haiti; sugar for the Dominican Republic and natural gas for Bolivia. Structural diversification of exports and a high degree of manufactures in them diminish a country's vulnerability in spite of the fact that in recent years they have been responsible for the rise in the protectionism practised by the industrialized countries.

### b) Effects on the Latin American countries of the economic policy and performance of the economy of the United States

Because of the relatively great weight it carries in the international economy and its tremendous influence on that economy, the United States has transmitted the effects of its structural adjustment to other countries and has exported, through different channels of its external economic relations, those processes in which the adjustment consists. The exportation of the recessive phenomenon produced an almost immediate and very prolonged impact on the other economies. The Latin American countries were among the first to receive the impact of the 1980-1982 recession in the United States, an impact which was later increased by the effects of the same recession in other developed countries and was disproportionately magnified by the need to service the external debt.

The impulse generated by the economic expansion of 1983-1985 had many favourable effects on various countries of Latin America, which managed to increase their exports to the United States significantly. In general, however, this impulse was not re-transmitted to the rest of the productive sector of those countries because all the trade surpluses obtained were needed to service the debt, so that imports were restricted, which affected their growth.

Meanwhile the current deceleration of the economy of the United States is an indication that the expansion phase of the cycle has nearly run its course; there could be a recession as early as 1987, which would again transmit depressive effects to Latin America.

Another process which is part of the structural adjustment and was transmitted from the United States to other market economy countries is that of radical change in the production and employment structure.

Some industrialized countries are reaching a level of development which allows them to maintain a large services sector along with a comparatively small goods producing sector and even permits the existence, in socially acceptable conditions, of an enormous number of unemployed persons which not long ago was considered to be characteristic only of the cyclical phases of crisis and depression.

At this high level of development and capital density, the kind of economic and social structure described is possible, although it by no means guarantees a situation free of considerable social conflict. The developing countries, however, are not in a position to offer their unemployed population socially acceptable living standards or to maintain an economic and social structure corresponding to a higher stage of developed capitalism.

Latin America has already experienced what it is to graft extensive capitalism on an economy with abundant human resources and limited technological and financial resources. The current disproportionate external debt represents only the monetary aspect of this phenomenon, while its social aspects are reflected in the impossibility of using a sizeable percentage of a rapidly growing labour force within this model. However impressive and solid the development achieved through this model may be, a capital-intensive sector is only a small enclave within a national economy.

Another notable feature of the structural adjustment of the United States which is now affecting the developing countries is the relative, and in some cases even absolute, decrease in the consumption of various commodities. Technological innovations have been reducing the consumption of various traditional products, the needs for which used to be met partially through imports. Peripheral economies organized to supply such commodities need time to turn to the production of other commodities, primarily manufactures.

So drastic a restructuring of production, consumption and employment is necessarily accompanied by much social sacrifice, which in the United States, as in Western Europe, causes the social groups affected to bring heavy pressure to bear in favour of the application of protective measures which would enable them to avoid the impact of various processes which are part and parcel of the adjustment. Insistence is laid almost universally on the need for means of defence against foreign competition, whether it be "loyal" or "disloyal", together with the adoption of measures which are domestic in scope.

In view of the growing force of protectionist pressures at the present time, the possibility that the process of intense internationalization of the market economies may in the future cease to operate for some time cannot be discarded, and this would have serious consequences for world trade.

Even if protectionism does not reach the point where that could happen, trade between Latin America and the United States may well be affected by this factor in what remains of the present decade, in spite of the free market position of the present Administration in the United States.

The effort now being made by the United States to bring the dollar down vis-à-vis the other major convertible currencies has borne significant results, which may have some positive consequences for the Latin American countries, especially the non-oil-exporting countries, if they seize the opportunity provided by a higher real exchange rate to step up their exports to markets other than that of the United States. As for the depreciation of the dollar, its impact on the external debts of Latin America depends on the percentage of the debt contracted in dollars in each country of the region, since, while that part of the debt is devalued, the value of loans contracted in other currencies is rising as the dollar falls.

On the basis of the present correlation between those factors which determine the rise and fall of interest rates, it may be concluded that even if the preferential rate should fall in 1986, it would be neither a substantial nor a prolonged drop and would have few positive effects on the servicing of the Latin American debt. Interest rates are more apt to rise, owing to the growing needs of the United States economy for domestic and foreign financing. In addition, a recession would diminish earnings and increase the fiscal expenditure of the United States, so that the Administration would have to seek more financial resources; this would stir up greater competition between the Treasury and the private banks, which would have to have recourse to an increase in the interest rates on deposits and, eventually, in those on loans.

Should the rate at which foreign capital is entering the United States remain firm, Latin America's difficulties in obtaining financing would increase owing both to the competition which would result and to the continuing flight of capital from Latin America to the United States.

In view of the uncertain performance of the United States economy, with a recession in the offing, the Latin American countries are disadvantaged by the fact that, with few exceptions those industries which use raw materials or traditional semi-manufactures are in the rear guard of the expansion and hence will probably not be able to increase their imports over their 1984 level. In addition, those industries of the centres which compete with Latin American goods are in highly difficult straits and are energetically pressing for the application of protectionist measures, which may be introduced, if only partially.

Meanwhile, the high technology industries which are experiencing expansion in the centres make very little use of traditional products, and opportunities for Latin American countries to participate adequately in this expansion with their exportable products are fairly limited. Then too it may be expected that the high technology sectors producing both goods and services will make an aggressive attempt to penetrate Latin American markets and apply pressure, through the United States Government, against Latin American protection in these areas.

Although the macroeconomic policy of the present United States Administration has been on the whole favourable to the structural adjustment and has created more propitious conditions for technological, financial and labour readjustment, because of its complexity this process has not run its full course during the latest economic cycle. For this reason, in the course of the decades to come the United States economy will experience, although with varied intensity, a continuous restructuring and will transmit the impacts of that restructuring to the rest of the world. Moreover, because of the unevenness in the levels of development of the industrialized countries themselves, Latin America will go on receiving these impacts for many years.

There is no way for the Latin American countries to meet this challenge of a radical structural adjustment with such extensive effects but to accept it. In practice, it is impossible to live in isolation from the process of profound structural transformation of the world capitalist system without ceasing to be an integral part of this system, closing one's gates and cutting foreign trade and financial flows down to a minimum.

It would, however, be traumatic for Latin American society to accept the adjustment on the scale and at the rate imposed by the centres since the Latin American countries are not in a position to bring about the transformation of their economic structure while keeping social sacrifice down to an acceptable minimum.

In such circumstances, the only reasonable solution is to negotiate urgently the scale and rate of the structural adjustment with the developed countries which are now well into this process and are transmitting its effects to the developing economies. At present, the most meaningful bargaining tool in the hands of the latin American countries is their external debt, which may be used to apply pressure. If a common negotiating platform were organized and introduced in the North-South dialogue, the Latin Americans could agree upon a more acceptable rate of structural adjustment and on ways of implementing it more in accordance with the real situation in their countries.

It is true, however, that it takes time and effort to build up an awareness of the real dimensions and future implications of the problem. In this respect, it should be borne in mind that the time factor operates in favour of the developed countries, which are now undergoing an intense restructuring of their economies. Moreover, the transformation of the industrial structure and the decline in the consumption of commodities is having a markedly depressive effect on the prices of commodities supplied by the developing countries, and the intensification of the process --notwithstanding sporadic upturns in the consumption and prices of some raw materials-- will worsen the economic situation and the bargaining power of the Latin American countries.

## 4. Summary and conclusions

The behaviour of the domestic components and the external sector of the economy of the United States have different effects of varying intensity, which sometimes operate at cross purposes and, when transmitted to the many channels along which international economic relations are conducted, have increasingly powerful consequences for the economies of Latin America.

In recent years the greatest impact in Latin America has been caused by the recession in the United States, the effects of which were very intense in the period 1980-1982, and by the cyclical phase of expansion in the period 1983-1985, the effects of which were strongly reactivist.

The severity and length of the cyclical crisis of 1980-1982 and the fact that the expansion of 1983-1985 was partial and incomplete, in spite of the high growth rates to which it gave rise, are attributable basically to the translation of the economy of the United States from an economic cycle of long duration to another long cycle which derives its impetus from a new stage of the scientific and technological revolution, which has come to be known as the "third industrial revolution".

In the recent experience of the United States, what probably happened is that an adjustment of the sort that usually occurs as a result of a "normal" cyclical crisis was combined with the kind of structural adjustment which takes place in the trough of an economic wave of long duration. The purpose served by the structural adjustment, in addition to eliminating areas of inefficiency and disequilibria which mount up during this kind of economic wave and are not corrected by the adjustments made in respect of ordinary cyclical crises, is to effect changes in the various activities which make up the economic structure, thereby bringing it more closely into line with a new stage of development.

The structural adjustment is a dual process in which, on the one hand, more room is given for the development of the productive forces and, on the other, these forces are provided with a new organic structure where the production of goods and services, employment and consumption are concerned. This makes it easier to introduce new technological processes, to use new materials and to sell new products. In the end, the structural adjustment now under way is such that flexibility and the capacity to adapt to changing conditions are the most salient features of this new stage in the evolution of capitalism.

The special characteristics of the transformation of the economic structure include a decrease in the relative importance of the goods-producing sector, and especially of industry, in the economy as a whole and also the fact that in both relative and absolute terms, less use is made of various basic inputs, including petroleum, iron ore, ferrous and non-ferrous metals and natural rubber, whose use, up until a few years ago, was increasing steadily. Changes in the social structure include a rapid relative growth of employment in the services sector and also a notable increase in the rate of unemployment in both the crisis and the expansion phase, by comparison with what happened in the different phases of previous cycles.

The scale and complexity of the structural adjustment are grounds for believing that this process will survive, with varying intensity, a number of ordinary economic cycles or, perhaps, the entire life of the recently initiated long-duration wave.

The exact duration of the economic cycle now under way in the United States cannot be predicted; however, during its present phase of expansion and as early as 1985, it has shown signs of weakening, which gives cause to fear the advent of a new recession. Various factors, chiefly the Federal Reserve monetary policy, may prolong the phase of expansion for some months, in which moderate growth rates will be maintained, but a recessive crisis in 1987 is within the realm of probabilities.

Basically, during the period 1986-1987, the Latin American countries will possibly be affected by the following mostly unfavourable, trends in the evolution of the economy of the United States:

i) with some instances of upturn, continuation of the relative decline in industrial consumption of various basic commodities, including commodities imported from Latin America;

ii) continued depression of international prices of raw materials due to the declining consumption of basic inputs;

iii) stagnation or reduction of imports, including imports of manufactures, due, respectively, to minimal growth or a recession;

iv) strong protectionist pressure difficult for the Government in office in the United States to resist caused by the grave situation in which a number of traditional industries, affected by the structural adjustment and foreign competition, find themselves and to high unemployment in relative and absolute terms and a record trade deficit;

v) continued high real interest rates due to the enormous fiscal deficit and domestic debt of the United States and to the nature of its tax system;

vi) maintenance by the United States of its reputation as a safe haven, in spite of the likelihood of fluctuations, and continued attraction by it of massive foreign investment and other inflows of capital, including that involved in flights of capital from the region;

vii) increased demand for capital by the United States in the international credit market, accentuating the role of the United States as a competitor of the Latin American countries;

viii) more aggressive attempts on the part of the expanding high-technology sector, in both goods and services, to penetrate the Latin American market;

ix) continuation of the situation whereby the flow of capital repatriated from Latin America to the United States exceeds the inflow in Latin America of private direct investment from the United States;

x) attempts by private banks in the United States to reduce, or at least to restrict the growth of, their Latin American loan portfolio, by refusing in so far as possible to give new credit to Latin American countries regarded as high loan risks.

However, the structural adjustment taking place in the United States should, owing to its immensity and to the growing internationalization of the market economy, produce a more profound and long-term impact in Latin America. The complex process of transforming the economic and social structure now taking place in the developed economies (the

United States, Japan and Western Europe) may be expected to extend gradually to the developing countries, beginning with those which play a larger role in the world economy and then reaching the rest.

The Latin American countries seem to differ in their vulnerability to the effects of the current economic situation in the United States and its structural adjustment process. The most vulnerable seem to be Mexico, Venezuela, Ecuador, Bolivia, Panama, Costa Rica and Honduras; an intermediate group is formed by Chile, Peru, Uruguay, El Salvador and Haiti, while Argentina, Brazil, Colombia, Paraguay, Guatemala and the Dominican Republic are less vulnerable.

In spite of differences in their level of development and their vulnerability to the external situation, nearly all the countries of the region may well have problems in absorbing the impact produced by the evolution of the United States economy, in that for some of them it may bring large losses of foreign exchange in absolute terms, while for others moderate absolute values may represent a heavy burden in view of the size of their economies.

There is only a very remote possibility that the Latin American countries may succeed in somehow influencing the behaviour of the United States economy in order to prevent at least some of the adverse consequences which may arise. In this connection, neither its economic potential nor its still untenable situation as regards servicing of the external debt make it at all likely that Latin America can substantially increase its imports from the United States in order to help demand and production in that country to grow and thereby postpone a possible recession.

Nor can the Latin American countries bring about a reversal in those trends which are unfavourable to their interests by negotiating with the United States because, among other reasons, the economic policy of that country's government is opposed to State intervention in the operation of the free market economy mechanism. In addition, with few exceptions, there is something objective, real and non-negotiable about these trends, and this means that they will in all probability gradually come into force in spite of any agreements which may oppose them.

Nevertheless, some elements of the North American economic policy can be negotiated if the authorities in the United States can be convinced that the worsening of the economic situation in Latin America would also be harmful to the United States. A negotiation's agenda might include the following items for consideration:

i) need for caution in the sale of strategic reserves of the United States in order to avoid even greater drops in prices of basic commodities exported by the Latin American countries;
ii) advisability of participation by the United States in agreements on stabilization of commodity prices;

iii) counterproductive effects of the growing protectionism practised in the United States;

iv) urgency of reducing the fiscal and trade deficits of the United States, which have had widespread adverse effects at international level;

v) gradual nature of the penetration of North American high-technology sectors, including services in Latin America.

Another problem of great concern for Latin America which should be negotiated to the United States and other developed countries relates to the transfer of the process of structural adjustment at a rate and scale —whether forced or spontaneous— which may constitute an excessive burden on the Latin American economies, many of which are already in a critical situation. It is absolutely necessary for the transformation of the economic and social structure in Latin American countries to be controlled and regulated to a greater degree by the countries themselves.

Paradoxically, Latin America's bargaining power depends largely on the tremendous size of its external debt. Its present dimensions and the dimensions it may assume threaten to destabilize the international financial system, which already has problems in maintaining its delicate balance. Disproportionate servicing of the external debt, in addition to quenching Latin America's economic growth, is causing a marked decline in Latin American imports from the United States and other developed countries, and this has unfavourable effects on their productive sectors. Thus, Latin America's external debt has become a factor which depresses the growth of both debtor and creditor countries, as well as that of all the other participants in world trade. In these circumstances the Latin American countries might well participate in a dialogue of negotiation with the United States and other developed countries provided a common position were drawn up and introduced.

In any case, the prospects for negotiation would be much more promising if the countries of Latin America managed to work with all the other developing countries in formulating a common position aimed basically at reaching agreement among the developed countries concerning both a political solution to the problem of external debt and regulation of the progress made by the structural adjustment process.

## C. ECONOMIC RELATIONS BETWEEN LATIN AMERICA AND THE EUROPEAN ECONOMIC COMMUNITY (EEC)

### 1. General background information

Of all the developed countries, the EEC countries are those which have been the most sensitive to the effects of the present international economic crisis. In general, the Community's economy has shown a growth rate of the gross domestic product lower than that of the United States and Japan. Since 1982, the EEC countries have been recovering, but at a slower rate than the other OECD countries; this recovery is accompanied by steadily rising unemploy- ment, which in 1985 affected over 11% of the labour force (by comparison with 7% in the United States and 2.5% in Japan).

From a more long-term perspective, however, it is notable how the existence and operation of the European Common Market has, in spite of apparent limitations and operational difficulties, resulted in growing integration among the economies of the Community. In addition, as the original group of six countries with which EEC began were later joined by another four countries and still later, in 1986, by two more (Spain and Portugal), there is now a group of 12 countries which comes very close to covering nearly all the economic and productive potential of Western Europe.

In connection with the above, attention should be drawn to a factor relating to the Community's foreign trade: the fact that the area constitutes the major presence in world trade, having such a high degree of openness that trade accounts for an average of over 25% of the gross domestic product of the EEC countries as a whole. Nevertheless, these countries concentrate their commercial trade on developed countries —75% of their trade is with OECD and close to 51% takes place within the Community.

In the case of EEC, economic relations with Latin America have not been given priority in that different treatment has been accorded to the developing countries of Africa, the Caribbean and the Pacific signatories of the Lomé Convention (the ACP countries), on the one hand, and the Latin American countries, on the other. In any case, this does not mean that in all productive sectors Latin America is at a disadvantage. In the area of manufactures, the ACP countries are still not very highly developed, and their lag behind the Latin American countries in technology, applicability, quality and design is still significant. However, the decided support given by EEC to the ACP countries (including the provision of intermediate technologies, access to competitive markets and other aids) might change the situation in the future.

In addition, in the field of industrial raw materials, some ACP countries may compete with certain Latin American countries (for example, in leather, skins and sawn woods). Moreover, some of these commodities are included in the EEC Generalized System of Preferences but are subject to restrictive quotas, while the ACP countries enjoy a wider margin of preferences. As regards basic commodities, discrimination against Latin America would seem to be better defined. A large number of ACP countries have a production structure similar to that of many Latin American countries and have been favoured by the Lomé Convention with preferential treatment regarding access to their commodities to EEC.

## 2. Evaluation of economic relations

### a) Trade between Latin America and EEC

EEC is now in second place among the region's purchasers and purveyors, after the United States. In spite of the importance of this trade for Latin America, the loss of reciprocity experienced in recent years is crystal-clear. The participation of Latin American exports in EEC imports from outside the Community has dropped from 11.1% in 1958 to 6.2% in 1984. On the EEC side, the Latin American countries have come to hold a still smaller share in its trade in goods. Thus, in 1984 Latin America purchased a bare 3.7% of EEC exports outside the Community, or just over one third of the percentage recorded in 1958 (see table 23).

From the point of view of Latin America, in 1970 EEC was the recipient of 26% of its total exports, a figure which fell to less than 20% at the end of the 1970s and has not recovered in the 1980s.

The main problem encountered by Latin American exports is the increase in protectionist policies in European markets. These include notably the Community's Common Agricultural Policy (CAP), in which a complex system of pricing and intervention guarantees high selling prices for the Community's farmers and livestock breeders, regardless of whether their production can actually be absorbed in domestic and international markets at those prices.

In the industrial field, the protection afforded by the community takes a complex variety of forms, including agreements on voluntary restrictions of exports, the establishment of floors on import prices and the granting of special advantages and subsidies to certain national industries.

Another characteristic of the trade which operates between Latin America and the EEC is that the trade balance has traditionally been negative for the latter. In 1982, as a consequence of the crisis experienced by the region and the drastic restrictions on imports associated with the adjustment policy followed by Latin America, this negative balance increased appreciably. Thus, in 1984 it amounted to a record US$ 8 640 million, as opposed to only US$ 2 023 million in 1981 (see table 23).

However, there has always been great asymmetry in the kind of goods traded between the two regions, and even more so after 1980 because of the greater share --close to 80%-- of the raw materials category in Latin American exports. This was

Table 23

MERCHANDISE TRADE BETWEEN EEC AND LATIN AMERICA

(*In millions of US dollars and percentages*)

| Year | EEC imports from Latin America (1) | Latin America share in total imports outside Community (2) | EEC exports to Latin America (3) | Latin America share in total exports outside Community (4) | EEC trade balance with Latin America (5) |
|---|---|---|---|---|---|
| 1958 | 2 637 | 11.1 | 2 180 | 10.0 | -457 |
| 1970 | 4 701 | 7.9 | 3 840 | 7.0 | -861 |
| 1980 | 22 316 | 5.9 | 19 779 | 6.5 | -2 537 |
| 1981 | 18 488 | 5.5 | 16 465 | 5.5 | -2 023 |
| 1982 | 17 759 | 5.8 | 12 550 | 4.6 | -5 209 |
| 1983 | 18 070 | 6.2 | 9 789 | 3.6 | -8 281 |
| 1984 | 18 806 | 6.2 | 10 166 | 3.7 | -8 640 |

Source: EUROSTAT, *Monthly External Trade Bulletin*, Luxembourg, special issue 1958-1982 and No. 5/1985.

due primarily to the increase in the relative share of fuels in those exports (from 7.6% in 1979 to 26.3% in 1983) (see table 24).

In contrast with the composition of Latin American exports, nearly 90% of the goods which the region imports from EEC consists in a large variety of industrial commodities, especially machinery and transport equipment.

One of the main factors in the process of deterioration of the trade relations between Latin America and EEC may be the scarcity of Latin American manufactures on the European market, in spite of the degree of competitiveness achieved on international markets by a large number of the region's industries. EEC absorbed 16% of Latin America's total exports of manufactures in 1970, a figure which fell at the beginning of the 1980s to 14.5%.52/

b) Financial relations between Latin America and EEC

It is difficult to determine the origin of funds provided by European banks participating in the Eurodollar market (a substantial source of financing for Latin America), since not all the funds traded in this market come from Europe; these banks channel resources from a number of developed countries as well as from oil-exporting countries with financial surpluses. Then too, international banks arrange and participate jointly in the same loans, agreeing among themselves as to their terms.

It is estimated that in recent years the Latin American external debt with European banks has represented close to one third of the region's total debt with banks. In this respect, Europe helps to reduce Latin America's dependence on the United States somewhat, but the banks of European countries do not have the same degree of co-ordination among each other as those of the United States, and in negotiations of the external debt, they normally subordinate their policies to what the banks of the United States decide. This has limited the possibility for greater concertation between Europe and Latin America.

It may also be noted that the structure of financing derived from the developed countries has been changed as privatization of financial sources has increased.

In the field of official development assistance received by Latin America from the EEC member countries, the low share received by the region is notable in that it represented only 5.2% of such assistance in 1981 and 4.8% in 1982 (see table 25). Official development assistance is also marginal by comparison with total financial flows channelled towards Latin America, since it represented no more than 3% or 4% of those flows at the beginning of the 1980s.

Table 24

EUROPEAN ECONOMIC COMMUNITY: STRUCTURE OF TRADE WITH LATIN AMERICA a/

(Percentages)

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|---|---|
| Imports by the Community | | | | | | | | | |
| Section 0: Food | 42.8 | 45.0 | 53.0 | 48.7 | 43.9 | 27.6 | 36.5 | 36.8 | 36.7 |
| Section 1: Beverages and tobacco | 1.8 | 1.8 | 1.7 | 1.9 | 1.8 | 1.5 | 1.2 | 1.4 | 1.5 |
| Section 2: Crude materials, except fuels | 25.6 | 23.6 | 20.2 | 20.3 | 20.7 | 19.5 | 16.2 | 14.9 | 14.8 |
| Section 3: Fuels and lubricants | 9.9 | 8.1 | 4.2 | 5.1 | 7.6 | 16.7 | 26.1 | 24.8 | 26.3 |
| Section 4: Oils, fats, etc. | 1.6 | 1.5 | 1.9 | 2.1 | 1.9 | 1.5 | 1.0 | 1.2 | 0.7 |
| Section 5: Chemicals | 1.9 | 1.7 | 1.6 | 1.7 | 1.6 | 1.6 | 1.5 | 1.5 | 1.5 |
| Section 6: Manufactured goods | 12.5 | 13.9 | 12.5 | 12.9 | 15.5 | 15.7 | 10.7 | 11.9 | 11.1 |
| Section 7: Machinery and transport equipment | 1.8 | 1.9 | 2.7 | 3.9 | 3.7 | 2.9 | 3.8 | 4.5 | 4.0 |
| Section 8: Miscellaneous manufactured articles | 1.5 | 1.8 | 1.8 | 2.1 | 2.2 | 1.7 | 1.5 | 1.4 | 1.2 |
| Section 9: Commodities and transactions not classified according to kind | 0.6 | 0.7 | 0.4 | 1.3 | 1.1 | 1.3 | 1.5 | 1.6 | 1.6 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Table 24 (concl.)

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|---|---|
| Exports by the Community | | | | | | | | | |
| Section 0: Food | 3.0 | 3.2 | 4.2 | 3.8 | 3.7 | 5.2 | 5.3 | 5.5 | 5.0 |
| Section 1: Beverages and tobacco | 1.4 | 1.3 | 1.5 | 1.9 | 1.8 | 2.1 | 1.9 | 1.7 | 1.2 |
| Section 2: Crude materials, except fuels | 0.9 | 0.9 | 1.0 | 0.7 | 0.8 | 0.7 | 0.7 | 0.7 | 1.2 |
| Section 3: Fuels and lubricants | 0.5 | 0.5 | 0.8 | 0.9 | 0.9 | 1.1 | 0.6 | 0.7 | 0.7 |
| Section 4: Oils, fats, etc. | 0.3 | 0.2 | 0.1 | 0.7 | 0.6 | 0.7 | 0.5 | 0.4 | - |
| Section 5: Chemicals | 16.6 | 18.3 | 17.3 | 14.6 | 14.8 | 12.7 | 11.6 | 14.6 | 15.8 |
| Section 6: Manufactured goods | 19.2 | 13.6 | 13.9 | 16.6 | 14.1 | 14.6 | 16.7 | 14.6 | 11.5 |
| Section 7: Machinery and transport equipment | 51.9 | 55.6 | 53.7 | 48.6 | 48.3 | 49.8 | 48.9 | 47.0 | 43.3 |
| Section 8: Miscellaneous manufactured articles | 4.0 | 4.5 | 4.6 | 5.4 | 5.8 | 6.3 | 6.6 | 7.3 | 6.1 |
| Section 9: Commodities and transactions not classified according to kind | 2.2 | 1.9 | 2.9 | 6.8 | 9.2 | 6.8 | 7.2 | 8.9 | 15.2 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: EUROSTAT, Système Cronos/84, Luxembourg, 1984.

a/ In the source publication the Standard International Trade Classification (SITC) was used.

Table 25

OFFICIAL DEVELOPMENT ASSISTANCE FROM EEC TO LATIN AMERICA

(In millions of dollars)

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|---|
| Total ODA from EEC to Latin America | 221 | 369 | 438 | 535 | 660 | 580 |
| Total ODA from EEC to developing countries | 5 134 | 6 909 | 8 898 | 9 835 | 12 702 | 12 187 |
| Latin America's share in total (in percentages) | 4.3 | 4.3 | 5.3 | 4.9 | 5.2 | 4.8 |

Source: SELA, Evaluación de las relaciones entre América Latina y la Comunidad Económica Europea, 1983-1984, Caracas, 1985.

In direct foreign investment, the most active countries in the Community have been the Federal Republic of Germany, France, the United Kingdom and the Netherlands. During the period 1979-1981, Latin America received 39% of the net flows from France, 59% of those from the Federal Republic of Germany and 36% of those from the United Kingdom. From the point of view of the accumulated investment in Latin America, at the beginning of the 1980s, the United States still accounted for 60% of the total investment in the region, followed by Europe, with 30% and Japan, with 10%.53/

In the field of direct investment, it appears advisable to promote new formulas for the participation of European investment in Latin America, which would permit an increase in the Latin American capacity for adaptation and creation of technology, which would be compatible with the development of public and private enterprise in each country (for which purpose association with local capital might prove useful) and would facilitate the expansion of Latin American exports outside the region.

c) Technology links

Technological co-operation between the Community and Latin America is one of the priorities for joint action in research and development as well as in transfer and simulation of the technical progress made in industry.

It is noteworthy that European technology predominates in certain industrial branches in Latin America. France, for example, plays an outstanding role in the area of data processing and telecommunications; the United Kingdom, in connection with machinery and heavy equipment for the processing industry, and the Federal Republic of Germany, in the chemicals and pharmaceutical industry. Although the United States is the supplier country with the greatest number of technological sales contracts, EEC also plays an important role in Latin America's technological wealth.

In the 1960s, the Community established technological co-operation agreements with Argentina and Brazil in the nuclear field (EURATOM), which lost some of their applicability in Argentina when gas was discovered and in Brazil because of the abundance of hydroelectricity. Since then, more specific, although more modest, initiatives have been espoused, such as the financing of research operations in Latin America, primarily in agriculture and energy, a chapter on co-operation in the field of science and research was included in economic co-operation and trade agreements entered into with the Andean Pact and Brazil.54/

If it is desired to place more decisive scientific and technological co-operation between the two regions on a firmer footing, it will probably be necessary to work more systematically with all the countries of Latin America.

d) Bilateral and subregional agreements between EEC and Latin America

EEC now has trade agreements with three Latin American countries —Uruguay (since 1983), Brazil (1974 and 1980) and Mexico (1975). Between 1971 and 1980 an agreement was in force with Argentina, and there are plans to renew it on a broader base. In addition, at the end of 1983 a co-operation agreement was signed between EEC and the Andean Group, while another was entered into between EEC and Central America at the end of 1985.

Co-operation agreements signed with Brazil and Mexico have related primarily to matters of mutual concern, such as industries (bringing enterprises together), energy and science (agriculture and tropical medicine).

The standard co-operation agreement with the Andean Group provides for technical and financial aid for projects designed for rural sectors, food aid, assistance in trade promotion and support for regional integration under integration arrangements.

As for the trade agreement between EEC and Uruguay, it is operating somewhat sluggishly and is in the process of being reactivated.

3. Prospects for relations between Latin America and EEC

In spite of the fact that at the economic level relations between Europe and Latin America are relatively stagnant, it should be noted that at the political level there have begun to be signs that the European position with respect to Latin America will soon undergo a real change. This is supported by a number of events which have taken place over the past two years:

i) the adoption by the Parliament of Europe in October 1983 of a resolution on Latin America;

ii) the holding of negotiations aimed at a co-operation agreement between EEC and the Andean Group, which was signed in December 1983;

iii) the opening of negotiations in October 1985 concerning the signing of an economic co-operation agreement with the countries of the Central American Isthmus (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama), which was signed on 12 November 1985.

The broadening and deepening of economic relations between Latin America and EEC must, however, go much further than good intentions and general statements. What is required in the last analysis, both in Europe and in Latin America, is the taking of a long-term political view which will give rise to agreements and determine instruments for action, and the rejection of the idea that the present economic situation will in and of itself give rise to better relations.

If Latin America is to make a positive contribution to the recovery of the economy of the Community and of the world, it will have to act within the framework of efforts to expand, rather than to reduce, international trade. The region's objectives do not, moreover, conflict with the interests of the EEC countries. Any growth in Latin America would eventually increase its power to purchase goods and technology from the developed countries and from the Community in particular, which would in turn help to solve the problems of employment and stagnation now confronting those economies.

On the other hand, it is obviously of interest for EEC, as an important supplier of capital goods and advanced technological services to the region, to increase its exports to Latin America. This, however, will be possible only if the Community first liberalizes its import trade efficiently, thereby making it possible for Latin American goods to gain access to European markets, which would generate enough additional foreign currency to sustain the level of imports of European origin. Secondly, EEC will be able to finance its shipments to the region out of export credits, which, if various loans of co-financing were used, could, in the case of capital goods, make a notable contribution to the economic growth of Latin America.

## 4. Possible effects of the entry of Spain and Portugal into EEC

The future course of the economic relations between Europe and Latin America will also depend largely on what repercussions the recent incorporation of Spain and Portugal into EEC may have on Latin America. There is a certain similarity in some of the studies carried out on this matter in recent years in that they draw attention to some net negative effects which their adhesion may have on Latin American exports to EEC.55/

The adhesion of Portugal seems to be of less concern than that of Spain since Portugal is a relatively smaller trading partner of Latin America, whose trade with it has amounted to less than one tenth that carried out with Spain. The debate has therefore been concentrated on Spain's adhesion, which, it is felt, will have important consequences for merchandise trade with the region.

The present structure of Latin American exports to Spain and Portugal has been characterized by high concentration on foodstuffs, raw materials and petroleum. In 1984 the value of these sales was US$ 3 billion in the case of Spain and US$ 300 million in that of Portugal. On the other hand, 95% of Spain's total exports to Latin America has been concentrated on machinery, transport equipment and other manufactures; after reaching US$ 2 billion in 1982, the value of these sales fell by 40% in 1984, owing primarily to the economic adjustment policy carried out by the Latin American countries. As for Portugal's exports, they have centred around foodstuffs and raw materials, and their value in 1982 was US$ 68 million.

As a consequence of their entry into EEC, Spain and Portugal will have to adopt amendments to their trade policy, which will have complex effects, both positive and negative, for Latin America.

It is worth drawing attention to the following changes of a commercial nature which will emerge as a result of the entry of Spain and Portugal in the Community:

i) the elimination of tariffs in the case of trade between Spain and Portugal and the other countries of the Community. This will be disadvantageous for goods imported from outside the Community, including those from Latin America, owing to the rerouting of the demand to the EEC market;

ii) the adoption by Spain and Portugal of the Common Customs Tariff and the Community's foreign trade policy, under which they must abide by the obligations incurred by EEC with respect to imports from developing countries within the framework of the GATT Multifibre Agreement and the generalized system of tariff preferences;

iii) the adoption by both countries of the principles and mechanisms of the EEC Common Agricultural Policy, including its whole scheme of price guarantees and production support mechanisms and accommodation to the trade barriers which EEC has established in respect of farm imports from third-party countries;

iv) need for Spain and Portugal to respect the agreements already signed by EEC with the ACP countries, the Mediterranean basin countries and the southeast Asian nations (ASEAN). The two new member countries could act independently to extend their credit agreements with third-party countries from the time of their adhesion on. After their adhesion, EEC could authorize them to extend some of those treaties but not permit them to enter into new agreements.

These changes, which will result from the incorporation of Spain and Portugal into EEC, may have significant repercussions for Latin America in various aspects of its trade relations.

Thus, for example, there could be a deterioration, in relative terms, of the competitive position of Latin American goods on the EEC market in respect of goods from countries recently incorporated in the Community as a result of the suppression of customs duties applied to the latter countries.

From the study carried out by Alonso and Donoso, it may be seen that 7.2% of Latin American exports on the EEC market would experience competition from Spain;56/ however, this consequence would be attenuated by the application of the EEC generalized system of preferences to Latin American countries; it is calculated that the net negative effect would then be close to 3% of the region's present exports to EEC.

In the same study it is noted that Latin American exports to Spain would also be affected. In the first place, the application of the EEC common customs tariff by Spain would result in higher tariffs for 25% of Latin American exports and tariff reductions for 11% of them. Second, the four commercial régimes in force in Spain --the liberalized régime, the globalized régime, the bilateral régime and the State régime-- will have to be combined in the free trade régime in effect in the Community. Third, Spain will begin to use the variable protection systems applied by EEC. Fourth, Latin America will encounter still greater competition in Spain from the EEC, the ACP countries and the Mediterranean countries. Finally, the EEC generalized system of preferences will benefit 4% of Latin American exports to Spain.

When what has happened in respect of all access conditions is weighed up, the figures reached with regard to the trade which is likely to be affected are relatively low in that it is estimated that only 13.4% of Latin American exports to Spain will be harmed and that 1.8% of that trade will benefit.

It may be concluded then that the most negative effect of Spain's accession to EEC will probably be experienced by Latin American exports to the market of Spain. Although the value of this trade is less than the losses estimated in the Community market, the impact is felt more intensively. While Latin American goods are indirectly affected in the market of EEC, in the Spanish market the impact is direct and at times cumulative.

It should, however, be borne in mind that the study referred to is based primarily on a statistical analysis of the trade which can be affected and that no attempt is made to consider the changes and repercussions which will accompany the entry of Spain in EEC in order to estimate the amount of trade which will actually be altered.

The enlargement of EEC will, within the framework of the Community, intensify the crisis experienced in some productive sectors and the saturation of the internal market by certain goods. This will tend to strengthen the protectionist policies of the enlarged Community, above all in the case of goods of which Latin America possesses a potentially high supply.

Owing to the enlargement, import margins will shrink, particularly in the case of agricultural and industrial commodities from developing countries. This will have a significant effect on Latin America because of the regional preferences policy now applied by EEC since Latin America has low priority in the geographical hierarchy which the Community in practice respects in the conduct of its external economic relations.

Nevertheless, from a more generic point of view, consideration must also be given to the fact that both Spain and Portugal will, as a result of the relations they maintain with the Latin American countries, make the Community particularly sensitive concerning issues relating to Latin America. In this connection, there can be no doubt that these two countries cannot escape responsibility for the plans for political and economic rapprochement between EEC and Latin America.

Another matter which must be taken into consideration in measuring the scope of and prospects for any effort to strengthen the links between the Community and Latin America relates to the possibility that reciprocal relations will be determined by the dominant trends at world level. The behaviour of certain variables, such as, for example, East/West tension, national recovery strategies relating to the international economic crisis, destabilizing impact of the external debt of the Latin American countries and what happens with regard to the relative value of the dollar, to mention only a few, will have an important effect on the future of relations between the two regions.

## 5. Suggestions for strengthening co-operation between Latin America and EEC

### a) The global context

The existence of important obstacles in the economic relations between EEC and Latin America suggests the advisability of seeking new formulas of co-operation which may be more fruitful and stave off a growing deterioration in those relations.

In this effort various requirements will have to be met. In the first place, there is need to co-ordinate the positions held by Latin America and to harmonize its external policies to make it possible to adopt a joint policy towards EEC and in so doing, to increase Latin America's bargaining power. This also presupposes the incorporation into the process of Latin American economic sectors whose activities are linked with European agents by creating structures for negotiation which channel the needs of those sectors in order to facilitate their convergence with their European counterparts.

Secondly, economic co-operation between Latin America and the Community must operate on the basis of complementarity of efforts and resources and must always operate in both directions so that the actions of one region will find their counterpart in those of the other. In this connection, the basic task is to identify and mobilize the specific sectors in which co-operation based on the principle of the mutuality of converging interests can be developed.

In the third place, Latin America will be well advised to undertake comprehensive negotiations with the Community which would cover trade and matters relating to finance, production and technology at one and the same time rather than being limited entirely to reaching an understanding item by item because this has so far made things difficult for Latin America's process of co-ordination and joint action and made its bargaining power less forceful than it might be.

### b) Some more specific guidelines

Measures which might help to strengthen co-operation with the enlarged Community of the twelve might well include those suggested below:

i) It will be necessary to improve the channels of communication between Latin America and the Community if the quest for opportunities of mutual co-operation is to be carried out more systematically. This was the purpose of the recent creation of the Institute of European-Latin American Relations (IRELA), located in Spain, which will answer questions from Latin America and make it easier for Latin American public bodies and private institutions interested in relations with the Community to acquire knowledge concerning EEC regulations. It might also be useful for this Institute to issue invitations to ministerial meetings on a regular basis;

ii) Since the incorporation of the Iberian countries will raise the level of agricultural self-sufficiency in the Community, and this will have negative effects on trade with Latin America, it would seem that of all the sectors it is the industrial sector which has the best prospects for fruitful collaboration with EEC. To realize these prospects, it will be necessary to analyse the European markets for non-traditional goods exported from Latin America and to examine the problems which must be solved in order to make such exports feasible. In carrying out this analysis, account must be taken not only of present conditions but also of trends in the production and technology of European countries inasmuch as they can alter the region's comparative advantages. Latin America will need to keep close track of European industrial policy in order to evaluate its impact on the region. Two aspects of this policy are especially relevant to links with EEC. On the one hand, an attempt is being made in the Community to modernize and renovate the textile industry, the iron and steel industry, and machine-tool industry, the chemicals industry, the ship-building industry and the wood derivatives industry, which are considered to be in decline. This means that this policy will come into conflict with the growth tendencies of non-traditional Latin American exports. On the other hand, since 1980 Europe has been intensively fostering the development of joint scientific and technological research in the face of the domination exercised by the United States and Japan in the spearhead technologies, and in particular in data processing, telecommunications and biotechnology, areas in which Latin America is still far behind;

iii) it would be advisable for the Community to eliminate discriminatory trade practices and to improve its generalized system of preferences in such a was as to increase the products covered, broaden the preferential margins and make the rules of origin more flexible; in addition, it should adopt measures to prevent its enlargement from resulting in a deviation of trade which would be prejudicial to Latin American exports, including in its generalized system of preferences goods which have traditionally been traded between the Iberian countries and Latin America;

iv) as a matter of importance and urgency, a greater flow of direct foreign investments from EEC towards Latin America should be promoted. In those categories in which Latin American import substitution will be combined with increased exports (for example, in capital goods, agro-industrial products and chemicals), formulas should be promoted which would permit association with local capital and the provision of technologies adaptable to regional conditions. This should preferably involve the promotion of direct foreign investments in exports, and the value of those exports should exceed the value of imported licenses and inputs. Moreover, in view of the fact that a considerable proportion of European investments in Latin America have come from large transnational corporations, it would be a good idea to carry out promotion exercises so that medium-sized and small firms could play a more important role since some tradition attaches to EEC in this field and its capabilities in this connection adapt well to the economic structure of the Latin American countries;

v) it would be worthwhile giving impetus to subcontracting activities between Latin America and the Iberian countries. In this effort, an attempt would be made to integrate parts manufactured in both areas in the production of finished goods. In an unpublished study prepared by the ECLAC Secretariat, various items suitable for this kind of industrial co-operation between Spain and latin America were identified, including the following: parts for internal combustion engines, including piston-driven engines; parts for looms and knitting machines; parts for sewing machines and typewriters and parts and accessories for adding machines and cash registers;

vi) it would be advisable to organize meetings between EEC and Latin American entrepreneurs to identify and promote areas and mechanisms appropriate for co-operation;

vii) It should also be noted that both EEC and the Latin American countries have shown an inclination to favour co-operation programmes in sectors such as the mining and energy in view of the vast mineral resources to be found in Latin America, the growing regional market and the ample capacity to export goods produced by those sectors if they were processed to a greater degree. Now the EEC countries face the possibility of a shortage of mineral and energy products, there may be considerable scope for complementarity in the processing and manufacturing phases as well as in technological, commercial and financial co-operation through projects or joint ventures of mutual interest.

In order not to raise false hopes, however, it must be borne in mind that European investment flows are to a great extent determined by the economic policy of the United States, which attracts European investment to that country. What happens between the United States and Europe will determine the balance left over for Latin America and other developing regions.

# III. EXPORTS OF GOODS FROM LATIN AMERICA AND THE CARIBBEAN: RECENT TRENDS, PROSPECTS AND POLICIES

## A. COMMODITIES

### 1. International market trends

One of the main features of the international economy today is the very depressed level of commodity prices. This critical situation differs from anything known in the past in that the experience of this decade has been longer and more severe. All sectors have been affected --from petroleum, ores and metals and farm commodities to virtually every variety of food and beverage.

The marked drop in prices is easily observable in the UNCTAD commodity price index.57/ The index for 1985 is (with petroleum excluded) 32% lower than the annual average for 1980. It is important to note also that the low figure recorded in 1985 is even smaller than the annual average for 1982, which had been regarded as the worst year for commodities. The recovery shown during 1983 and 1984 was very moderate, the prices recorded being 25% lower than the average for 1980. In addition, even though price movements in currencies other than the dollar have not been very pronounced, the recent substantial strengthening of those currencies has not resulted in a significant improvement in the majority of commodity prices quoted in dollars. In SDR terms, the UNCTAD index for 1985 also shows, for example, that in the first three quarters of 1985 prices were 10% lower than the average for 1980 (see table 26).

The real price of commodities, deflated by the index of the unit value of exports of manufactures, fell considerably in 1981 and 1982 because the decline in commodity prices was higher than the drop in the unit value of exports of manufactures. This decline in real prices was largely reversed in 1983 and 1984 when commodity prices recovered slightly while the prices of exports of manufactures continued to drop. Nevertheless, in 1985 the real prices of primary goods fell significantly in spite of the reduction in the unit value of exports of manufactures. Real commodity prices, if petroleum is excluded, were approximately 15% lower in the period 1981-1985 than their 1980 level and 20% lower than the average for the period 1975-1980.

Table 26

WORLD MARKET: INDEX OF PRICES OF COMMODITY EXPORTS OF DEVELOPING COUNTRIES

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 a/ |
|---|---|---|---|---|---|---|
| Food and tropical beverages | 160 | 81 | 67 | 71 | 73 | 63 |
| Vegetable oil seeds and oils | 100 | 96 | 75 | 92 | 126 | 86 |
| Agricultural raw materials | 100 | 87 | 75 | 81 | 79 | 72 |
| Minerals, ores and metals | 100 | 86 | 77 | 77 | 72 | 72 |
| Total (based on dollar values) | 100 | 85 | 72 | 75 | 77 | 68 |
| Total (based on SDR values) | 100 | 93 | 85 | 92 | 98 | 89 |

Source: UNCTAD, Monthly commodity price bulletin, various issues.

a/ Through the month of November only.

Commodity exports and the earnings from them constitute the backbone of the economic life of the peripheral countries. In 1983 world trade amounted to US$ 1.8 trillion and close to 19% of that figure (US$ 337 billion, with petroleum excluded) was brought in by primary goods. Of the latter figure, US$ 95 billion corresponded to commodity exports from developing countries. The share of primary products in the total trade of these countries (excluding the leading oil-exporting countries) dropped to 35% in 1982 from the 67% share recorded in 1970. In the case of Latin America and the Caribbean, commodity exports, including petroleum exports, recorded in 1982 were valued at US$ 73 billion, or 82% of the total value of merchandise exports. If petroleum is excluded, the value of commodity exports in 1982 was US$ 34 million, or 38% of the total value of the exports of Latin America. As may be seen, exports of primary products and the prices obtained for them are of great significance and have a considerable impact on the economies of the region.

The reduction of commodity prices observed since 1980 has very adversely affected the export earnings of the majority of developing countries. It has been estimated that during the period 1980-1983, the accumulated loss of export earnings due to the drop in prices amounted to close to US$ 40 billion.58/ This drop was offset primarily by rises in the volume of exports.

The drop in price of primary products is directly related to the incapacity shown by many developing countries to pay their external obligations. Consideration may be given to what happened in 1985, as an illustration of this. In accordance with the Institute of International Finance (IIF), between the end of 1984 and the end of 1985, the amount of debt pending of the most indebted developing countries rose by US$ 30 billion, coming close to a total of US$ 680 billion. It cannot be denied that the decline in commodity prices was an important factor in the growth of this financial burden.

## 2. Main factors behind the drop in prices

One of the most important causes of the present depression in the prices of primary goods is the slow growth in the economic activity of the main industrialized countries. In the 1980s, a number of variables in the level of activity of those economies had decelerated by comparison with the preceding decade. The real average growth of the gross national product of the seven leading industrial countries in the period 1980-1985 was only 2.3% a year, as opposed to an average of 3.5% in the preceding decade. The growth of industrial production in the same countries stood, on average, at 1.8% in the 1980s, as compared with 3.4% in the 1970s. The increase in gross domestic investment, which is an important factor in the demand for certain metals and agricultural raw materials, amounted to 2.4% a year in the same countries for the period 1980-1985, and to 3.5% in the preceding decade. It must, however, be borne in mind that the economic recovery recorded after the recession of 1981-1982, which was one of the most marked recessions in the postwar period, was not reflected in a sizeable increase in the demand for commodities. It may therefore be suggested that not only has the demand for commodities decelerated but even that there may now no longer be a definitively positive ratio between the level of economic activity and the demand for commodities.

Another factor which has contributed greatly to the drop in the prices of primary goods is the great increase in their production in the 1980s. Thus, the production recorded in 1980, which was 5.9% higher than that shown the preceding year, marks the highest point reached during the period 1969-1985 and drove prices down at the same time as the dollar was being revalued. There has been a pronounced surplus supply in, for example, grains and soya beans, following excellent harvests for two consecutive periods. In non-ferrous metals, the reduction in production in the leading industrialized countries, and in particular, in the United States, has not resulted in better prices since it has been more than offset by the growth of production in the developing countries. At the same time, adjustment measures imposed primarily as part of the IMF austerity programmes, have forced many third world countries to export greater volumes in response to the drop in prices.

In addition, the restriction on international liquidity noted since 1981 has caused a decrease in the demand for a large number of commodities which used to be purchased as buffer stocks, that demand having now been diverted towards more liquid assets. For several years, when the short-term interest rate was higher than the long-term rate, large volumes of capital flowed towards assets such as money-market accounts. However, at the end of 1982 the reverse began to occur --more capital was channelled towards stock markets; the financial attractiveness of these markets kept the movement of speculative capital from turning towards commodities. Another pertinent financial consideration was the abnormally high real interest rate maintained in the industrialized countries since 1980, which has greatly increased the cost of keeping inventories of primary goods and has therefore been responsible for substantial reductions in them.

The drop or stagnation in the demand for commodities can also be explained by the reduction in the amount of materials used per production unit as a result of technological advances and the curtailment of the demand for natural raw materials as it is replaced by synthetics. In recent decades, a large number of agricultural commodities lost some of their export markets owing to competition from synthetics. During the 1970s, for example, the volume of exports of hard fibres, jute and wool fell notably, both at world level and in third world countries. In the case of cotton, exports from developing countries also declined significantly.

Another factor behind the drop in commodity prices is related to the decline in demand caused by the growing protection which the industrialized countries provide for their domestic agriculture. The main primary goods, and in particular those of the greatest importance for the developing countries (sugar, meat, seed-oils and grain-oils) are being seriously affected by protectionism and other related measures. It is calculated that close to one third of the agricultural exports made by the developing countries to the industrialized countries are subject to non-tariff restrictions.

The extensive effects of protectionism on the Latin American commodities sector 59/ are illustrated by the fact that import barriers erected by the developed countries caused developing countries to lose nearly US$ 7.5 billion in export earnings on sugar in 1983 and that the potential value of the region's sugar exports is estimated at US$ 3.5 billion per year. Meanwhile, EEC spends 64.7% of its sugar earnings to support its own sugar producers.60/

In short, a rapid examination of the international commodities market seems to confirm that the sharp fall in commodity prices in recent years cannot be explained by cyclical factors since long-term causes are notably in evidence. These include the slow development of economic activity in the industrialized countries; the less direct relationship between the level of the economic activity of those countries and the demand for primary commodities; the monetary and fiscal policies of the industrialized countries which affect international liquidity and the demand for commodities; the increase in protectionist measures in the North and the impact of technological change on the demand for commodities.

### 3. The price situation in Latin America and the Caribbean

The repercussions had in the region by the drop in commodity prices may be explained in the light of the price index for Latin America's main primary commodities for export.

On this index,61/ food and beverage prices experienced a drop of 37% between 1980 and September 1985. The tropical products subgroup (which includes sugar, bananas, coffee and cocoa) showed a price drop of nearly 40%, and the temperate products subgroup (wheat, maize, meat, etc.) showed a drop of 20%. The price index for agricultural raw materials, which covers commodities such as cotton, wool, leathers and skins, soya-bean oil and fish meal, fell by 23%. As for the prices of ores, minerals and metals, they experienced a reduction of 30%. The index in respect of 24 commodities shows a decline of 22% between 1980 and 1985; when petroleum and petroleum products are included, there is a decline of 23% during the same period. The recovery recorded by the index of 24 commodities in 1983 and 1984 was modest by comparison with the situation in 1982. The level of prices for 1983/1984 was 26% lower than that achieved in 1980. The index of 26 commodities shows a steady drop in prices during the five years in question.

It is notable that foods and beverages, which are of fundamental importance for the countries of the region, experienced the most marked decrease, although the drop in prices was severe and touched nearly every sector. The level of prices in 1985 was higher than the annual average for 1980 in the case of only a limited number of commodities (bananas, soya-bean oil, shrimp, tobacco and zinc).

The sharp drop in commodity prices has resulted in a considerable reduction in export earnings in many Latin

American countries. In some cases the drop in earnings was due not only to low international prices but also to a reduction in the volume exported. In other cases, the exportation of a larger volume of goods compensated only partially for the lower prices. This situation has considerably weakened the region's capacity for coping with the burden of servicing its external debt and has adversely affected investments in this sector, which is bound to have significant long-term impacts on both producer and consumer countries.

Although all the figures for the countries of the region for 1985 are not available, the following examples illustrate the effects had by the drop in international prices on the export earnings of some of those countries.62/

The value of Argentine meat exports fell by close to 60% between 1980 and 1984, and their volume, by approximately 40%. If the unit value of exports for the period 1981-1984 had been the same as in 1980, export earnings for those four years would have risen by over US$ 1 billion. In the case of Argentine wheat and maize, the expansion in the volume of exports was not enough to offset the price drop. If the unit value of exports in 1980 is maintained over the following four years, the loss in export earnings will amount to US$ 700 million in the case of wheat and to US$ 400 million, in the case of maize.

Earnings from tin exports from Bolivia have been declining markedly since the end of the 1970s, and in 1984 they were 34% lower than the earnings realized in 1980. This was due in particular to the low price of tin on the international market. As for the unit value of Bolivian tin exports, it decreased by 27% in the same period. Had the unit value of exports in 1980 been maintained, total export earnings in the period 1981-1984 would have risen by US$ 300 million.

In the case of Brazil, the value of the country's coffee exports in 1984 was much higher than that recorded in 1980, thanks primarily to the increase in the volume exported. During 1984 and the first half of 1985, Brazil exported 30% more in volume terms. When the unit value of exports in 1980 is applied to the period between 1981 and the first half of 1985, an increase in coffee earnings of over US$ 2.5 billion is observed. The prices and volumes exported of soya beans and soya-bean products and iron ore performed much better than those of coffee.

The export earnings from coffee in Colombia were 33% lower in the period 1981-1984 than in 1980 as a result of declines in price and volume. The price drop caused the country to lose over US$ 1.9 billion in export earnings (by comparison with what would have been realized in the period 1981-1984 had the unit value of exports remained the same as in 1980).

Chile has experienced a marked drop in its export earnings from copper. Prices in 1984 were 37% lower than in

1980, and the increase in the volume exported has not been sufficient to offset that decrease. Had the unit value of exports remained the same during the period 1981-1985 (including only the first half of 1985) as in 1980, export earnings would have increased by over US$ 3.4 billion. As for Peruvian copper, it showed a drop in the volume exported and its unit value, the drop in volume being much more marked than that in unit value. The accumulated loss in export earnings in this case (here again calculated on the basis of the maintenance of the 1980 price throughout the period 1981-1984) would probably be on the order of US$ 900 million.

The petroleum sector has also been severely affected by the reduction in its prices. In Ecuador the unit value of crude oil exports in 1984 was 25% lower than that recorded in 1980 (and 30% lower in the first half of 1985), while the volume exported increased by at least 50% to 60%. Had the 1980 price been maintained during the period 1981-1985 (only the first half of 1985), export earnings from crude oil would have risen by some US$ 1.7 billion. As for Mexico, the value of its crude oil exports in 1983 and 1984 was 60% higher, in dollar terms, than that recorded in 1980. This was basically due to the marked increase in the volume exported, which was 80% higher than in 1980.

The examples chosen give a clear idea of the effects of the crisis on the region's economies. Given the vital importance of commodities for Latin America and the Caribbean, it is difficult to imagine how the present situation can be surmounted unless this sector shows substantial recovery. The countries of the region should therefore co-ordinate their measures to enhance the role played by their commodities in the international market, to defend their prices and to organize and exercise their purchasing power in negotiations with consumer countries. The problems now affecting the commodities sector are undoubtedly complex, but their solution is urgently needed in order to promote the economic and social growth of the region.

## 4. Possible action in the field of commodities

In view of the considerable importance of non-cyclical factors in the search for effective solutions to the problems facing the commodities sector, the international negotiating structure known as the Integrated Programme for Commodities (IPC), defined by resolution 93 (IV) of the United Nations Conference on Trade and Development (Nairobi, 1976), should receive fresh attention in order to, as soon as possible, take concrete steps within its framework.

Prior to the adoption of the IPC, and even following its adoption, negotiations in this field were restricted to the theme of price stabilization. Other major features remained excluded, including those concerning the nature and control of markets; the participation of developing countries in the processes of marketing, distribution and transport; competition from synthetic products; the importance of local processing of primary products in countries in the Third World; access to markets and the liberalization of trade; transparency in markets; the role of commodity exchanges and their influence in setting international prices; diversification; scientific and technological research and protectionism in developed countries together with its repercussion on the developing nations. Although it is recognized that a more integrated approach is required to consolidate IPC, the international community as a whole has so far only met with limited success in this, and has begun to question the validity of many features of the Programme.

In view of this situation, it is both necessary and useful to re-examine the policies and positions which the countries of the region could adopt at a global and regional level. Experience has shown that co-operation and co-ordination between producers is essential in order to achieve a fairer and more equitable relationship between producers and consumers; consequently, regional co-operation and co-ordination in respect of commodities can be directed along the two channels mentioned above, reinforcing one another.

a) Action at the global level

At the global level, the main vehicles for attaining the aims defined in IPC have been restricted to the International Commodity Agreements (ICA) the so-called Common Fund and to compensatory financing agreements.

With regard to ICA's, following almost ten years of negotiations, three agreements, relating to rubber, jute and tropical timber, were added to those which already existed on sugar, cocoa, coffee and tin. Within this process, economic provisions were only made in the agreement on natural rubber. The agreements on jute and tropical timber merely set aims without any concrete economic clauses. Of the existing agreements, those on cocoa, tin and coffee have been renegotiated, the agreement on coffee being renegotiated outside UNCTAD. Efforts at renegotiating the sugar agreements failed, and the present convention on this product is merely of an administrative nature. As far as the agreement on tin is concerned, it is at present facing the deepest crisis in its history.

So far, these agreements have had far more limited success than was originally expected. The restrictions affecting IPC include: a) insufficient development of the aims adopted and measures taken with respect to the various agreements (the aim generally agreed upon is price stabilization); b) limited coverage of products; c) unequal distribution between consumer and producer countries of the costs involved in price stabilization; d) non-participation of major producer and consumer countries in some agreements, and e) the non-compulsory nature of the agreements, which enables members to disregard the provisions laid down therein.

All in all, despite the fact that by means of the ICA's, IPC has aimed to increase the income earned from commodities and to maintain their prices, it does not seem possible to achieve these aims simply by means of measures designed to stabilize markets, and which merely smooth out violent fluctuations and prevent excessive speculation. Moreover, it should be remembered that ICA was not designed to be a mechanism for maintaining prices over the long term under conditions involving structural surpluses.

During negotiations on IPC, the industrialized countries maintained that the commodity crisis was not structural but cyclical, and that there was consequently no need to reorganize the sector. At several meetings on commodities, they also cast doubt on the validity of a number of features contained in resolution 93 (IV) of UNCTAD and its application to specific products, and requested a large number of studies into the agreements and the viability of international mechanisms.

As time went by, negotiations on commodities were gradually separated from parallel negotiations on the establishment of a Common Fund.63/ Thus, matters relating to primary products began to increasingly veer away from the original objectives of IPC as discussions slipped back towards a product-by-product approach.

Opposition from the industrialized countries to ICA's and the Common Fund, partly reflects the view that temporary financing operates more effectively for producer countries. An example of this is the system of low-interest loans to cover slight falls in export income, which are provided by the IMF through compensatory financing arrangements. However, from the point of view of the developing countries, these agreements are subject to a number of serious restrictions; mainly: i) limited coverage should export income decline, based on the allocation of quotas (10% of the quota of the member countries); ii) the concept of decline in net external income, which does not specifically concern the commodities sector,64/ and iii) too short a period of grace. If the swollen level of the external debt of Latin America and the Caribbean is taken into account, it does not seem desirable to solve the structural problems existing in the international commodity trade essentially by means of formulas which involve a higher level of indebtedness.

The likelihood of bringing about stabilization and adopting an effective global agreement, which would involve both producers and consumers over a long period of time is not particularly strong, particularly in the case of those products whose production is not concentrated among a small number of countries, and even less so when production is extremely scattered. The fact that agreements have been reached only in the case of those goods a high proportion of which originate in developing countries (cocoa, coffee, rubber, tin and sugar), partly reflects the recognition by the developed countries of the fact that they benefit from such agreements, as they thereby obtain the opportunity to influence prices.

The failure to operate the Common Fund largely explains the weakness (or the inexistence) of ICA. Without the support which the Fund is capable of providing, many developing countries would be unable to finance large buffer stocks and to apply other allied measures. The present agreement on the Common Fund, reached in June 1980, represents a considerably simplified version in comparison with the original aims agreed upon, in principle, in 1977. Even so, the Common Fund constitutes a major innovation in international economic relations, and provides a series of worthwhile initiatives, which are clearly beneficial for developing countries.

First of all, the Common Fund differs from other international financial institutions, in that it responds to the behaviour of commodities rather than to falls in export income at the national level. It also establishes the principle of mutual responsibility between producers and consumers for financing international measures within the framework of the agreements. A further innovative feature is the fact that, as distinct from the financial institutions established at Bretton Woods, it offers the developing countries a major role in contributing funds and in administering the decision-making process. Moreover, the separate account (the "second window") designed to bring about long-term aims and to stimulate productivity, marketing, diversification and scientific and technological research, could prove to be a major source of international funding for measures and projects aimed at the commodities sector in the developing countries.

In spite of their present difficulties, financial institutions specialized in commodities possess considerable potential for gradually becoming a vehicle for achieving the aims of IPC.

By January 1986, the number of countries which had ratified the Common Fund had reached the required number of 90, but this number only provides 57.87% of the agreed capital, leaving 8.80% still unprovided. The present United States government, which is responsible for 15.7% of this capital, has clearly stated that it will not ratify. Three other OECD countries (Portugal, Turkey and Iceland) have taken no action. As far as the Eastern European countries with centrally-planned economies are concerned, none of them have ratified or signed.

Of the developing countries, 23 have signed, but not ratified the agreement: six in Africa, two in Asia and twelve in Latin America and the Caribbean. This latter group includes Barbados, Colombia, Costa Rica, Cuba, El Salvador, Grenada, Guyana, Honduras, Peru, the Dominican Republic, St. Lucia and Suriname. Nine other countries in the region (Bahamas, Bolivia, Chile, Dominica, Panama, Paraguay, St. Vincent and the Grenadines, Trinidad and Tobago and Uruguay) have so far taken no action over the agreement.

It is of course imperative that the Common Fund be ratified as quickly as possible so that it may begin to operate in the near future.

b) Regional co-operation in the commodities trade

If the limited success of co-operation between producers and consumers in the case of ICA's is taken into account, the countries of Latin America and the Caribbean are faced with the alternative of taking a number of measures at the regional level. These should include examination of the possibility of redirecting the commodities trade towards the region itself; the execution of joint action to ensure a higher degree of processing, and the search for greater participation in the marketing and distribution of these goods.

i) Redirection of trade. The structure of the international commodity trade in the countries of the region is highly dependent upon markets in the developed economies. Despite the fact that, with a number of exceptions, the region has reached a level at which it is potentially self-sufficient in the production of a large number of these goods, intra-regional trade in such goods is slack, even though there are areas or subregions which possess considerable surpluses and others a marked deficit.

In 1982, the value of intra-regional trade in commodities represented merely 12% of the total value of trade, whereas more than 65% of the region's exports went to markets in developed economies. Markets in the other developing countries and the countries with centrally-planned economies have so far been less important. As far as imports are concerned, intra-regional trade in these products only represented 30%, while trade with other developing countries played a significant role, supplying more than 30% of the region's requirements in primary products.

At a more disaggregated level, the group made up of petroleum and petroleum by-products reveals that regional imports in 1982 represented US$ 18 billion, but that only 31% of these came from the region itself. If the potential self-sufficiency of Latin America with respect to this group of products is taken into account (in 1982 the region exported almost US$ 40 billion worth of petroleum and petroleum by-products to the rest of the world) there is without doubt considerable potential for redirecting trade towards the region itself.

As far as food and agricultural raw materials are concerned, although in 1982 total imports rose by US$ 11 billion, less than 30% of these originated in the region, which in turn exported more than US$ 25 billion worth of such goods. Within this group, the potential for redirecting trade towards the region is particularly rich with regard to products such as maize, wheat, sugar, soya beans and soya bean by-products, and other oilseeds and oils.

With respect to minerals and non-ferrous metals, a similar situation prevails: although in 1982 extra-regional exports and imports were higher than US$ 7.5 and US$ 1.3 billion, respectively, intra-regional trade remained between US$ 700 and US$ 800 million. The same survey indicates that within this group of products, the most salient items are aluminium, iron, steel and copper products, and that intra-regional trade could also be considerably expanded, and concludes that efforts to redirect trade in 40 products towards the region itself (representing five SITC digits), could increase regional trade in commodities by more than US$ 15 billion.

Regional co-operation in this direction should be emphasized, when, as is now the case, the region's commodity exports are facing growing protectionism, as the growth of regional trade is a viable alternative for improving export income and saving the region's meagre external resources, ensuring in addition regional food security.

ii) Manufacture in the region. Examination of the structure of the commodities trade in Latin America reveals that exporting goods in a primary state and importing the same once they have undergone a manufacturing process is a further characteristic of its peripheral status. In 1982 the region exported approximately 60% of its 20 most important commodities towards the OECD countries, whereas 70% of regional imports of the same imported goods were in manufactured form. These figures confirm that it is yet possible to considerably increase export income, by augmenting the value added by manufacture.

One of the major hurdles facing countries in the region if they are to expand their manufacturing capacity, particularly in the field of minerals, is the huge scale of the investment necessary to set up and economically run the manufacturing units. The various projections concerning the capital investment requirements in the mining sector in Latin America and the Caribbean, drawn up by organizations such as the World Bank and the IDB, range from US$ 3 to US$ 7 billion dollars per year for the next five to ten years. These estimates are based on the projects which it is planned to bring into operation. In order to satisfy forecast requirements, non-regional sources would need to provide approximately 60% of this capital.

In present financial circumstances, and particularly in view of the restrictive conditions which nowadays affect official and commercial loans, it is not clear whether it will be possible to satisfy such huge requirements. Thus, in order to provide producer countries with the possibility of developing manufacturing activities outside the traditional transnational channels, or with lesser participation by the latter, it would be vital to increase the credit made available through international and regional financial bodies. Simultaneously, the countries in the region could decide to give priority to a number of sectors (for example, a number of agricultural projects, which do not require as much capital as those in the mining sector).

Co-operation at the regional level may take a number of forms. For example, the Latin American and Caribbean countries could perhaps save capital by rationalizing goods manufacturing activities, or by one or several countries centralizing or specializing in specific activities for certain goods. Specialization at the regional level could be achieved through joint enterprises or on contractual bases, which would make it possible to achieve economies of scale, make better use of installed capacity and more economic use of inputs and technology.

In recent years, joint enterprises (binational or multinational) have been set up in the region as a means of attaining objectives of economic integration and co-operation. Thus, the joint enterprise Empresa Siderúrgica Integrada de Acero (ACEPAR) was set up by Brazil and Paraguay; HELITUBCA, by Peru and Venezuela, for the manufacture of steel tubes in Venezuela; the Compañía Andina de Maderas (timber), by Venezuela and Colombia, and the joint Chilean-Ecuadorean ANDEC, which produces iron and steel products in Ecuador. Although joint enterprises of a multinational kind are rarely the case, one example is the Olancho project in Honduras, for the production of sawn wood, pulp and paper. Argentina, Ecuador and Venezuela also participate in this project.

This type of joint arrangement not only tends to decrease competition between producers in the region, but also stimulates increased intra-regional trade in goods, which, as was pointed out above, is at an extremely low level. Moreover, a company operating on a large scale, and which is of a regional nature, has greater opportunities for successfully using its strong bargaining power on the international market.

Last, but by no means least, a co-ordinated and consolidated regional approach (or one defended jointly with other producers in the Third World) will be vital in increasing the level of manufacture of regional export products. Success in this task will also depend to a certain extent upon the effort which the developing countries make to eliminate the subsidies granted by developed countries to their own manufacturing industries.

It would be desirable for the Latin American and Caribbean countries to endeavour to negotiate jointly at international forums in order to obtain the following:

agreements for the manufacture of their products by countries in the Third World; agreements to increase the transparency of policy measures which affect prospects for the manufacture of export goods; plans to collectively acquire technology; technical assistance in the field of market information and promotion of manufactured commodities; systematization of international standards of quality, packing and sanitary regulations; and finally, a common front seeking to gradually reduce and progressively eliminate trade barriers (tariffs, non-tariff and other restrictive measures), which affect manufactured goods.

iii) Marketing of export commodities. A major hurdle to exports of commodities by the developing countries is the difficulty in increasing the extremely small percentage which they represent in the final price paid by consumers. This low return partly reflects the incapacity of exporter countries to control the various stages of the marketing and distribution chain through which these products are purchased and sold. There is no doubt that the significant nationalization of the manufacture of basic products recorded in past decades has not lowered dependence on foreign firms for marketing and distribution.

A study at present being carried out by the Secretariat of ECLAC examines statistics relating to trade between "related parties" in United States imports in 1981 (it is assumed that trade between related parties exists when 5% or more of the shares of a firm are owned by the other party with which it trades). This research reveals that almost half of them fall into this category. However, if the examination is restricted to the sector of commodities from Latin America, a low level of trade between related parties is observed.

The same study indicates that the degree of intra-firm trade seems to increase in accordance with the level of manufacture of the goods. This discovery is in keeping with the finding that transnational industries practise more effective market control over the chain of activities in manufacturing industries in which the value added is high. However, in the case of many products most world trade is carried out by a relatively small number of transnational enterprises or trading companies, which act as intermediaries between the producers and the consumers.

This finding concerning the control exercised by trading companies in the commodities sector clearly implies that the markets for these goods are far from offering conditions of open competition. The price-setting mechanism invoked by economic theory for a free and open market does not in general seem to apply to the commodities trade, in which a group of oligopsonistic purchasers faces a large number of suppliers, as is the case with many agricultural products. Neither does a situation exist in which oligopsonistic purchasers face a small number of oligopolistic sellers, as is the case with a number of mineral exports from developing countries.

In such asymmetrical circumstances, prices are not only set by the prevailing conditions on the market, but also by the relative bargaining power of the parties. Such a disequilibrium in bargaining capacity also applies to those cases in which a powerful trade conglomerate represents a group of producers or manufacturing companies as exclusive agent, either on the purchasing or sales side. Transnational corporations and trading companies are in general in an excellent position to influence market prices in view of the considerable volumes they purchase, their enormous financial power and their excellent networks of trade information.

Sales agents in the developing countries seek to expand their existing markets and to discover new markets, thereby facing harsh competition from the powerful trading companies in the developed countries. Nevertheless, if it is borne in mind that the relative bargaining power of purchasers and sellers plays a determining role in setting prices, trading companies may prove to be a means of organizing markets which it would be advisable for Latin American countries to develop.

Such trading companies possess numerous advantages; to name but a few, the broad range of products and markets seems to lessen and share out the risks which exist in the commodities trade, spreading them out over a large number of different transactions, and lowering and offsetting fluctuations in income. In addition, these firms face lower risks of exchange fluctuations, as they are able to make use of the various compensatory agreements which exist at the national and regional level, and, in contrast with those which sell a single product, they are able, for example, to import manufactured goods in exchange for exporting commodities, or vice versa.

Given that the Europeans and Japanese rely on this type of enterprise, and that the United States are rapidly moving towards the expansion of similar units and adopting their type of corporate structure, the region could set up enterprises of this type or strengthen some of those which already exist (UBEC, GEPLACEA, MULTIFERT, among others), as a means of avoiding an intensification of the influence of external trading agents.

Recently, there has been an increase of concentration in both horizontal and vertical trade, through mergers between conglomerates and takeovers of companies, making it even more difficult for trading agents from developing countries to penetrate markets.

The establishment of direct trade links with consumers in the developed countries is also rendered difficult by the practices adopted by established firms with regard to prices, the traditional relationships which exist between them, the economies of scale from which they benefit and the need for major capital resources and heavy expenditure on advertising for a variety of products. A regional marketing strategy could give an impetus to action programmes to participate directly on markets in the developed countries, for example, by seeking to set up joint representative, sales and promotion agencies. This would facilitate a more direct relationship between the region and the retail distribution networks, and would help to foster a better knowledge of consumer preferences in the developed countries.

Consideration should also be given to the possibility of increasing the participation of the countries of Latin America and the Caribbean in the price-setting mechanisms on the commodity exchanges, situated in the developed countries. Direct participation in these institutions and a knowledge of the way in which they operate would allow the region to produce its own forecasts of the economic forces influencing the future prices of commodities. A trade delegation for a single product could not be justified in a cost-benefit analysis, but representation of a large number of goods and countries (for example, a body representing regional interests in London, Chicago and New York) could have a major impact, reaching into trade in all products.

To sum up, the above analysis indicates that even though a large number of the solutions to the problems which the region is facing in its commodities trade are of a structural nature and need to be dealt with within the framework of the IPC agreements, regional co-operation in the field of commodities may take the form of activities to redirect trade, to manufacture and market. It is advisable to apply policies which facilitate intra-regional trade, consolidating existing patterns and establishing new ones to promote local manufacture and increase the share of latin America and the Caribbean in international trade. This could generate viable options within the framework of traditional agreements between producers and consumers.

## B. LATIN AMERICA AND THE CARIBBEAN IN THE FACE OF PROTECTIONISM

### 1. The world setting

#### a) Recent trends in world trade

In recent years international economic relations have undergone deep changes brought about by structural transformations which have affected both the economies of industrialized countries and those of the developing countries, involving a substantial modification of the pattern of supply and demand in international trade.

In the case of the developed nations, increased use of new technologies has significantly decreased the demand for raw materials, principally those imported from developing regions. Simultaneously, difficulties of structural origin, such as the high cost of wages in central countries, have led to some of their traditional industries losing international competitivity, with a consequent drop in exports and a marked increase in the share of imports in these countries' domestic consumption. As a counterpart, the services sector has taken first place among the most dynamic sectors, particularly in the United States, and has proved the major source of employment so far in the 1980s.

Complementary to this, agricultural protectionism in the central countries, together with their domestic policies of subsidies for production, have boosted the world supply for agricultural products, sharpening the decline in commodity prices. As was pointed out above, this situation was worsened by the increased supply from developing countries affected by heavy debts.

In turn, the relatively advanced developing countries have managed to export manufactured goods towards the industrialized countries on increasingly competitive terms, taking advantage of lower labour costs and, in general, of the comparative advantages they possess or have acquired.

Moreover, traditional manufacturing sectors in the developed countries have suffered the consequences of the lack of new investment, of the obsolescence of their industrial equipment, the high cost of labour, and in the case of the United States, the overvaluation of the dollar. Thus, for example, in rather less than five years exports cornered 75% of the market for leather shoes in the United States.

The tight link between financial and commercial factors to some extent accounts for the performance of exports of manufactured goods from the developing countries. Faced with a balance-of-payments crisis, they endeavoured to offset the fall in the prices of their commodity exports by a significant increase in their exports of manufactured goods.

Finally, the growing share of developed countries in commodity exports (in association with heavy subsidies and protection of national markets), together with the decline in the competitiveness of obsolete industries in these very same centres, are the two factors which have most contributed to the rise of managed trade and the growing protectionism which nowadays harms the interests of developing countries, and those of Latin America and the Caribbean in particular.

b) Protectionism and managed trade

Although the sectors of their economies which have been particularly affected are the least dynamic manufacturing activities, the industrialized countries have shown themselves to be preoccupied by the growing share of imports in their domestic consumption of these sectors' products. This concern (which according to traditional economic theory is unfounded, since such theory assumes that the most inefficient sectors are eliminated) is justified by pragmatic considerations founded on the persistence of relatively high levels of unemployment, and the continuing importance of such activities as employers of labour.

Consequently, in recent years the developed countries have increasingly resorted to protectionist measures of a non-tariff nature, adopted to check the fall in these sectors' output, in spite of their clear obsolescence.

Such interference with free trade is contrary to the ideas defended by GATT, since it limits the extension of most-favoured nation treatment to all the signatory countries, by discriminating against specific countries and, what is even more serious, against developing countries.

The growth of protectionism is not a recent phenomenon, although its upsurge is. In recent years, the trend towards managed trade, meaning the use of domestic administrative measures, of a tariff or non-tariff nature, to control the entry of products on to the national territory has been spreading throughout the world. This process essentially involves a decline in multilateralism in international relations, restrictive bilateral agreements, countertrade and trade reprisals. (Moreover, in a broader sense, the expression "managed trade" could cover countertrade as practised by the major transnational trading companies.)

Consequently, there is an urgent need for an acceptable formula to check the weakening of the multilateral trade system and the increasingly frequent use of protectionist measures adopted outside or contrary to the norms of GATT.

However, the present position of the developed countries would seem to suggest that the options which will be put forward at the next multilateral trade negotiations will not be particularly favourable towards developing countries, as the rights they have acquired under GATT will not be taken into account nor will gains made at the Tokyo round of negotiations, several of which have not been incorporated into concrete agreements.

c) Some recent steps in the field of protectionism and managed trade

The most recent declarations by the industrialized countries, following the summit meetings between Heads of State, have included the undertaking to check and even reverse the use of protectionism in their trade relations. However, the reality underlying this rhetoric has been quite different. Both in the case of the United States and the EEC, the two major trading partners of Latin America and the Caribbean, protectionist measures and management of trade have become increasingly commonplace in their trade relations.

Exports from Latin America and the Caribbean have been subject to a broad range of non-tariff restrictions. Despite having earned a considerable trade surplus with the United States in 1983-1984, the region is nowadays facing considerable and growing hurdles to the continued expansion of its exports thereto. In response to pressure from domestic lobbies the United States has carried out a large number of investigations linked to the introduction of compensatory tariffs and "anti-dumping" investigations, whose main aim is to lessen the competitiveness of many imported products which have obtained an increasingly large share of the United States market.

The critical situation facing a number of its own productive sectors has led the United States Government to establish a sort of quota on imports of products which are of great importance to the region, principally steel, sugar and textiles.

The United States general system of preferences, which was renewed at the end of 1984, introduced major changes, and extended the possibilities for graduation affecting both the products covered by it and the countries benefitting from it. In addition, the new 1984 Trade Law increased the powers of the United States President to exert pressure on his country's trading partners, in order to obtain a greater liberalization of their markets for exports of goods and services from the United States.

As has been noted, the EEC pursues a particularly restrictive trade policy in the case of agricultural products. In September 1984 the Community adopted a new trade instrument (Regulation 2641/84) allowing it to respond rapidly and efficiently to any illicit practice, with the aim of eliminating the consequent prejudice and ensuring "full exercise of the rights of the European Community". Following the example set by section 301 of the United States 1974 Trade Law, this new regulation allows for a solution to trade conflicts to be sought bilaterally, or within the framework of article XXIII of GATT. Should an amicable solution not be found, the regulation authorizes the Council to take retaliatory measures which could involve suspension or withdrawal of concessions, an increase in tariffs or the establishment of quotas.

Finally, as far as exports of manufactures taken separately are concerned, it has been estimated that in 1980 approximately 45% of such exports were affected by a system of managed trade.65/

## 2. The management of the trade policy of the main trading partners of Latin America and the Caribbean

### a) The principal features of their trade policies

United States trade policy encourages public hearing, debate and the free interplay of pressure exerted by sectoral lobbies. While on the one hand this fosters greater participation by all sectors of society in defining trade policy, on the other hand it prevents greater planning of the external sector, whenever the circumstances prevailing at a given moment lead to decisions which are incompatible with long-term objectives. In fact, United States trade policy rarely contains elements of export planning or industrial policy, except when it includes programmes such as those designed to protect agricultural prices or retrain labour, which only have a secondary impact on the external sector.

In the case of the EEC, although trade policy is the responsibility of the Community, it has taken into account the aims put forward by the member States in their national industrial redeployment programmes. Such a preoccupation on the part of the Community is easy to understand, since the member States exert direct influence over trade policy through their participation in the Council.

Generally speaking, application of the Community's trade policy has been marked by vigorous market protection and a proverbial lack of transparency in the mechanisms adopted. While the modalities and procedure involved in United States trade policy are open to the influence of domestic sectors and interests, and to a certain degree, even external ones, in the case of the EEC the system involving decisions taken by consensus among the member States excludes the actual economic actors from the measures taken, in which they play only a third-party role.

### b) Institutions which formulate trade policy in the United States and the EEC

The differences between the trade policies of the United States and the EEC are also reflected in the institutions which formulate them.

In the United States, trade policy is the outcome of a triangular interplay of influence between administration, congress and lobbies.

The Administration, headed by the President, is responsible for executing trade legislation, and to a certain extent for integrating trade policy with economic policy in general; in setting down the rules for trade policy, it must also take into account the international repercussions --of a political and economic nature-- of the measures adopted, a factor which occasionally exerts a moderating influence. At the present time, the Administration's major preoccupation is with reducing the trade deficit, promoting the opening up of new markets to United States exports of goods and services, and attempting to check protectionist measures introduced by Congress and the lobbies.

Congress's main concern in this field is the domestic situation and the repercussions of international circumstances in the domestic sphere. In recent years Congress has shown a clearly protectionist leaning, as a result of the serious problems facing a number of sectors of the United States economy, above all as a result of the overvaluation of the dollar and of increased external competitiveness. The majority of the productive sectors concerned make intensive use of labour, which is why there are at present approximately 300 bills of a clearly protectionist nature under discussion. On the other hand, and in contrast to the above, those domestic sectors which are adversely affected by protectionist measures adopted by the Government also attempt to exert influence over Congress. These interest groups may call on the services of lobbyists, a perfectly legal practice in the United States, to increase the efficiency of their influence over the Administration or Congress.

As far as the European Economic Community is concerned, the principal institutions which formulate its trade policy are the member States, the Commission and the Council. The essential feature of the mode in which the system operates is the need to obtain a certain degree of consensus in order to take decisions. The member States play a direct role on the Council and elect the commissioners, i.e., the members of the Commission. The commissioners are responsible for proposing measures or regulations, while the Council bears responsibility for adopting them. Neither of these bodies is fully independent, and when the Commission puts a proposal before the Council, it has generally already sounded out the points of view of the member States.

The economic actors --entrepreneurial and trade-union interest groups, etc.-- only take part in the initial stage of the procedure, expressing their opinion on the regulation or measure to be considered by the Commission to their respective member State.

### c) <u>The principal instruments of trade regulations</u>

An extensive range of instruments is at present used by developed countries to control trade flows.

Although the Tokyo round of negotiations brought about reductions in the nominal levels of tariff barriers, the existence of progressive tariffs has acted as a deterrent to increased processing of the raw materials available in countries in the Third World.

A certain number of signs suggests that the tariff reductions applied since the Tokyo round of negotiations worsened the problem of progressive tariffs. By way of example, since these negotiations, the average tariff on processed fruits has been almost four times higher than that on fresh fruit, and the same is the case with wood.

Nevertheless, non-tariff barriers are those which do most damage to exports from the developing world, and their adoption is driving trade between the latter and the central countries towards a situation of managed trade. A schematic examination of non-tariff barriers affecting trade should highlight import quotas, variable surcharges, hedging clauses, agreements involving voluntary restraints, discriminatory practices, compensatory taxes, technical requirements and production and export subsidies.

The situation would seem to be quite severe in so far as the region's agricultural exports are concerned. In 1982, 50% of such exports were affected by some form of quota restraint in the EEC countries.66/

Similarly, exports of manufactured goods also seem to face a battery of non-tariff barriers including among others, agreements involving voluntary restraints, anti-dumping and compensatory tax investigations, technical barriers and quotas.

The list of non-tariff barriers affecting trade drawn up by UNCTAD is an essential starting point for a systematic examination of the difficulties which developing countries face with regard to their exports to industrialized countries. At the next round of multilateral trade negotiations it would be desirable to take this list into account as a point of reference in the debates aimed at liberalizing trade flows.

In addition, the use made at present of legislative measures to control trade should not be underestimated. In the United States, responsible for more than 50% of the growth of world trade in 1984, Congress is at present discussing a number of bills designed to restrict imports of a broad range of products of vital importance to the developing countries, including textiles, clothing and footwear. Moreover, should the bill on trade emergencies and export promotion be approved, a 25% tariff surtax would affect imports from countries which have a high trade surplus with the United States.

### 3. Protectionism, Latin America and the Caribbean

#### a) The discriminatory nature of protectionism against the region's exports

The region is clearly the victim of discrimination in so far as its exports to a number of industrialized countries are concerned. If weighted averages are considered, it encounters the highest tariff levels in Japan and in the EEC, while in the United States they are midway between those affecting Asia and the rather lower ones which affect Africa. This represents a first type of discrimination.

The second form of discrimination concerns non-tariff protectionism. Both in so far as Japan and the EEC are concerned, Latin America is, of developing regions, that which faces the highest levels of this form of protectionism. In the United States it faces moderate levels of protectionism (midway between the high levels facing Asian countries and the low levels which affect African exports) (see table 27).

Discrimination against the region's exports focuses on quotas. The percentage of the region's products affected by these (10%) is double that of the total imports concerned by these restrictions. This may be explained by the fact that the region's exports to industrialized countries contain a high proportion of agricultural products, which are the target of most of the quotas in the central countries. While regional exports of manufactured goods are less affected by such restrictions, they bear a diverse range of protectionist measures, such as voluntary restraints, of a clearly discriminatory nature (6.7%), supervisory systems (4.2%) and other price-control measures (2.3%).

With regard to a certain number of specific products of relatively greater importance for Latin America and the Caribbean, such discrimination represents a far higher real cost. A far greater percentage of these products are in fact affected by non-tariff measures. Such is the case of meat exports which are restricted by tariff contingents and other quotas, or of sugar limited by various quantitative restrictions and variable surcharges. Copper is also to a large extent affected by supervisory systems. A high percentage of iron and steel exports from the region are subject both to supervisory systems and voluntary restraints as well as to other price control measures. Exports of leather, in turn, are concerned by anti-dumping measures.

It should be stressed that even in those cases where there appears to be no significant discrimination against Latin America and the Caribbean (as is the case of sugar, for example), the harm caused to Latin American countries is relatively higher as a result of the product's high share of their total exports.

The United States applies tariffs which are, on average below 5% in so far as the exports of Latin America and the Caribbean are concerned, with the exception of exports from Barbados, Haiti and Uruguay. However, a number of countries in the region are more deeply affected by non-tariff restraints. Such is the case of the Dominican Republic, 44.5% of whose exports to the United States are subject to some of these measures. Barbados (39.0%), Guyana (30.2%) and Panama (24%) are also significantly concerned by non-tariff barriers of one

Table 27

TARIFF AND NON-TARIFF BARRIERS AFFECTING IMPORTS ON THE MARKETS OF THE MAIN DEVELOPED COUNTRIES
(Value of trade in millions of dollars)

| Exporter \ Importer | Austria | EEC (9 countries) | Japan | Norway | Sweden | Switzerland | United States |
|---|---|---|---|---|---|---|---|
| Developing countries in: | | | | | | | |
| America | 414 | 21 562 | 5 651 | 521 | 1 197 | 743 | 36 731 |
| Africa | 692 | 43 099 | 2 703 | 249 | 1 036 | 802 | 28 830 |
| Asia | 1 760 | 95 777 | 70 494 | 739 | 3 330 | 1 902 | 43 910 |
| Countries with centrally-planned economies | 2 085 | 26 593 | 6 622 | 393 | 1 746 | 1 547 | 2 439 |
| Developed market-economy countries | 17 462 | 166 717 | 49 525 | 14 663 | 26 013 | 31 425 | 116 877 |
| | Average weighted tariff rate a/ | | | | | | |
| Developing countries in: | | | | | | | |
| America | 1.0 | 2.6 | 5.1 | 0.3 | 0.5 | 4.5 | 2.0 |
| Africa | 1.6 | 0.2 | 2.4 | 0.0 | 0.1 | 1.5 | 0.7 |
| Asia | 5.5 | 0.9 | 3.7 | 2.0 | 2.4 | 2.2 | 3.3 |
| Countries with centrally-planned economies | 4.1 | 4.2 | 6.4 | 2.5 | 2.1 | 2.6 | 7.8 |
| Developed market-economy countries | 11.6 | 3.4 | 8.6 | 4.9 | 4.3 | 3.4 | 3.1 |
| | Share of imports subject to non-tariff barriers b/ | | | | | | |
| Developing countries in: | | | | | | | |
| America | 37.7 | 27.7 | 18.5 | 21.7 | 33.8 | 36.3 | 7.3 |
| Africa | 2.8 | 10.4 | 10.6 | 14.0 | 3.6 | 85.2 | 0.8 |
| Asia | 3.0 | 9.9 | 4.8 | 11.6 | 9.2 | 53.2 | 10.2 |
| Countries with centrally-planned economies | 4.2 | 33.9 | 13.3 | 38.1 | 4.7 | 71.1 | 23.1 |
| Developed market-economy countries | 6.7 | 19.7 | 19.9 | 10.1 | 7.0 | 22.7 | 6.8 |

Source: UNCTAD data base in trade measures.

a/ Average, weighted on the basis of the volume of trade, and of most-favoured-nation status preferential tariff rates.

b/ Estimates are based on: 1) information for 1983, by tariff bracket, relating to given non-tariff barriers (for example, "voluntary" export restrictions, total and conditional bans, quotas, discretionary import authorizations, automatic licenses, multi-fibre agreement, tariff quotas, variable surcharges, anti-dumping and compensatory tax investigations, minimum price systems and import surveillance); and 2) data on tariff brackets for 1980 imports. In the case of the EEC, separate estimates were made for each of the member States, taking into account the measures adopted both by the Community and at the national level.

form or another on their total exports to the United States. In comparison the largest countries seem to be less affected, especially if the greater volumes and higher values involved are taken into account. For example, 15.4% of Argentina's exports to the United States are subject to some form of non-tariff measure. Data for Brazil reveal that 17.2% of its exports are concerned. In turn, only 5.1% of Mexico's exports are affected by such measures (see table 28).

Table 28

**TARIFF AND NON-TARIFF BARRIERS AFFECTING IMPORTS FROM LATIN AMERICAN AND CARIBBEAN COUNTRIES IN THE MARKETS OF THE MAIN DEVELOPED COUNTRIES**

| Importer / Exporter | Value of imports in 1980, in millions of dollars a/ | | | | | | |
|---|---|---|---|---|---|---|---|
| | Austria | EEC (9 countries) | Japan | Norway | Sweden | Switzerland | United States |
| Argentina | 20 | 2 435 | 293 | 25 | 54 | 70 | 739 |
| Bahamas | 0 | 870 | 18 | - | 14 | 2 | 1 373 |
| Barbados | 0 | 359 | 0 | 0 | 0 | 1 | 96 |
| Bolivia | 1 | 201 | 29 | 0 | 1 | 1 | 182 |
| Brazil | 125 | 5 705 | 1 558 | 141 | 257 | 157 | 3 685 |
| Colombia | 41 | 1 498 | 175 | 54 | 150 | 69 | 1 252 |
| Costa Rica | 18 | 253 | 14 | 5 | 23 | 31 | 357 |
| Chile | 16 | 1 818 | 650 | 3 | 67 | 7 | 536 |
| Cuba | 4 | 339 | 192 | 1 | 1 | 7 | - |
| Dominican Republic | 2 | 545 | 23 | 0 | 9 | 1 | 789 |
| Ecuador | 19 | 250 | 247 | 1 | 36 | 9 | 850 |
| El Salvador | 21 | 329 | 37 | 6 | 3 | 11 | 426 |
| Grenada | - | 177 | 0 | - | 0 | 1 | 1 |
| Guatemala | 11 | 366 | 73 | 8 | 15 | 35 | 430 |
| Guyana | 0 | 158 | 21 | 7 | 2 | 0 | 120 |
| Haiti | 0 | 879 | 1 | 1 | 2 | 2 | 253 |
| Honduras | 16 | 372 | 36 | 4 | 12 | 25 | 417 |
| Jamaica | 0 | 235 | 6 | 89 | 21 | 0 | 379 |
| Mexico | 19 | 1 463 | 927 | 6 | 42 | 50 | 12 417 |
| Nicaragua | 9 | 117 | 16 | 0 | 1 | 11 | 214 |
| Panama | 14 | 205 | 62 | 26 | 12 | 181 | 323 |
| Paraguay | 9 | 203 | 34 | 0 | 3 | 12 | 81 |
| Peru | 17 | 707 | 480 | 2 | 34 | 27 | 1 344 |
| Suriname | 0 | 268 | 30 | 75 | 0 | 1 | 109 |
| Trinidad and Tobago | 1 | 383 | 16 | 9 | 30 | 1 | 2 385 |
| Uruguay | 11 | 316 | 11 | 1 | 6 | 12 | 96 |
| Venezuela | 38 | 2 276 | 683 | 56 | 396 | 9 | 5 300 |

Table 28 (cont.)

| Exporter \ Importer | Average tariff rate b/ | | | | | | |
|---|---|---|---|---|---|---|---|
| | Austria | EEC (9 countries) | Japan | Norway | Sweden | Switzerland | United States |
| Argentina | 3.4 | 4.2 | 3.2 | 1.8 | 0.8 | 1.7 | 4.2 |
| Bahamas | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 |
| Barbados | 31.4 | 0.0 | 0.0 | 5.7 | 0.0 | 0.1 | 5.9 |
| Bolivia | 0.6 | 0.2 | 0.5 | 3.3 | 0.9 | 4.0 | 0.4 |
| Brazil | 1.2 | 2.3 | 6.5 | 0.5 | 0.6 | 1.2 | 2.6 |
| Colombia | 0.5 | 5.2 | 2.6 | 1.3 | 1.0 | 5.2 | 1.8 |
| Costa Rica | 0.0 | 7.2 | 2.9 | 0.0 | 0.0 | 11.6 | 2.5 |
| Chile | 0.8 | 0.4 | 1.1 | 1.1 | 0.1 | 1.2 | 1.1 |
| Cuba | 0.0 | 11.1 | 21.6 | 0.4 | 0.0 | 15.7 | - |
| Dominican Republic | 0.2 | 1.0 | 5.1 | 0.0 | 0.0 | 7.8 | 4.6 |
| Ecuador | 0.1 | 6.9 | 14.6 | 0.0 | 0.1 | 6.2 | 0.4 |
| El Salvador | 0.1 | 4.9 | 0.2 | 0.0 | 1.1 | 6.2 | 3.1 |
| Grenada | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 |
| Guatemala | 0.0 | 4.2 | 8.5 | 0.0 | 0.1 | 8.6 | 2.5 |
| Guyana | 0.0 | 0.0 | 1.7 | 0.0 | 0.0 | 0.0 | 2.4 |
| Haiti | 0.5 | 4.2 | 0.8 | 0.0 | 12.3 | 7.5 | 5.9 |
| Honduras | 0.2 | 5.7 | 1.0 | 0.0 | 0.0 | 12.3 | 1.4 |
| Jamaica | 19.0 | 0.0 | 2.1 | 0.0 | 0.0 | 1.3 | 1.2 |
| Mexico | 3.5 | 3.8 | 11.9 | 1.8 | 2.6 | 2.4 | 3.7 |
| Nicaragua | 0.0 | 3.7 | 0.2 | 0.0 | 0.0 | 8.5 | 3.0 |
| Panama | 0.1 | 8.6 | 1.7 | 0.0 | 0.0 | 5.1 | 0.8 |
| Paraguay | 1.1 | 2.4 | 5.1 | 0.0 | 0.0 | 0.3 | 1.8 |
| Peru | 0.8 | 0.7 | 1.0 | 0.9 | 1.2 | 0.7 | 0.4 |
| Suriname | 0.3 | 0.0 | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trinidad and Tobago | 4.9 | 0.0 | 2.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Uruguay | 2.0 | 2.9 | 1.5 | 0.9 | 0.3 | 0.5 | 8.4 |
| Venezuela | 0.0 | 2.2 | 2.1 | 0.0 | 0.0 | 0.3 | 0.6 |

Table 28 (concl.)

| Exporter \ Importer | Proportion of imports subject to non-tariff barriers b/ | | | | | | |
|---|---|---|---|---|---|---|---|
| | Austria | EEC (9 countries) | Japan | Norway | Sweden | Switzerland | United States |
| Argentina | 18.8 | 34.0 | 20.3 | 61.1 | 57.0 | 82.4 | 15.4 |
| Bahamas | 26.8 | 2.4 | 1.6 | - | 0.0 | 2.8 | 0.0 |
| Barbados | 2.9 | 0.8 | 0.6 | 100.0 | 0.0 | 0.0 | 39.0 |
| Bolivia | 58.6 | 0.2 | 7.8 | 11.4 | 9.7 | 41.8 | 7.8 |
| Brazil | 39.9 | 27.7 | 15.8 | 3.5 | 73.5 | 42.8 | 17.2 |
| Colombia | 76.4 | 73.3 | 60.5 | 7.6 | 90.1 | 38.2 | 17.6 |
| Costa Rica | 42.4 | 9.3 | 63.1 | 0.1 | 61.0 | 80.4 | 21.6 |
| Chile | 5.4 | 12.7 | 10.2 | 18.8 | 4.4 | 35.9 | 2.8 |
| Cuba | 32.9 | 46.3 | 94.2 | 91.5 | 0.1 | 23.6 | - |
| Dominican Republic | 0.1 | 0.4 | 0.3 | 0.0 | 0.0 | 33.3 | 44.5 |
| Ecuador | 14.3 | 2.8 | 8.1 | 1.7 | 0.3 | 95.8 | 4.9 |
| El Salvador | 99.5 | 8.0 | 29.1 | 0.1 | 84.5 | 60.6 | 5.0 |
| Grenada | - | 0.0 | 2.1 | - | 0.0 | 95.4 | 0.0 |
| Guatemala | 90.0 | 4.3 | 47.7 | 23.0 | 88.2 | 74.0 | 23.1 |
| Guyana | 0.0 | 4.8 | 44.3 | 0.0 | 0.0 | 0.0 | 30.3 |
| Haiti | 2.1 | 1.6 | 82.7 | 45.8 | 95.3 | 86.7 | 27.4 |
| Honduras | 5.0 | 1.6 | 91.2 | 0.0 | 33.2 | 52.1 | 10.5 |
| Jamaica | 1.3 | 22.0 | 81.8 | 0.0 | 0.3 | 80.8 | 10.9 |
| Mexico | 14.5 | 8.1 | 16.2 | 15.4 | 16.9 | 18.8 | 5.1 |
| Nicaragua | 98.4 | 6.0 | 36.4 | 76.2 | 87.8 | 96.5 | 21.5 |
| Panama | 1.8 | 1.8 | 38.8 | 75.9 | 0.0 | 0.8 | 24.0 |
| Paraguay | 63.4 | 1.6 | 40.4 | 0.0 | 95.5 | 6.7 | 8.8 |
| Peru | 3.0 | 15.2 | 9.8 | 14.5 | 0.4 | 13.1 | 3.9 |
| Suriname | 0.0 | 1.5 | 54.3 | 0.0 | 0.0 | 3.5 | 0.0 |
| Trinidad and Tobago | 0.0 | 24.1 | 0.1 | 98.5 | 0.0 | 73.0 | 0.1 |
| Uruguay | 0.0 | 37.5 | 12.2 | 0.0 | 6.5 | 15.1 | 8.7 |
| Venezuela | 0.0 | 7.5 | 0.5 | 98.9 | 0.0 | 57.2 | 0.0 |

Source: UNCTAD data base on trade measures.

a/ Zero indicates less than half a million dollars.
b/ See the notes to table 27, which give the relevant explanations.

Average tariffs in the European Economic Community are higher than in the United States. Nevertheless, countries in the English-speaking Caribbean enjoy clear tariff preference, with zero tariffs for the Bahamas, Barbados, Grenada, Guyana, Jamaica, Suriname and Trinidad and Tobago. In contrast, high proportions of exports to the EEC from a number of countries in the region are subject to non-tariff barriers. Such is the case of Colombia (73.3%), Uruguay (37.5%), Argentina (34%), Brazil (27.7%) and Jamaica (22%). As far as the EEC is concerned, an initial conclusion suggests that it discriminates against the medium-sized and large countries in the region, possibly because of the greater share of temperate climate agricultural products or of industrial products in their exports, and favours small countries in the region, and particularly those in the English-speaking Caribbean.

As far as Japan is concerned it seems to prefer the adoption of non-tariff measures, as average tariffs are relatively low, except in the cases of Cuba, Ecuador and Mexico. Moreover, not only is the percentage of imports subject to non-tariff barriers higher in comparison with the United States or the EEC, but so is their frequency. Those countries most affected are Honduras (91.2%), Haiti (82.7%), Jamaica (81.8%), Costa Rica (63.1%) and Colombia (60.5%).

The position of Cuba deserves special mention, as it has no trade recorded with the United States, and bears the heaviest percentages of tariff and non-tariff protectionism both with regard to the Community and Japan.

b) <u>The overall quantitative effects of protectionism: an illustrative estimate</u>

At the very best, attempts to estimate the impact of non-tariff protectionism are imprecise. A more exact estimate of the overall levels of protectionism is still being perfected.67/

Table 29, which was prepared for ECLAC by UNCTAD, considers data relating to tariff and non-tariff trade barriers affecting some of the main export products of the two largest countries in the region: Argentina and Brazil.*/ This table reveals that the "levels of protection affecting these key export products are generally extremely high and well in excess of 100%. Argentine wheat exports, which were worth more than US$ 800 million in 1980, are subject to levels of protection which vary between 120% and

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*/ Table 29 includes representative products whose exports reached a minimum of US$ 100 million in 1980, and indicates the type of non-tariff barriers affecting them on the industrial markets, as well as the published calculations of the <u>ad valorem</u> equivalents of such restrictions (including the impact of tariffs).

Table 29

AVERAGE LEVELS OF PROTECTIONISM AFFECTING THE PRINCIPAL EXPORT PRODUCTS OF ARGENTINA AND BRAZIL

| Exporter | Product a/ | Value of exports in 1980 (millions of dollars) | Non-tariff barriers applied in industrialized countries b/ | Estimated levels of a actual protectionism c/ | | |
|---|---|---|---|---|---|---|
| | | | | EEC | Japan | United States |
| Argentina | Raw meat (011) | 686.9 | 1, 2, 3, 4, 5, 6 | 118 | 328 | 46 |
| | Wheat (041) | 816.1 | 2, 3, 4, 6, 7 | 120 | 145 | 0 |
| | Maize (044) | 513.3 | 8, 2, 3, 6, 1 | 63 | na | 10 |
| | Fruit and nuts (051) | 180.5 | 8, 9, 1, 2, 6, 4, 10 | 36 | 194 | na |
| | Fresh vegetables (054) | 120.7 | 9, 3, 2, 4, 6, 11 | 42 | 84 | 25 |
| | Sugar and honey (061) | 331.2 | 2, 3, 6, 4 | 160 | 44 | 27 |
| | Oilseeds (221) | 662.3 | 4, 6 | na | na | na |
| | Textile fibres (26) | 411.0 | 12, 13, 14, 2 | 59 | 13 | 68 |
| | Leather (611) | 310.3 | 4 | 18 | 25 | 5 |
| | Iron and steel (67) | 143.9 | 15, 12, 16, 1, 17 | 43 | 8 | 35 |
| | Clothing (84) | 140.7 | 12, 13, 4 | 59 | 18 | 79 |
| Brazil | Fresh meat (011) | 289.1 | 1, 2, 3, 4, 5, 6 | 118 | 328 | 46 |
| | Meat preparations (013) | 320.6 | 3, 2, 6, 4, 10 | 130 | 174 | 61 |
| | Fish preparations (03) | 132.6 | 8, 1, 2, 9, 4, 6 | 44 | 80 | 78 |
| | Fruit preparations (053) | 375.3 | 2, 3, 12, 6, 4, 9 | 36 | 194 | 18 |

Table 29 (concl.)

| Exporter | Product a/ | Value of exports in 1980 (millions of dollars) | Non-tariff barriers applied in industrialized countries b/ | Estimated levels of a actual protectionism c/ | | |
|---|---|---|---|---|---|---|
| | | | | EEC | Japan | United States |
| | Sugar and honey (061) | 374.4 | 2, 3, 6, 4 | 160 | 44 | 27 |
| | Coffee and manufactures thereof (071) | 2 773.1 | 18, 2, 6 | 93 | 161 | 39 |
| | Cocoa and manufactures thereof (072) | 696.6 | 6 | 12 | 173 | 4 |
| | Tobacco and manufactures thereof (12) | 295.3 | 6, 7 | 74 | 352 | 20 |
| | Textile yarn (65) | 654.3 | 13 | 59 | 13 | 68 |
| | Iron and steel (67) | 881.5 | 17, 15, 19, 12, 16, 1, 20 | 43 | 8 | 35 |
| | Footwear (851) | 387.9 | 12, 20, 4 | 27 | 16 | 9 |

Source: UNCTAD data.

a/ Standard International Trade Classification references (SITC) are given in brackets. The 1980 commercial values of these products were taken from the UNCTAD publication "Yearbook of International Trade Statistics", Vol. I, New York, 1982.

b/ This column gives the type of non-tariff restrictions affecting export products in the European Economic Community, Japan and the United States. The key adopted for the various forms of non-tariff barriers is as follows: 1: tariff quota; 2: permit formalities; 3: variable surcharge; 4: general quota; 5: minimum price; 6: health and hygiene regulations; 7: State monopoly; 8: reference price; 9: seasonal tariff increase; 10: discretionary granting of import licenses; 11: ban; 12: controlled authorization; 13: multi-fibre agreement; 14: norms; 15: anti-dumping investigation; 16: basic price; 17: "voluntary" export restrictions; 18: variable component; 19: anti-dumping tax; 20: compensatory tax.

c/ The estimated levels of protection given in this column refer to tariff and non-tariff barriers. The information was obtained from the following sources: International Monetary Fund, "Effects of increased market access on selected developing countries' export earnings: An illustrative exercise", Washington, D.C., 3 May 1984; UNCTAD, "Protectionism and structural adjustment", TD/B/940, Geneva, 2 February 1983; and A. J. Yeats, "Trade barriers facing developing countries", London, MacMillan Press, 1979. It also has to be acknowledged that the levels of protectionism affecting agricultural products may change sharply as a result of the nature of the trade restrictions applied.

145% in the EEC and Japan; Argentine and Brazilian meat exports face even higher trade barriers (the respective level of protection is estimated to be more than 300% in Japan). In addition, in the case of textile and clothing exports, the levels of protection fluctuate between 59% and 79% in the European Economic Community and the United States. The table also indicates that the systems of protection affecting these key export products are extremely complex, and that certain items such as meat, prepared fruit, iron and steel are affected by up to seven different types of non-tariff restrictions".68/

To sum up, detailed analysis of all the facets of protectionism reveals relatively clearly the harm done to the countries of Latin America and the Caribbean, as well as the other developing countries. In this context the consideration of specific indicators leading to the drawing up of special discriminatory treatment against the region's exports seems even more serious.

# IV. LATIN AMERICA AND THE CARIBBEAN IN THE FACE OF THE INTERNATIONAL DEBATE OVER SERVICES

## A. BACKGROUND

Telecommunications, banking, data processing, cinema and television, insurance, advertising and auditing, education and health services, transport, in short the whole of that set of economic activities which are not included in the goods-producing sectors are today the subject of growing and unprecedented interest in a number of centres of the globe. Academics and governments, sociologists, political scientists, international and legislative bodies, executives in major corporations as well as the specialized press and other written media, in various countries, are devoting increasing time and resources to studying and gaining deeper knowledge of the economic, social and political role of this hitherto ignored sector.

This new approach would seem to be the result of the convergence of various factors, which may be helping to stimulate the international concern with services.

A sudden and perhaps belated realization is taking place of the vast economic, social and technological dimensions which the tertiary sector has acquired, both in developed and developing economies. Services contribute more than half world value added and employ approximately 60% of the world's available labour.

In turn, striking technological progress is revolutionizing a whole range of service activities, such as across-the-frontier data transmission, banking, insurance, transport and others. These changes are taking place with such speed that they often make it impossible to clearly perceive what impact they may have on the processes of economic and social development, as well as on the economic and political relations between countries, particularly between the developing and the industrialized countries.

The modern world is deeply frustrated and confused by the persistence of serious social and economic problems in the majority of countries, particularly in view of the inability of conventional development models to solve the serious problems affecting a large part of the world's population.

This situation requires that new development options based on a more complete knowledge of hitherto disregarded sectors, such as services, be sought out.

An intense and as yet unresolved debate is going on both in the developed market economy countries and in the developing countries as to the real role played by services in economic and social development. In the view of some, untoward expansion of the tertiary sector of the economy is a sign of weakening, distortion and declining productivity in the economic apparatus, while for others, the existence of modern, efficient and cheap services in activities such as transport, banking, insurance, data processing and others is a fundamental requirement for development and for improved integration of countries into the international economy.

It is consequently not surprising that the industrialized countries, headed by the United States, are promoting the adoption of a series of multilateral commitments designed to facilitate the expansion of their service activities through the internationalization of their large service enterprises, whose expansion requires a vast and unencumbered geographical area to develop. In order to achieve this, for some years the United States have been pursuing extremely concrete aims at the bilateral (by means of the 1984 Trade and Tariff Law), regional (as part of commitments to the other industrialized OECD countries), and multilateral (by promoting inclusion of services within GATT) levels.

Awareness of the fact that services may hold one of the master keys to development and to economic relations between countries, together with the realization that increasing external dependence is associated with the supply of new strategic services, such as those linked to the international data networks, has led to the developing countries viewing with increasing and well-founded mistrust the recent international initiatives taken with regard to these services. It is increasingly realized that behind such initiatives lie more complex and far-reaching issues than mere business. Nor do developing countries perceive the advantages they could obtain from the application of the measures proposed; countries seem far more inclined to expect a gradual weakening of their position in the world economy. Finally, neither do these countries find the proposed forum attractive, in view of the long history of frustration and restrictions which has been their lot in their dealings with developed countries under GATT.

At the multilateral level, this attitude has been mirrored in the almost unanimous rejection by the developing countries of attempts to bring the issue of services before a forum such as GATT. In turn, these countries have shown considerable interest in broadening the international debate so as to give due attention to the impact on their development which would be associated with national and international policies on services. Consequently, in March 1985, the Trade and Development Board of UNCTAD adopted a programme of work 69/ which devoted additional funds to improving knowledge of the role of services in the trade and development of countries, and to examining mechanisms for international co-operation capable of maximizing this sector's contribution to the developing countries.

At the regional level, a joint UNCTAD/ECLAC/UNDP project aims to provide Latin American and Caribbean countries with support in the search for regional co-operation mechanisms in the services sector, and in preparing studies to assist in defining a framework for international services which fully satisfies their interests.

Finally, within the framework of SELA, in 1983 the Latin American Council adopted Decision 153 which, among other things, expresses the desire of the countries in the region to act in a co-ordinated and harmonious fashion with regard to the international debate over services, and to pursue all necessary efforts to improve knowledge of the role which services can play in development, as the best means of identifying the real interests of the region in this field.

## B. INTERNATIONAL INITIATIVES TAKEN BY THE UNITED STATES WITH REGARD TO THE SERVICES TRADE

The leading role played by the United States in the development of bilateral, regional and multilateral initiatives in the field of services is well known. It is consequently useful to briefly set out the core of these initiatives before attempting to interpret them.

### 1. The 1984 United States Trade and Tariff Act

On 30 October 1984, President Reagan signed and brought into effect the new United States Trade and Tariff Act.70/ Title III, of this Act, and in particular section 302, sets out the general purposes which the United States Administration has sought to achieve in this field.

These are:

a) to foster the economic growth of, and full employment in, the United States by expanding competitive United States exports through the achievement of commercial opportunities in foreign markets substantially equivalent to those accorded by the United States;

b) to improve the ability of the President: i) to identify and to analyse barriers to (and restrictions on) United States Trade and investment; and ii) to achieve the elimination of such barriers and restrictions;

c) to encourage the expansion of i) international trade in services through the negotiation of agreements (both bilateral and multilateral) which reduce or eliminate barriers to international trade in services; and ii) United States service industries in foreign commerce;

d) to enhance the free flow of foreign direct investment through the negotiation of agreements (both bilateral and multilateral) which reduce or eliminate the trade distortive effects of certain investment-related measures.

The statement of purposes reveals three major elements. The first of these is the inclusion of a new concept of reciprocity in commercial opportunities substantially equivalent to those accorded by the United States. The second is the improvement of the President's ability to take retaliatory action in the absence of reciprocity harming the interests of United States companies in other countries. Finally, it places barriers affecting trade in goods and services. and direct foreign investment on the same level, and provides for the adoption of interchangeable and counter-measures of reprisal in each of these three fields.

Further on the Act establishes the negotiating objectives with respect to trade in services:

a) to reduce or to eliminate barriers to, or other distortions of, international trade in services (particularly the United States service sector trade in foreign markets), including barriers that deny national treatment and restrictions on the establishment and operation in such markets;

b) to develop internationally agreed rules, including dispute-settlement procedures, which: i) are consistent with the commercial policies of the United States, ii) will reduce or eliminate such barriers or distortions and help ensure open international trade in services.

The Act also empowers the Executive to specifically pursue the following negotiating objectives with respect to services, investment and technology:

a) to reduce or to eliminate barriers to, or other distortions of, international trade in services and to develop internationally agreed rules including dispute-settlement procedures, which will reduce or eliminate such barriers;

b) i) to reduce or to eliminate artificial or trade-distorting barriers to trade, and to establish norms, including dispute-settlement procedures, which will help ensure a free flow of foreign direct investment, and reduce or eliminate the trade distortive effects of certain investment related measures; ii) to obtain the elimination or reduction of, or compensation for, the pressures exerted by other countries to increase their exports to the United States, to which end the Trade Representative may impose import restrictions, and even ban the products of firms from countries which exert such pressure;

c) i) to obtain and preserve the maximum openness with respect to international trade and investment in high technology products and related services, and to obtain the elimination or reduction of, or compensation for, the significantly distorting effects of foreign government intervention affecting United States exports of high technology products; and ii) to obtain the reduction or elimination of all tariffs on, and other barriers to, United States exports of high-technology products, and to obtain commitments to foster national treatment and to provide effective minimum safeguards for the acquisition and enforcement of intellectual property rights.

The Act frequently uses the words "unreasonable", "unjustifiable" and "discriminatory", to describe the obstacles or distortions mentioned above. In Title III, these adjectives are defined as follows:

The term "unreasonable" means any act, policy or practice which, while not necessarily in violation of or inconsistent with the international legal rights of the United States, is otherwise deemed to be unfair and inequitable. The term includes, but is not limited to, any act, policy or practice which denies fair and equitable: i) market opportunities, ii) opportunities for the establishment of an enterprise, or iii) provision of adequate and effective protection of intellectual property rights.

The term "unjustifiable" means any act, policy, or practice which is in violation of, or inconsistent with, the international legal rights of the United States. The term "unjustifiable" includes, but is not limited to, any act, policy or practice which denies national or most-favoured-nation treatment, the right of establishment, or protection of intellectual property rights.

The term "discriminatory" includes, where appropriate, any act, policy or practice which denies national or most-favoured-nation treatment to United States goods, services, or investment.

Finally, in an unequivocal enlargement of the various arguments which could be invoked in order to open up the world services market, and which is of particular interest for the developing countries, Title V of the Act, in sections 501 to 508 (Generalized System of Preferences Renewal Act of 1984), requires the developing countries to act so as to ensure the United States of their intention to eliminate or reduce barriers to trade in services. This consideration serves for the designation of beneficiary countries, regulations relating to articles which may be designated as eligible articles, limitations on preferential treatment and termination of duty-free treatment for imports and exports in application of the system of preferences.

A precedent would seem to have been recently established in this respect with the adoption of a free trade agreement between the United States and Israel, under which extended benefits within the system of preferences were granted in exchange for concessions with regard to services.

## 2. The proposition for negotiations over the services trade as part of GATT

As the 1984 Trade and Tariff Act and its immediate predecessor, the 1974 Trade Act (in particular the 1979 amendment to this Act) state, the Executive Authority of the United States, acting through the Special Trade Representative, is empowered to foster the adoption of a set of multilaterally agreed norms, with a view to opening up trade in services.

In view of their greater geographical and trade influence, as well as the legal nature of their commitments, the most important United States initiatives are closely linked to the proposal made by the United States to extend a number of the principles and norms of GATT, which nowadays apply almost exclusively to trade in goods, to the international services trade.

The United States propose that a new round of multilateral negotiations be held, to include, among other items, a contractual agreement on international trade and foreign investment in services, under the auspices of the secretariat of GATT, and with the support of the administrative apparatus of the institution.71/ To this end, and together with other industrialized countries, the United States has fostered an exchange of information between the contracting parties relating to the principal conclusions of a number of national investigations into the services sector.72/ It is worth pointing out that this exchange only took place between developed countries.73/ No developing country has so far presented either a national study or any information on the services sector in the framework of GATT.

In the view of the United States, this exchange of information and future discussions will allow for a more complete understanding of the conceptual and statistical problems, as well as of the definitions and approaches involved in the services sector in different countries.

Whilst the sectors which would be examined form part of the negotiating agenda, the United States has expressed interest in including activities such as banking, insurance, telecommunications, data processing, maritime transport, air transport, and construction and engineering.

Although the United States have specifically indicated that the agreement would exclude all those financial flows deriving from payments to factors of production (transfers of profits and workers' income), and would simply concern the commercial aspects of services, the proposals so far set out continue to adopt an ambiguous language which in no way excludes the future inclusion of items which fall within the sphere of direct foreign investment and, moreover, of international movements of highly skilled labour.

In an exposé made by the GATT Group of 18, the United States representative specified a number of aims of a new round of trade negotiations which would include services.

The overall aim would be the establishment of a legal framework of rules and procedures in order to: i) render the services trade as open as possible, through greater transparency in practices, and by solving problems through consultation, and ii) negotiate sectoral or functional commitments in relation to specific problems of given service industries.

The legal framework should contain the following elements: transparency; the principle of national treatment; the establishment of open reglementary procedure; agreement on public monopolies; procedure for settling disputes, and the principle of market access.

With regard to the reduction of trade barriers, the United States delegation proposed that procedure be established for both sectoral and functional negotiations.

As far as sectoral negotiations are concerned, the United States planned a set of understandings or agreements relating to the specific problems affecting trade in given services. In this respect, the United States suggested that priority be given to the achievement of an understanding in the area of international data flows, in view of their huge impact on almost all service industries.

As far as functional negotiations are concerned, the United States put forward a proposal to apply the fundamental concepts and principles used in the various codes on non-tariff barriers which had been the outcome of the Tokyo round of negotiations. The United States specifically mentioned the codes relating to technical norms and to government purchases. They also suggested that elements of the future agreement on intellectual property suitable for application to services be adopted.

Finally, with regard to investments, the United States delegation stated that a number of service enterprises were experiencing serious problems in pursuing their operations in foreign countries, as they did not possess access to ownership of the property necessary for local production of the services. In order to improve the trade opportunities of these enterprises, the United States put forward a proposal to establish a similar context to that suggested for the services trade, and urged the contracting parties to initiate an examination of the investment problems involved in services, as part of an eventual framework for investments in services. In any case, the delegation emphasized that any understanding on the international services trade would have to include activities facilitating the right of representation of foreign services enterprises, in order to facilitate importation of the service in question into the receiver country.

Other developed countries have expressed their intention to co-operate with these initiatives and have put forward relatively similar proposals in order to provide international trade in services with a legal framework under GATT. France is the only developed country which has manifested any reticence in this respect, as it subjects any new round of trade negotiations to the progress achieved in reform of the international monetary and financial system.

## C. SOME MAIN FEATURES OF THE INTERNATIONAL ECONOMY AND OF SERVICES

In a previous report,74/ the Secretariat provided an initial analysis of the complex repercussions of a number of initiatives linked to possible international negotiations on services. This report underlined the need to clearly separate strictly commercial aspects from other issues under debate, such as that of foreign direct investment, examination of which, in conjunction with the issue of the services trade would appear to be arbitrary (as it simultaneously excludes the flows originating in other international movements of production factors, such as labour) and exceeded the possibilities for concrete action in a forum hitherto designed only to regulate international trade in goods.

The previous section provided a synthesis of two important elements which have appeared relatively recently and which may help in clarifying the debate: the United States Trade and Tariff Act of 1984, and the formal presentation of the United States proposal for a new round of trade negotiations under GATT, put forward in July 1985 to the Group of 18.

Simultaneously, since that date, the international debate on the subject, both at the political and academic levels has considerably broadened and deepened. Consequently it now seems opportune to provide a certain amount of further background information which may further highlight the potential effects of and the real issues behind the initiatives set out above.

### 1. The structure of the international services trade

#### a) World output of services and international trade

The difficulties involved in "storing" and "transporting" a large number of services mean that, despite the considerable dimensions which the sector has attained, in almost all economies that proportion of services which are internationally tradeable averages barely 8% of the world product of services, compared with 45% for agriculture and 55% for mining and industry. It is possible that this extremely low tradeable proportion of services is also a reflection of the inadequacies of traditional systems for recording invisible goods in the balance of payments.

b) Flows in the services trade

In 1980, world trade in services attained US$ 436 billion. Between 1970 and 1980 this trade grew at an average annual rate of 18.8%, somewhat lower than the rate for goods, which was 20.8%. The developed countries are the main exporters (86.5%) and importers (82.5%) of services, and throughout the 1970s showed a continuous growth in the surpluses on their trade in services. In the case of the United States, in 1980 the surplus on services (US$ 6.6 billion) covered one quarter of the deficit of the trade in goods (US$ 27.4 billion). The item "other services" has been the industrialized countries' major source of surpluses.

As far as the developing countries are concerned, they consume a minor share of the world trade in services (13.5% of exports and 17.5% of imports) and have recorded considerable and increasing deficits in this trade, in which transport is the most significant item.

It should be pointed out that a number of developed countries are also in serious deficit in their trade in services (for example, the Federal Republic of Germany as a result of the balances in the "travel" account), and that a number of developing countries possess considerable surpluses (for example, Mexico, thanks to tourism).75/

c) Income from foreign investment and the internationalization of services

Although the volume of world trade in services attains considerable proportions, it is of relatively little economic significance in relation with the other movements resulting from the internationalized services sector. The difficulties described above in selling services internationally led to the major service companies developing and improving new forms of management and international control. This fact, based on the technological progress in information science, has meant that once these enterprises have successfully set up an international network of data transmission they are able to considerably expand the frontiers of their markets and internationalize their operations even a very long way from their headquarters.

This phenomenon has led to the development of far more important financial flows than those associated with exports and imports of services in the strict sense of the word. Although insufficient analysis has been made of the overall data in this area, it is useful to mention the case of the United States. In 1980 this country earned a surplus in the region of US$ 31.5 billion on flows from its interests in service enterprises operating abroad. The figure was almost five times higher than the surplus on its services trade that year (US$ 6.6 billion) and almost US$ 11 billion higher than the deficit on the trade in goods (US$ 27.4 billion).

The income received by a number of United States firms as a result of their overseas operations may be of vital importance for many of them and, on the basis of partial indicators, the significance of such operations as a source of income is rapidly growing. For example, it has been calculated that United States advertising firms receive 37% of their gross income from their overseas operations. The equivalent percentage for auditing firms is 25% and for consultancy and engineering firms 43%.76/

### d) Latin America and services

The services sector in Latin America also attains considerable importance in the economic, social and technological spheres. On average, it contributes rather more than 55% of total value added in the region and employs at least 60% of its labour force. Its impact on employment may be even greater if the labour-intensive nature and the weight of service activities in the extensive informal sector of these economies is taken into account.

With regard to international trade in services, the region has a similar share to its share of world trade in goods (approximately 5%). However, flows in the services trade reflect a continuing and ever-increasing imbalance throughout the 1970s, reaching a deficit of US$ 10 billion in 1980. The greatest deficits were in "transport" and "other services".

Unfortunately the regional balance of payments does not provide satisfactory estimates of the portion of remittances of profits which correspond to the operations of service firms established outside the region. Nevertheless, it is possible that the figures which correspond to these flows are quite considerable, if the share of total supply constituted by transnational enterprises in activities such as auditing and advertising, banking and insurance, data processing, hotels and other sectors in which foreign interest are prominent is taken into account.77/

## 2. New technologies and the production of and trade in services

In recent years extremely significant changes have been noted in the composition and characteristics of the tertiary sector, both in so far as its output and its insertion within the world economy are concerned. Among other things, these changes are linked to the following factors.

a) The special role of data processing and telematics

Nowadays information constitutes a fundamental resource in the production of a wide range of goods and services. It may be defined as an inexhaustible resource requiring relatively little input in order for it to be updated. In turn, information generally flows in two directions: from the supplier to the user, and from the user to the supplier (this latter flow generally costs the supplier nothing).

Moreover, the growing role of data processing in economic activities is bringing about considerable changes in the quantity, quality and type of services available to the economic infrastructure, both domestically and internationally. The merging of informatics, i.e., of the activities of data collection, processing, storage and distribution with the national and international telecommunications network makes it possible to supply an ever-increasing number of service activities in a constantly growing number of locations throughout the world with information resources.

If the evolution of the most dynamic service activities is observed, it is possible to perceive a similar process to that which was recorded at the beginning of this century following the introduction of electricity and the effect it had in reinforcing the industrial base of countries. A process with similar repercussions would seem to be taking place as a result of the introduction of data processing and the development of service activities, both within national economies and at the international level.

However, in view of the degree of concentration of financial and technological resources achieved by a number of conglomerates, and the increasingly widespread nature of interconnected data bases, information is only available within captive circuits to which only a limited number of users have access.

b) The increase in the "tradeability" of services

There is no doubt that the introduction and application of new technologies, such as the development of data processing, are having far-reaching economic effects whose impact is not yet fully apparent. The most obvious signs appear to be the following: i) the quality, quantity and diversity of services offered is undergoing a radical change; ii) international competition in the goods and services trade is being deeply marked by the supply of a certain number of key services; and iii) in view of the increasing data-processing element in many services and the enlarged possibilities for "transporting" this resource across frontiers, the number of activities concerned by such an international trade is growing considerably.

This consequence is particularly apparent in the internationalization of a range of professional services, such as architecture, engineering and management consultancy, using computerized design and management techniques.

Increased geographical coverage, together with the degree of technical perfection of international telecommunications networks provides a free flowing web of "freeways" for supplying an increasing range of services across frontiers, bringing about a similar change to that caused to the goods trade by the improvement of conventional means of transport.

In turn, the increased "tradeability" of certain services, as well as the incorporation of new technologies also influences the dynamism of certain goods. A significant growth of the services element incorporated into their value added may be observed in the production of goods; information represents an increasingly important share of this increase in value produced by services. This is particularly true of high-technology goods, which are moreover those which prove most dynamic in international trade.

### c) Changes in comparative advantages: towards the end of cheap labour?

As was outlined above, the introduction of new technologies such as data processing and robotics is causing deep changes in the processes of production of goods and services. It is likely that these changes are also having a marked impact on the traditional productive relationship between capital and labour, in both the field of goods and of services.

Thanks to the use of robots and computers, Japan has succeeded in making considerable savings in its labour costs in the clothing industry. In the United States computer programmes have been written for designing and cutting clothing, making it possible to copy patterns, automatically alter them to different sizes and introduce additional accessories, while at the same time minimizing the amount of material used; all of these factors exert a crucial influence over the international competitivity of these industries.

In the transport sector, container technology, together with the integration of different modes of transport in large-scale operations is also displacing the antiquated fleets of many developing countries.78/

So far, the low cost of labour in these countries has made it to some extent possible to offset the higher productivity of capital and labour in a number of advanced countries. The above technological changes however, are allowing these countries to restore comparative advantages in traditional sectors which were assumed to have been definitively transferred to developing countries.

### 3. Transnational corporations and the production of and trade in services

A determining factor on the international economic scene is the growing importance acquired by transnational corporations in the supply of services. The transnational development of many service enterprises has in part represented the logical continuation of the similar process which took place with great intensity among goods-producing firms in the 1960s and 1970s. It is only possible to satisfy the natural market thus created beyond national frontiers by establishing subsidiaries and branches in other countries. This accounts for the transnationalization of the major banking and insurance conglomerates, those involved in advertising and auditing, as well as a wide range of service activities which do not possess ready potential for international trade and which, however, are an essential logistical support for the internationalization of the economy of the central countries.

#### a) Changes in patterns of management and control

As was mentioned above, the process of internationalization of goods-producing activities which has taken place in the last decade or so is being followed by the internationalization of a broad range of service activities. This phenomenon complements international trade through the establishment of extensive networks of subsidiaries, branches or other organic units, which it is easier to manage and control internationally thanks to relatively recent administrative procedures, such as the granting of licences, privileges or franchises, rentals under specific conditions, and others.

In this connection, it has been suggested that government policies which, perhaps inadvertently, affect the relative profitability of investment in one sector or another, together with the relative intensity of international competition, may also constitute factors which account for the emergence of new service sectors and of new forms of organization in firms.79/

Not only have these factors lengthened the list of services offered, but they have also sparked off a series of mergers between firms which would have been unthinkable barely a few years ago. Obviously, the reason lies in the fact that mergers diversify risks, help with the acquisition of new technical knowledge and facilitate access to finance.80/

#### b) The dynamism of transnational corporations

The dominant position of transnational corporations in the worldwide trade and supply of services also reveals the very particular dynamism which has characterized these firms' activity in recent years.

Among the factors which explain such dynamism is the low level of international "tradeability" of services and, consequently, the attractiveness of foreign markets to these firms, as a stimulus to the expansion of the volume of their operations.

A major part of the capital of transnational services corporations is composed of their accumulated technical knowledge, as well as the reputation they have acquired and the goodwill inspired by their trade mark. Expansion of the frontiers within which the conglomerate is able to operate is consequently vital in order to take fuller advantage of economies of scale and to maximize overall profits.

Moreover, keener competition has forced firms to lengthen the list of services offered, by entering into mergers. This is the reason for integration between a number of industries, not only in the services sector, but also between manufacturing firms, so as to achieve greater penetration into foreign markets and to extend their operations therein.

One of the most widely quoted examples of this type of dynamic conglomerate is the case of what are known as the "sogo-shosha" in Japan. The internationalization of these major trading companies has transformed them into the organizers and co-ordinators of projects capable of supplying a great variety of support services, ranging from project financing and supervision, purchase of equipment for plants and construction of infrastructure works (such as ports and motorways), to the sale of mineral resources and provision of consultancy services. These enterprises also take part in the construction of airports, tourism installations and housing complexes in developing countries.81/

c) International information networks: the diversification and extension of geographical coverage in the supply of services

Within a large number of service activities (particularly banking, insurance, transport and others), the processes of internationalization of production, control and management of activities on a world scale are gathering speed and being improved and diversified thanks to the development of the global telecommunications infrastructure and to the simplicity and rapidity with which it is possible to transfer large volumes of information across national frontiers using media such as, telematics.

Whilst the cost of setting up an international data network is extremely high, the marginal costs associated with the transmission of new data, or information hitherto not transmitted by these means, are quite insignificant. Consequently, the cost of expanding and diversifying the number of services offered is also extremely low, when these services are directly dependent on the supply of information.

In turn, when a central data base is available together with suitable connections with terminals in public telecommunications networks, and from there to the data base at the head office, the marginal investment necessary to extend the geographical coverage of operations is also quite low. The direct investment in the establishment of subsidiaries of banks, insurance companies and other service enterprises involves little more than expenditure on advertising, furnishing offices and purchase of terminals, an investment which in a number of cases is almost completely financed with local funds.

d) <u>The need for an unrestricted space in order to maximize profits</u>

For the reasons briefly set out above, it is quite clear that the major service enterprises will endeavour to expand as far as possible an area free from hindrances and heterogeneous regulations making it difficult for them to be present on the most diverse markets. The high marginal return associated with the establishment of subsidiaries in a predictable and relatively homogeneous environment consequently constitutes a vital necessity for the survival and further development of these firms.

In confirmation of this, one of the most active lobbies defending the interests of the major transnational service corporations (known as the "Coalition of service industries") has identified the main obstacles to the expansion of its members' activities as being, among other things, restrictions on the right of enterprises to operate on foreign markets and to be given the same treatment as national firms (i.e., the "right of establishment" and the right to "national treatment"); tariff discrimination; barriers to cross-frontier data transfer, and unfair competition which may arise from State monopolies.82/

### 4. <u>A new interpretation of international trade and development in the making</u>

The failure of a variety of approaches to the development processes in a large number of countries, together with the sharpening of economic imbalances between the industrialized and the developing countries, has sparked off increasing re-examination of conventional development theories, as well as of the principal factors which determine the international division of labour.

The frustration and perplexity caused by traditional models of economic and social development whose achievements have proved inadequate in a large number of countries, has led to a search for new development alternatives based on better knowledge of the role which may be played by economic sectors, such as services, to which little attention has hitherto been paid.

A number of authors suggest that the importance of services is not the almost automatic outcome of a stage-by-stage development (from agriculture to manufacturing and from there to services) but quite on the contrary, that services represent one of the central keys to the development and relative wealth of nations.

If such is the case, far from lessening the vitality and soundness of goods-producing sectors, the provision of modern, dynamic and efficient services would appear to be fundamental in stimulating them. In other words, services would seem to be rather a prerequisite of the development process and not, as was hitherto thought, a consequence thereof. The tight links between the various services and the rest of the economy mean that innovation and progress in key service activities are rapidly disseminated in the form of lower costs, increased productivity and an increase in the international competitiveness of all sectors of the economy.

In this respect, it is important to bear in mind that services may generate considerable external savings and dissavings, depending on the concrete forms in which countries decide to provide them.

Moreover, if it is borne in mind that services represent a major and growing share of aggregate world product, the ownership and management of the supply of value produced by the internationalization of the sector has an undoubted impact on economic relations between countries, as well as on their ability to tap the surplus generated by these activities.

Consequently, there is no risk in assuming that after the tertiarization of the world economy and trade, similar phenomena to those which caused the structural deterioration in the developing countries' terms of trade could again occur and become more pronounced. As is well known, this deterioration has been linked with the profile of the periphery's external trade which is based on the export of commodities, whose relative prices systematically decline and on the import of manufactured goods and equipment of high value added, whose prices tend to rise.

In so far as the central countries maintain a dominant position over the most dynamic service activities in the world economy, they will find it increasingly easy to capture a growing percentage of world income. Regressive distribution of such income would be brought about by international trade and movements of factors, favouring the economic revival of activities over which the developed countries possess worldwide control and ownership.

Furthermore, there would seem to be no other limits to the internationalization of services than those set by the capacity to develop new techniques of management and control. It would thus be possible to cover almost all these heterogeneous activities, provided the marginal management costs were lower than the additional income generated. This would include not only banking and other financial and professional services, but also urban transport, wholesale and retail trade and distribution, as well as a number of public services (mail, urban cleaning and maintenance, health and education services, and others).

## D. LATIN AMERICA AND THE CARIBBEAN: THEIR INTERESTS AND THE INITIATIVES TAKEN BY THE UNITED STATES IN RELATION TO THE SERVICES TRADE

Developing countries in general and those of Latin America in particular have shown understandable qualms over the possibility of the international debate on the services trade following the lines laid down by the United States. Brazil, Argentina, India and other countries in the developing world have resolutely opposed the idea of dealing with the theme of the services trade within the same conceptual and institutional frameworks which have so far been used to deal with the multilateral aspects of the trade in goods.

A number of arguments have been put forward to justify this refusal. There is no doubt that in the view of many developing countries, these proposals seem to contain the real possibility that forms of economic expansionism and domination will be repeated, in a similar fashion to the colonial practices of the European countries from the last century until the middle of the present century. It is worth remembering that a fundamental strategic component of colonialism was based on the development and subsequent control of key service activities, both in the colonies and in the young Latin American nations. This control was concentrated on services such as railways, telephones and telegraphs, the wholesale trade and warehousing, as well as on a number of basic services, mainly gas and electricity.

### 1. The GATT proposal: extrapolation of the United States Trade and Tariff Act into the multilateral area

It is quite clear that both the organization and the conceptual backing for the United States proposal relating to the inclusion of the services trade within the framework of GATT closely follows the relevant form and content of the 1984 Trade and Tariff Act.

The relevant United States Act not only defines the overall principles which, from that country's viewpoint, are to direct the internationalization of the services trade, such as the right of United States firms to set up (right of establishment), to be given the same treatment as national firms (the right to national treatment) and to enjoy most favoured nation status, but also establishes a definitive link between the themes of services, investments and high technology, while simultaneously specifically advocating the liberalization of all cross-frontier movements of data and eliminating restrictions affecting the geographical localization of data banks.

Moreover, should the United States' effort to have these national principles consolidated within GATT succeed, many of the obstacles to the internationalization of services which the American Act defines as "unreasonable", would become "unjustifiable", i.e., the would constitute violations of the multilateral rights acquired by that country, as a result of which the financial and commercial reprisals adopted would enjoy complete legal support from the international community which has signed these agreements.

## 2. Implications of any agreement within the framework of GATT

Inclusion of the services trade within GATT, under the terms suggested by the United States and in keeping with the legal and contractual nature of this Agreement, would signify accepting that the very same principles which regulate international trade in goods should govern the internationalization of service activities. Not only is the conceptual coherence of such proposals debatable, but, what is far more important, it would oblige countries to expose themselves to the adoption of a series of retaliatory measures affecting their exports of goods in possible reprisal against regulations or practices violating principles such as the right of establishment, non-restriction of data flows or others.

Examples of this have been provided by the recent attitudes adopted by the United States Government towards Brazil, over its data-processing policy, and towards South Korea, over its practices in the field of insurance. With these precedents in mind, it is logical to wonder whether within the framework of GATT there would be cases in which those "contracting parties which refuse to extend national treatment to foreign banks risk retaliation in the form of the withdrawal of tariff concessions on bananas or orange juice".83/

## 3. Deregulation at the national and international levels

It is also obvious that the new United States Trade and Tariff Act reflects a particular ideological concept: the desire to restore the importance of "the free play of market forces" and to diminish regulations of every kind which are considered to militate against greater dynamism and competitiveness in economic activities. There are many service industries within the United States economy in which a process of deregulation has been introduced, involving among other things the suppression of price, exchange and wages controls, as well as of a large number of controls and regulations affecting such important sectors as energy, transport, telecommunications and financial services.

On January 1, 1985 the body regulating air transport (Civil Aeronautics Board) which had been in existence since 1938 disappeared. In 1980 restrictions affecting loading rights and the practice of fixing agreed tariffs in road transport were eliminated. In 1982, the Federal Communications Commission reached an agreement with ATT over the division of its regulated monopoly into seven large regional telephone companies and for the elimination of the exclusive supply of equipment and international telecommunications and data transmission services. Finally, in 1980, an Act deregulating financial services eliminated the ceilings on interest on savings, as well as restrictions on the type of loans which intermediaries may offer. Paradoxically, considerable restrictions remain with regard to the geographical coverage of financial operations within the United States.84/

The theoretical basis for the United States GATT proposal would consequently seem to be the same as that which has prevailed in bringing about changes within its own economy; in other words, liberalizing and opening up the world economy to the unhindered and unfettered expansion of the major service enterprises.

Although the available information is quite incomplete, the Latin American countries in general possess fairly "deregulated" service sectors, particularly in areas such as data processing, cinema and television, auditing and advertising, as well as in far more critical areas such as banking. This is in marked contrast to the protectionism and extensive control to which such activities are subject in the EEC countries and in Japan. Consequently, in practice a GATT agreement on the services trade would be little more than a legal agreement to freeze this unregulated situation, an agreement which the countries of the region would adopt without obtaining any compensatory concessions from the industrialized countries.

Furthermore, the presentation made by the United States in which the internationalization of the services trade is linked to a hypothetical abundance of direct foreign investment would seem to be little else than a well-meaning declaration. In fact, the "right of establishment" and "national treatment" would allow the major transnational corporations to enter new markets with a minimum of additional investment; i.e., only that investment required in order for their subsidiaries and branches to connect their terminals to the international telecommunications networks, which in turn would link them to the head office and thereby ensure that most of the value added by this activity would be produced in the countries in which the firms have their headquarters.

### 4. Towards a specialization of developed economies in the export of services and of developing economies in the export of goods?

The United States has put forward a hypothetical setting in which the developed countries would evolve towards a concentration of their external trade on the export of services, while the developing countries would specialize in exporting goods. The basis for this argument is the conviction that the development of services corresponds to a higher stage of the development process, and that consequently comparative advantages would seem to suggest countries will specialize as set out above, with the consequent benefit of an improved standard of well-being for the international community as a whole.

Rather strangely the same sources which vaunt the merits of this scenario miss no opportunity to emphasize that the growth of the services sector does not weaken the vitality of the manufacturing sector, just as growth of the latter did not devitalize the growth of agriculture. In order to drive the point home, it is pointed out that in the United States, between 1910 and 1970, while agricultural employment fell from some 13.6 million to 4.5 million, real agricultural product tripled and it is added that the manufacturing sector, on a percentage basis, has shown the same trends.85/

This link between a modern and efficient services sector and the dynamism and strength of the primary and secondary sectors has been recognized by a number of authors. Some even refer to the "absolute advantages" which a higher stage of development may provide, and which would hold sway throughout every sector of the economy.86/ The volume and dynamism of United States agricultural exports, together with the recovery of a certain degree of competitiveness in a number of textile activities in the most developed countries, would seem to provide confirmation of this phenomenon.

Finally, if it is borne in mind that the majority of services will remain "non-tradeable" activities in the conventional sense of the word, the internationalization of services constitutes a partial and inadequate means for the industrialized economies to maintain their leadership. In the absence of similar dynamism in agriculture and manufacturing, the internationalization of services will indeed be able to increase income from factor services in the balance of payments, but will not create new source of employment within the industrialized economies.

### 5. GATT: beyond services

The deepening of the international economic crisis, and in particular the surge of high and persistent rates of unemployment within the industrialized economies revealed the fragility of the institutional arrangements for international trade which were set up after the Second World War.

The principles of non-discrimination and reduction of obstacles to free trade between countries have been gradually replaced by a growing tendency to resort to what is described as managed trade. All manner of voluntary restraints on exports, non-tariff barriers of every kind, campaigns and pressure exerted to influence the consumer habits of national citizens, subsidies and other unfair practices which affect the possibilities of trade have gradually created a parallel system of international trade within which the role of GATT as a regulating agreement for multilateral trade appears increasingly weakened.

All of these practices have had particular impact on the developing countries in general, and on those of Latin America and the Caribbean in particular. The weak bargaining position and scant economic power of the countries of this region have not only meant that they have been obliged to fully comply with their GATT commitments, but that discussion and solution of the problems which affect them most acutely have been systematically neglected. This is true of the trade in agricultural products, textile products and other goods in which arbitrary use of unfair practices on the part of the developed countries is in contravention of a number of GATT principles.

In such circumstances, there is further reason for the countries of Latin America and the Caribbean to observe with misgivings the use of this forum for discussion of an issue connected with activities whose development has barely started on their territory. In view of the apparent insignificance of the promise of improved access for their exports of goods, what can the region expect in exchange for concessions facilitating the internationalization of the industrialized countries' service enterprises?

## E. POLICY IMPLICATIONS

With the exception of a number of fragmentary disciplines which have addressed some specific service activities, particularly transport and certain financial services, the services sector has not received particular theoretical or practical attention in countries' economic policies. The convergence of a series of factors, such as those which have been briefly set out above, is bringing about a rapid change in this situation, above all within the industrialized countries.

### 1. The need for deeper knowledge of the role and potential of services in the region's economies

The desirability of acquiring improved knowledge of the contribution of the different service activities to the growth and development of economies is undeniable. In contrast with other economic phenomena, little is to be learnt from the experience of the industrialized countries, as they themselves comprehend relatively little about the role of services.

To a large extent, this task requires the development of specific methodologies and approaches in order to determine which services are vital in order to more fully achieve social and economic goals, and what particular forms of organization, ownership and management must be adopted to ensure the supply of these services.

In carrying out this task it may prove extremely useful to perform a close examination of the contribution made by services to development, centering attention, as suggested by UNCTAD, on the reciprocal links between the production of a variety of services, and between these services and the production of goods, rather than attempting to measure the productivity of each service.87/ It would also be desirable to further investigation of the historical and economic causes which determined the present structure of the national supply of services in the region's economies. Identification of the principal conflicts and contradictions which arose from the participation of foreign capital and technology in the management of these activities may prove particularly illuminating.

Improved knowledge of the role of services in development must necessarily involve a definition of the true role of foreign trade and investment in the services sector, in order to determine whether these factors strengthen the links of economic and commercial dependence, or whether, on the contrary, they facilitate autonomous and self-sustained development in the countries of Latin America and the Caribbean.

### 2. Patterns of co-operation and integration of service activities at the subregional and regional levels, and between developing regions

The technological, financial and market capacity required for the efficient and dynamic development of many service activities no doubt constitutes a major barrier to the possibility of developing service activities restricted to the fragmented scenario offered by the region's piecemeal national economies. This will no doubt create enormous possibilities for the appearance of new and imaginative forms of co-operation and integration between two or more countries depending on the specific characteristics of the activity in question.

Moreover, it is increasingly apparent that economic integration between countries requires a broad process also covering the integration of a variety of basic service activities, without whose contribution attempts at integration do not seem viable. The multinational expansion of the supply of services such as transport, insurance, banking, informatics and others appears to have played a determining role in a number of successful integration experiments, such as the European Economic Community.

Once again, previous attempts at co-operation and integration made by the countries of the region at different levels have systematically underestimated the contribution which services can make, not only as an essential complement to co-operation and integration of productive activities and of the markets connected thereto, but also to their export potential towards markets outside the region, or in substituting imports therefrom.

### 3. The role of services in the operation of the domestic economic apparatus and in meeting trade and integration goals

There is increasingly widespread acknowledgement of the fact that the contribution of services to development reaches far beyond the simple amount of the value added by them to national accounts. As has been indicated above, the existence of a complex network of interconnections between certain services and the rest of the economic apparatus, together with the external savings generated by these services, indicates the need to develop strategies capable of establishing a hierarchy of services on the basis of their contribution to the performance of the national economy.

Subsequently, on the basis of this hierarchy, it will be necessary to identify the most suitable instruments and convenient policies to bring about the modernization and galvanization of these activities.

Furthermore, the present structure of world trade in services brings out the pressing need to improve the contribution made by services to the external sector of economies, and to take advantage of the potential of the countries of Latin America and the Caribbean in this area, with a view to significantly raising their share of the international services trade, rendering them less dependent on the supply of services from countries outside the region. It is easy to state these aims, but far from simple to achieve them. The vital need for the timely, efficient and cheapest possible supply of a range of services which are essential for global economic development cannot be forgotten. This obliges many countries in the region to resort to imports of specific services when the national economy proves incapable of supplying them on the same terms. This explains the complex dilemma facing many countries in the region, involving the need to improve efficiency and remain technologically up to date and the possibilities of strengthening their autonomy and independence over national economic management.

### 4. The need for a pattern for international co-operation in service activities meeting the interests of Latin America and the Caribbean

There is no doubt that services have been the victims of unjustified neglect both within national development processes and with regard to their links with trade and international economic relations. The growing acknowledgement of the crucial role which they are capable of playing in the trade and development of the countries of the region makes it imperative to conceive new ways in which the international community can support the efforts of countries of Latin America and the Caribbean to modernize, galvanize and improve the contribution made by services to their own development.

The international debate has so far been dominated by initiatives which appear completely divorced from the reality and interests of the region. There is no likelihood of a dialogue founded on such bases prospering. Rigidly insisting on proposals so alien to the interests of the developing countries will merely exasperate the parties involved and leave them at loggerheads.

The countries in the region need to possess modern, efficient and low-cost services. In order to develop these it will be necessary to formulate and carry out policies at the national and regional level to harmonize efforts and maximize results.

The political, economic, socio-cultural and strategic characteristics of many services open up a natural area for co-operation between countries which are not only geographically close, but close with regard to these characteristics. This is clearly the case of the countries of Latin America and the Caribbean. Moreover, the physical and economic conditions necessary for the supply of many services require demographic and economic spaces far larger than those which exist in the countries of the region individually. Consequently, there is considerable potential for extensive development of service activities at the regional and subregional levels, which must as soon as possible be explored in depth.

In this context, regional and subregional co-operation and integration of a number of key services is particularly important. It seems unrealistic to hope to offer alternatives for extended international co-operation which are not in turn based on concrete experience within the region. If the countries of Latin America and the Caribbean were able to protagonize successful patterns of integration of their service activities, this very fact would provide a solid foundation for any original proposal put before international forums. In turn, such experience would make it possible to more clearly define the complementary support which international co-operation should provide for the development and modernization of regional services, and in particular, the role which the industrialized countries should assume in this task.

Only within such a framework would it be possible to define a regional counterproposal which would not only enrich the international debate over services, but which would also put forward means and instruments for bringing about more equitable international co-operation in this field.

One promising field for initiating study of a regional counterproposal is the sector of informatics and all activities linked to the collection, processing and distribution of data.

The nature of data as a "vital fuel" for the development of essential service activities would require an international agreement conceived in broader terms than those provided by a merely commercial framework. As is the case of international agreements over pharmaceuticals and chemicals used in human health, which have been drawn up on the basis of a broad understanding of their social function, information would also require the international community to adopt an agreement recognizing its highly specific nature, as well as the need to respect the rights and responsibilities of countries in the field. In such a case, it is hard to imagine that a framework such as GATT, drawn up in accordance with the restricted parameters of a trade agreement, could be capable of shedding light on suitable forms of international co-operation for a resource which has far-reaching political, economic and social implications.

# V. FINANCING AND EXTERNAL DEBT IN LATIN AMERICA AND THE CARIBBEAN

## A. THE FINANCIAL SITUATION OF LATIN AMERICA AND THE CARIBBEAN: TRENDS AND PROSPECTS

As from the middle of the 1970s the financial resources reaching the region rose considerably. From sums in the order of US$ 1 billion per year prior to 1973, the figure rose to approximately US$ 40 billion in 1981.

These increases mostly reflected capital in the form of loans, rather than greater direct or portfolio investments. Thus, the region's external debt rose from approximately US$ 20 billion in 1970 to US$ 368 billion in 1985; i.e., it rose twenty times. Since 1982, the size of the debt has been more than three times that of annual exports. As a result of this, and of the continuing rise in interest rates, interest payments have come to constitute a growing current account burden, which in recent years has exceeded more than one third of the total value of exports.

Since the middle of 1982, the flow of net external financing towards the region has fallen off sharply, and in 1985 represented less than US$ 5 billion. On the one hand, there was a considerable decline in gross capital inflow, and on the other, a vertiginous rise in interest payments as a result of the rises in international interest rates. The region suddenly began to suffer acute balance-of-payments problems, essentially caused by the overwhelming weight of the debt.

Faced with the external bottleneck, the countries of the region have been obliged to readjust their economies, reducing domestic expenditure on investment and consumption, at the expense of a serious recession. Gross domestic product fell in 1982 and 1983, and has remained extremely low since then; in per capita terms it fell by 9% between 1981 and 1985. Gross domestic investment fell sharply between 1981 and 1983, and since then has remained at such a low level that in 1985 it was 33% lower than in 1980. All of these factors brought about a severe shrinkage in Latin American imports, which were 40% lower in 1985 than in 1980.

Bearing in mind the decline in gross foreign capital inflows, this shrinkage in imports has constituted the main mechanism with which the region has tackled its present balance-of-payments crisis. If gross capital inflow is subtracted from the amount of amortization and interest payments on the external debt, it is clear that since 1982 there has been a capital outflow from Latin America and the Caribbean whose scale in 1985 verged upon the truly enormous sum of US$ 30 billion.

The readjustment to which the region's economies have been subjected has had extremely distressing consequences in terms of, among other things, unemployment, wage reductions, the increase of poverty, inflation and idle capital resources. In addition, the sharp fall in investment casts doubt on the possibility of restoring adequate and sound rates of economic growth within a reasonable period of time. In such circumstances, the social and political stability of the countries in the region, both at the present time and in the foreseeable future, is a sourse of considerable preoccupation. In the face of the domestic economic situation of Latin America and the Caribbean it is necessary to rapidly find relief mechanisms, and speedily return to paths of acceptably rapid growth, for which it is essential to determine new ways of solving the problem of external debt.

A number of economic projections have been made based on the hypothesis that the region would assume responsibility for 100% of the external debt burden, as has for the most part been the case so far, and the size of external funds which would be required for the region to recover its growth, at, moreover, moderate rates, has been calculated. The overall conclusion of these studies is that the foreign funds necessary to provide a path to solving the problem of the region's external debt are far more sizeable than those which international sources have proved prepared to grant. Consequently, it is necessary to deal with the debt problem in different terms.

Projections have been drawn up to fit two different sets of circumstances. In case A, it has been assumed that the per capita gross domestic product will only return to its 1980 level towards the end of the present decade (growing 1.8% annually); that it will continue to rise at an annual rate of 3.5% until 1995, and that exports at constant prices will increase by 4% per year between 1985 and 1990 and by 5% thereafter. In case B, which is more optimistic, it has been assumed that per capita gross domestic product will grow at the rate of 3% per year until 1990, and by 4.5% thereafter; that exports at constant prices will rise by 5% per year during the first five years and 6% in the second five years, and that the external debt will be rescheduled over a ten-year term, with five years' grace, which will be applied to the debt in abeyance and to the new debt.

In both cases an annual rate of world inflation of 6% has been assumed and external interest rates have been set at between 12 and 11.5% for private operations, and between 6.8 and 8% for operations involving official institutions. The hypotheses for growth of product and exports in case B undoubtedly assume that the economy of industrialized countries will perform more dynamically.

The results of the projections, both in so far as the region's balance-of-payments current account and the evolution of the debt and financial services are concerned, are set out in tables 30 and 31. The principal conclusions are quite obvious. Net external funding requirements in 1990 will fluctuate between US$ 25 and US$ 33 billion per year, and in 1995 between US$ 55 and US$ 68 billion. As a result, the external debt will have to continue growing, and will attain almost US$ 800 billion in 1995 should economic growth prove more rapid. Although the proportion of exports represented by the debt will gradually decline, it will remain extremely high. In both cases there will be a trade surplus, and consequently the transfer of real resources abroad will continue. If interest and amortization payments on the external debt are examined, gross capital inflows of between US$ 80 and US$ 88 billion will be required in 1990 and between US$ 134 and US$ 145 billion in 1995. This would make it necessary to reverse the net capital flow in 1995, as a result of which the region would once again receive financial resources worth between US$ 4 and US$ 11 billion per year.

These projections have not taken into account the slump in the price of oil which occurred at the beginning of 1986. Should the international price of this product in real terms remain at its present levels, net financial requirements would be US$ 25 and US$ 33 billion in 1990, and would rise to over US$ 40 and US$ 50 billion, respectively. In 1995 these figures would be US$ 55 and US$ 68 billion, or would rise from US$ 80 to US$ 98 billion respectively. In this case, gross capital requirements would increase in proportion.

These projections indicate that if the region is to recover sustained yet moderate economic growth, and at the same time to bear the whole of its present external debt burden, it will require far greater external financing, well beyond the amounts at present forecast by private and official financial bodies. These results are certainly valid for the forecast hypotheses regarding international scenarios, both in so far as interest rates and the growth of trade are concerned, and there is every likelihood of these scenarios occurring if the projections for the world economy made by multinational bodies such as the IMF and the World Bank prove correct.

This explains the urgent need to search for alternative solutions to the debt problem, adopting corrective measures which take into account all parties involved. The policies at present in force will need to be modified, and the international monetary and financial systems strengthened and corrected.

Table 30

LATIN AMERICA AND THE CARIBBEAN a/: BALANCE ON CURRENT ACCOUNT

| | 1980 | 1981 | 1982 | 1983 | 1984 | Case A | | Case B | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1990 | 1995 | 1990 | 1995 |
| | | | | | Millions of current dollars | | | | |
| Exports of goods and services | 105 770 | 114 076 | 101 956 | 100 650 | 112 239 | 194 593 | 332 490 | 205 933 | 369 770 |
| Imports of goods and services | 115 900 | 126 603 | 104 332 | 75 222 | 77 218 | 172 014 | 322 331 | 188 784 | 364 817 |
| Trade surplus (-) | 10 130 | 12 527 | 2 376 | -25 428 | -35 021 | -22 580 | -10 160 | -17 149 | -4 953 |
| Net external factor payments | 18 411 | 28 393 | 38 432 | 34 869 | 37 628 | 48 001 | 65 808 | 50 276 | 73 234 |
| Net external financing | 28 087 | 40 347 | 40 717 | 8 793 | 1 878 | 25 085 | 55 026 | 32 791 | 67 659 |
| | | | | | Coefficients in relation to exports of goods and services (percentages) | | | | |
| Imports of goods and services | 109.6 | 111.0 | 102.3 | 74.7 | 68.8 | 88.4 | 96.9 | 91.7 | 98.7 |
| Trade surplus (-) | 9.6 | 11.0 | 2.3 | -25.3 | -31.2 | -11.6 | -3.1 | -8.3 | -1.3 |
| Net external factor payments | 17.4 | 24.9 | 37.7 | 34.6 | 33.5 | 24.7 | 19.8 | 24.4 | 19.8 |
| Net external financing | 26.5 | 35.4 | 39.9 | 8.7 | 1.7 | 12.9 | 16.5 | 15.9 | 18.3 |

Source: ECLAC, on the basis of official data.

a/ Argentina, Bolivia, Brazil, Colombia, Costa Rica, Chile, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

Table 31

LATIN AMERICA AND THE CARIBBEAN a/: EVOLUTION OF THE EXTERNAL DEBT AND ITS SERVICING

| | 1980 | 1981 | 1982 | 1983 | 1984 | Case A | | Case B | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1990 | 1995 | 1990 | 1995 |
| | | | | | Millions of current dollars | | | | |
| Interest on external debt (paid) | 21 031 | 31 483 | 39 567 | 35 550 | 39 479 | 48 709 | 67 589 | 51 562 | 76 487 |
| Amortization of external debt | 18 244 | 21 433 | 22 208 | 23 838 | 23 864 | 56 269 | 77 239 | 38 177 | 51 133 |
| Total external debt servicing | 39 275 | 52 916 | 61 775 | 59 388 | 63 343 | 104 978 | 144 828 | 89 739 | 127 520 |
| Gross inflow of foreign capital | 48 204 | 59 603 | 43 407 | 28 460 | 33 865 | 88 091 | 144 951 | 79 333 | 133 829 |
| Net contribution of foreign capital | 11 692 | 10 000 | -17 002 | -29 947 | -27 316 | -15 486 | 3 535 | -8 692 | 10 728 |
| External debt | 202 231 | 275 322 | 315 610 | 340 638 | 355 431 | 474 429 | 692 151 | 500 162 | 779 318 |
| | | | Coefficients in relation to exports of goods and services (percentages) | | | | | | |
| Interest on external debt (paid) | 20.2 | 28.0 | 39.4 | 35.9 | 35.7 | 25.3 | 20.6 | 25.4 | 21.0 |
| Amortization of external debt | 17.5 | 19.1 | 22.1 | 24.1 | 21.6 | 29.3 | 28.5 | 18.8 | 14.0 |
| Total external debt servicing | 37.7 | 47.1 | 61.5 | 60.0 | 57.3 | 54.6 | 44.1 | 44.2 | 35.0 |
| Gross inflow of foreign capital | 46.2 | 53.0 | 43.3 | 28.8 | 30.6 | 45.8 | 44.2 | 39.0 | 36.7 |
| Net contribution of foreign capital | 11.2 | 8.9 | -16.9 | -30.3 | -24.7 | -8.1 | 1.1 | -4.3 | 2.9 |
| External debt | 209.9 | 242.8 | 311.4 | 341.1 | 322.5 | 246.8 | 210.8 | 246.1 | 213.7 |

Source: ECLAC, on the basis of official data.

a/ Argentina, Bolivia, Brazil, Colombia, Costa Rica, Chile, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay and Venezuela.

## B. THE ORIGIN AND NATURE OF THE EXTERNAL DEBT PROBLEM

Two types of factors contributed to the accumulation of the region's external debt. On the one hand rapid growth of the international financial markets took place in the 1970s. This was essentially brought about by the huge accumulation of liquidities on the part of the oil-exporting countries following the enormous increases in oil prices, and by the fact that this affluence of funds inundated a market which lacked suitable regulations, as was the case of the euro-currency market. In this way the international capital market expanded to a large extent outside the reach of any national or international monetary authority, and capital movements became increasingly more significant in countries' balance-of-payments results.

Moreover, the application of national policies stimulating the inflow of private funds helped to increase the region's external indebtedness, and also tended to produce excessive domestic expenditure by the public sector in some cases, and by the private sector in others.

Whenever government expenditure is in excess of income, it seeks to finance the shortfall by external loans, thereby directly increasing the official debt, or by domestic loans, which causes an increase in money supply or rises in the interest rate. If there is an excess of money supply in the economy, overall demand for goods and services grows inordinately, engendering disequilibria in the trade balance, as a result of which the country is affected by a shrinkage of its reserves and the government tends to resort to debt in order to cover the deficit; in this situation, which is the most frequent, the external public debt often increases.

With regard to excessive expenditure by the private sector (which may lead to an increase in the external debt of countries whose public sector has managed to improve the balance of its accounts), the majority of analysts have assumed that it may be avoided as the government is able to control growth of domestic credit. Nevertheless, it has been observed that excessive private-sector spending targets can be met if alternative external sources of funds appear, and if the policy in force makes it easy to obtain access to them.

In those cases in which excessive private expenditure predominates, it has been observed that the external debt of the private sector increases, while when the fiscal deficit is predominant, official indebtedness is of greater importance.

Other national policies which contributed to increasing the region's external indebtedness were those which led to the maintenance of considerable differences between domestic and external interest rates.

The available information indicates that differences between domestic and external interest rates in the region have been both pronounced and persistent, even if expected fluctuations in the exchange rate are taken into account. In a number of countries in the region the domestic rates, expressed in foreign currency, have veered sharply away from external rates.

Administrative control over capital movements constitutes the traditional explanation for this divergence between domestic and external interest rates. However, recent experience has shown that even when such movements are relatively free, the divergence may persist for a long time. Firstly, because the international capital market is segmented and local applicants for credit do not themselves have direct access thereto, but only a number of financial intermediaries. Secondly, because local financial assets do not constitute satisfactory substitutes for international ones, either because of the absence of the information necessary to assess risks or as a result of the excessive cost of obtaining such information. Finally, a number of the (social) costs of external indebtedness are not adequately taken into account in market prices (for example, the fact that additional debt increases the rate of interest or the surcharges on the debt as a whole). To sum up, in the absence of suitable controls, the market does not operate as a suitable regulatory mechanism over international capital movements.

Domestic interest rates also remained higher than external ones in a number of countries in the region as a result of structural and short-term economic policies which failed to exert sufficient control over the behavior of major groups of large enterprises with links between one another and with the financial sector. Participation of banks in the ownership of non-financial enterprises provided the latter with the guarantee that they would not be excluded from the market. Moreover, less security was required of them, as a result of which, since they were risking less, they were prepared to pay high interest rates and to get deeper into debt. It should be added that in a number of countries in the region stringent anti-inflation policies were tried out, with a component of restrictive monetary policies. This entailed increases in the rates of interest, excessive demand for credit, or both.

To sum up, responsibility for the growth of Latin America's external debt is to be shared out between creditors and debtors. As far as creditors are concerned, they are responsible for having lent considerable funds while failing to examine the solvency of borrowers. As for the debtor countries, their responsibility lies in having applied policies which stimulated external indebtedness or failed to exert adequate control thereover.

The increase in the level of the external debt has brought about problems which are new to the countries of the region or has sharpened already existing difficulties. On the one hand, domestic policy is encountering further restrictions, since the greater the funds invested in a country by banks, the greater their interest in appraising that country's domestic policies before granting further loans. On the other hand, the greater the level of the debt, the greater the need for debtor countries to obtain further funds to finance the payment commitments thereby involved. Moreover, the rise in the level of the debt increases the likelihood of the countries in the region becoming net exporters of financial and real resources.

Further problems arise from the fact that most of the new debt originates in private international sources. On the one hand, credit is subject to conditions of a commercial nature, i.e., higher costs and shorter repayment periods; on the other hand, the debt is subject to floating interest rates whose fluctuations affect the total debt and not only the new debt taken out. Finally, the fact that private debt is involved does not prevent reasons of a political nature weighing in the decisions of lenders, as was once optimistically thought. Once the level of the debt exceeds a reasonable limit, it becomes as serious political problem for the major financial credit institutions.

Finally, the increase in the external debt leads to an increase in the domestic debt owed to the intermediaries of the latter, generally the local financial system. The latter observes an increase in the vulnerability of its assets when the external debt becomes a problem.

The increased vulnerability of the balance of payments and the financial systems of those countries whose debt expands may suddenly spark off a crisis if unexpected changes take place under particular conditions. This was the case at the beginning of the 1980s, when the industrialized economies were experiencing a deep recession. This recession went hand in hand with the application of anti-inflationary policies which caused sharp rises in interest rates and paralyzed financial flows. This caused stagnation and even a reduction in international trade.

The conjunctural shrinkage in trade caused by the recession in the industrial economies and by the reduction of financial flows, came on top of, and acted in the same direction as already existing structural factors. The industrial redeployment of the developed economies, a consequence of the extremely rapid and uneven rates of technological change which they have experienced in recent years, has suffered from areas of friction and backwardness, which have helped to generate a trend toward unemployment, and consequently protectionism, weakening trade even further.

The consequences for the region have been catastrophic. A sharp deterioration occurred in the terms of trade (more than 16% between 1981 and 1985); this fact alone entailed a loss of resources worth US$ 15 billion in 1985. The rise in interest rates also had extremely serious consequences: on the one hand, because the rise in the rates were unusual; real rates in the last five years have been at their highest levels in the last half century, on the other hand, because the debt was extremely large, with the result that interest payments exceeded the cost of oil imports by the developing countries. Moreover, international financial flows were reversed, partly as a result of the rise in external interest rates, and partly as a consequence of the crisis which broke out in the economies of the region and of the resulting policy changes. Thus, bank credit fell by US$ 11.4 billion net in 1982 and became negative in 1985; foreign investment fell from US$ 5.2 billion between 1977 and 1982 to half that sum in 1983 and 1984, and capital flight became more pronounced, as can be deduced from indirect estimates.

Since the middle of 1982, Latin America and the Caribbean have thus faced the deepest international crisis since the great depression of the 1930s. Fresh solutions have to be sought for this crisis and for its consequences. Should things follow their present path, there is every reason for holding out the darkest long-term economic and social outlook for the region, in accordance with the projections which have been mentioned. Only a sharp stimulus to world economic growth, together with the materialization of mechanisms to alleviate the debt burden could be capable of brightening this gloomy forecast.

## C. SOME GUIDELINES FOR ACTION

Policy should be based on the following premises:

a) Creditors and debtors share responsibility for the incommensurate expansion of the external debt of Latin America and the Caribbean.

b) The transformation of the debt problem into the present crisis is the result of factors (policies applied in the industrialized countries, international recession, protectionism) which are completely outside the control of the countries in the region.

c) Strategies so far applied to bring about a solution, based upon the recessionary readjustment of the economies of the region and on case-by-case rescheduling of debt payments, do not solve the problem and lead to situations which are unbearable for the debtor countries.

The strategies so far applied have sought to gain time, and, in principle, have ignored all of these premises. The measures adopted from 1982 onwards clearly fall into the category of measures designed to provide breathing space while the normal operation of the world economy resolves the problems of rates of interest, terms and volumes of trade. They are principally composed of case-by-case renegotiation of the external debt, strengthening of the role played by the International Monetary Fund and its asymmetrical conditionality guidelines, and close co-ordination between creditors.

Successive rounds of renegotiation of the external debt have corrected some of the initial shortcomings. Despite granting more time for payment of the principal part of the debt, the first round of renegotiations, held in 1983, raised its cost by increasing margins and commissions. Subsequent rounds have eliminated these surcharges and even reduced the cost of the debt to a limited extent, by accepting changes in the reference rates, lower margins on interest rates, more moderate commissions and other expenses connected to the process of renegotiation (or their elimination), rescheduling of amortization payments over a number of years, longer periods of grace and maturity and the possibility of changing the currency in which the debt is expressed. The World Bank has expanded its joint financing and for the first time granted partial guarantees which would make it possible to lower the risk taken by the country and stimulate increased funding from private sources. However, there has been little sign of a revival on the part of the latter.

There is no reason for expecting significantly more from case-by-case renegotiation. As was indicated in a study carried out by ECLAC,88/ recent data have quenched some of the optimistic expectations inspired by the 1984 results. The terms of trade continue to worsen, there is no sign of expansion in world trade and rates of interest practised remain excessively high for debtors.

The data used in the above projection clearly suggest the need for a radical change in strategy if Latin America and the Caribbean are to return to positive rates of economic growth, however modest these may be. The conditions prevailing in the world economy, protectionism and interest rates will need to undergo a considerable change if the strategies designed to gain time are to have a positive long-term impact. In addition, heavy further financing would be required. Latin America cannot allow its fate to hang on these hopes. It is essential to examine strategies which come to grips with the problem immediately and to attempt to lessen its impact.

This type of strategy is based on serious and responsible consideration of the three premises indicated above. In this respect, there would seem to be two approaches: restrict debt servicing payments in accordance with certain criteria as to capacity, or directly reduce such payments. From the financial point of view both come down to the same thing, as the first approach makes it possible to indefinitely accumulate debt servicing which is in excess of the limits adopted.

It is possible to reduce the debt either by lowering interests (to below market rates), or by directly reducing the principal. In this case too, both measures are the same from a financial point of view, although they differ in accounting term. As far as the balance of the creditor institutions is concerned, reduction of interests is merely reflected over time, while a reduction of principal is immediately and fully reflected in the balance. This difference may be significant as far as the stability of the creditor institutions is concerned.

A number of proposals have attempted to tackle the problem of the external debt by limiting servicing in accordance with the payment capacity of the debtor. The most important of these are set out in the Oaxtepec Communiqué and that put into practice by the Government of Peru.

The Oaxtepec Communiqué maintains that rules should be laid down to provide for the sharing of risks between creditors and debtors, and a maximum ceiling established for net transfers from debtor countries so as to ensure minimum growth of their product and allow them to stabilize their economies.

The policy adopted by the Government of Peru consists in defining a criterion as to payment capacity in terms of a percentage of exports. In the case of Peru itself, the percentage was set at 10%, and payments to institutions which grant the country net additional financing above the payment requirement were excluded from the limit.

Two other types of proposal fall within this same overall category: those which propose transforming debt bonds into shares in productive capital, and those which suggest transforming part of the external debt into local currency. The first of these involves conversion of the debt into shares or other securities in the capital of the debtor countries' firms. Interest payments are thereby transformed into profit transfers (obviously, only if profit is made). In view of the sums involved, if this proposal were adopted on a fairly large scale it would lead to a notable change in the structure of ownership in the debtor countries. Transformation of a considerable part of the external debt into local currency could have similar consequences, which would also have an impact on the balance-of-payments trade account, as the local currency would probably be directed towards the purchase of capital stock and internationally tradeable goods.

Alternatively, a number of solutions based on a reduction of the debt capital have been put forward. This would achieve a reduction in the weight of servicing even if interest rates did not decline. The proposals to reduce the capital are based on the fact that the longer the terms of trade take to improve and the rate of interest to decline, the more the problem of "liquidity" in debt payment is transformed into a problem of "solvency". In accordance with the principle of joint responsibility for the generation of the debt, external creditors should thus accept part of the corresponding capital loss.

There is a broad range of options for applying this type of proposal. They include the conversion of the external debt, at lower nominal values, into other financial or real assets, through market mechanisms, multilateral government measures or unilateral action. Another possibility involves promoting the establishment of a secondary market on which banks are able to trade their debt certificates. At present, this method has been above all applied in the case of the smallest creditor banks, and would only constitute relief for debtor countries if they themselves recovered their external debt certificates at lower prices than on the market. Another mechanism could involve transfer of bank certificates to a multilateral body, which would exchange them for longer-term bonds at a lower value to that of the existing certificates.

Proposals which aim to reduce the rates of interest are from a financial point of view equivalent to those which involve a reduction of the capital, though it is possible to spread their impact on the creditor institutions over a long period, provided existing norms do not oblige the latter to reflect the full impact of a fall in the accounting value of these assets. A proposal of this kind is based on the granting of an official multilateral guarantee to the external debt, which would allow the banks to lower the interests charged in exchange for greater portfolio security.

Other alternatives aim at a more direct reduction in interest rates, even should this affect the creditor institutions, applying similar mechanisms to the external debt to those applied when a creditor bank has to negotiate with a debtor firm facing difficulties over its payments. A proposal has also been made to establish a special financing service, or to extend an existing service, with the aim of financing increases in the interest rates when these are above their historical averages. Such funding would be granted at a lower rate than the market rate, which would automatically lessen the debt burden.

One interesting mechanism would consist of the automatic capitalization of interests when the interest rate exceeds a certain ceiling. Capitalization would also lighten the debt burden in so far as the capitalized interests would not in turn generate interests at the market rate. Interest capitalization may be considered as equivalent to the utilization of variable maturity instruments. These make it possible to adopt variable interest rates, while maintaining constant payments for servicing, altering the number of periods during which debt service payments must be made. When rates rise, the debtor's interest payment commitments rise, but this increase is offset by lower repayments of principal, and the difference is carried forward. This type of instrument is extremely limited in its application in the case of restructuring the existing external debt; however, it could prove attractive for future new loans which would be dealt with differently from existing ones. When interest rates are above historical averages, interest capitalization solutions possess a further advantage: like the financial services created to this end, they help to soften the impact of changes in international interest rates on the debtor countries.

A new proposal, which differs from strategies at present used was made by the United States Treasury Secretary, Mr. James Baker, in October 1985. This involves seeking means of achieving further growth of approximately 3% per year in the debt accumulated over three years. Financing would be provided by the international commercial banks and multilateral development banks, in exchange for increased conditionality over the use of these funds by the debtors. As existing rates of inflation are higher than 3%, the Baker proposal would require a reduction in the real level of the debt, and would make it possible to finance only around one-third of the interests which the debtor countries must at present pay. It would be necessary to cover the remainder with a positive trade balance, implying a sustained transfer of real resources from the debtor countries towards the creditors.

The proposal also implies a generalization of yet-to-be-defined macroeconomic conditionality to all sources of funds, which could lead to difficulties with regard to the utilization of these funds and high risks resulting from the possibility of errors in defining the terms of the conditionality.

Nevertheless, the proposal represents the first significant new element in the approach adopted towards the debt by the creditor countries. It recognizes the need for determined action by the governments of the industrialized countries to seek a solution to the problem of the debt within a framework of economic growth in the debtor countries.

Finally, the alternatives to the existing proposals which have gradually been put forward by the signatories to the Cartagena Agreement should be given attention. These countries, which include all the region's principal debtors, have began to jointly examine the problem of the external debt and to seek a number of common bases for a solution which, in so far as possible, does not involve upsetting world financial markets. The position adopted by this group of countries has evolved towards increasingly specific proposals, which tend to conciliate the aims of economic growth with transfers of real and financial resources.

The signatories to the Cartagena Agreement have put forward an Emergency Proposition for negotiations on the external debt and growth. This in particular includes the return of interest rates to their historical levels, an increase in the flow of funds and differentiation between the treatment of the existing debt and that of future debt, with the aim of subjecting the latter to market conditions and the former to preferential conditions, from debtor's viewpoint. One criterion proposed is the maintenance of real levels of credit from commercial banks, and a net annual increase of 20% in funds directed towards the region by multilateral development bodies. Moreover, it is suggested that compensatory financing from the International Monetary Fund be extended, so as to offset the impact of exogenous factors such as the deterioration in the terms of trade and the persistence of high interest rates. The need to avoid the application of conditionality which obliges the economy to be adjusted to the prevailing external disequilibrium is established. Simultaneously, the tight relationship between finance and trade is recognized, together with the need for an end to protectionist measures which restrict the debtor countries' freedom of access to the main world markets. The proposal also includes the need to set a ceiling on net transfers of resources linked to a minimum target of growth of product, and includes the possibility of limiting debt service payments to a proportion of income from exports. Finally, the proposal indicates that unless the set of proposed measures is adopted, the region could find itself facing a situation of extreme gravity which would necessarily oblige it to limit its net transfers of resources in order to avoid increased social and political instability which could reverse the processes of democratic stabilization.

In conclusion, it is worth reasserting the notion that specific policies are required to lighten the debt burden if it is wished to help solve the economic crisis affecting the region. This is the principal and unavoidable conclusion to be drawn from the present situation.

It might be assumed that with annual growth rates of above 4% in the economies of the OECD countries, the debt problem might gradually disappear. While such rates of growth have not been unknown in the past, the present instability of the world economy gives reason for viewing with skepticism any possibility of their being attained and firmly maintained at the present time. While the reduction in interest rates and in the price of oil point towards a revival, other indicators (for example, the United States economy) suggest a trend towards stagnation. Moreover, both protectionism and the existing restrictions in international credit markets deny any hope that the dynamism of the world economy, should it return, will be, as before, transmitted to the developing economies.

## Notes

1/ Strictly speaking, this paragraph is not entirely applicable to the English-speaking Caribbean countries.

2/ ECLAC, The international economic relations and regional co-operation of Latin America (E/CEPAL/G.1303), Santiago, Chile, March 1984, p. 145.

3/ Ibid, p. 147.

4/ See ECLAC, El intercambio compensado desde una perspectiva latinoamericana (LC/R.373), Santiago, Chile, September 1984, p. 6.

5/ See ECLAC, El pensamiento de la CEPAL, Editorial Universitaria, Santiago, Chile, 1969, p. 18.

6/ See A. Pinto and J. Kñakal, "El sistema centro-periferia veinte años después", Revista de la integración, IDB-INTAL, Buenos Aires, May 1972.

7/ See C. Ominami, Les transformations dans la crise des rapports Nord-Sud, Nanterre, October 1984.

8/ See UNCTAD, Statistical Pocketbook, New York, 1984, p. 7.

9/ See World Bank, World Development Report 1983, Washington, D.C., table 27.

10/ See Organization for Economic Co-operation and Development (OECD), The impact of the newly industrializing countries on production and trade of manufactures, Paris, 1979.

11/ See ECLAC, Dirección y estructura del comercio latinoamericano (LC/G.1329), Santiago, Chile, 20 November 1984.

12/ See Organization for Economic Co-operation and Development, "The new wave of industrial exporters" in The OECD Observer, Paris, 1982.

13/ See C. Bergsten and W. Cline, "Trade policy in the 1980s: An overview", in W. Cline (ed.), Trade policy in the 1980s, Institute for International Economics, Washington, D.C., 1982.

14/ See F. Fajnzylber, "Some reflections on Southeast Asian export industrialization", CEPAL Review, No. 15, Santiago, Chile, December 1981. United Nations Publication, Sales No.: E.81.II.G.4.

15/ See Organization for Economic Co-operation and Development, The impact of the newly industrializing countries on production and trade of manufactures, op. cit.

16/ See F. Fajnzylber, op. cit., p. 122.

17/ See M. Movarec, "Exports of Latin American manufactures to the centres: Their magnitude and significance", CEPAL Review, No. 17, Santiago, Chile, August 1982. United Nations Publication, Sales No.: E.82.II.G.3.

18/ See ECLAC, Las empresas transnacionales y el comercio exterior de América Latina (LC/L.322), Santiago, Chile, November 1984.

19/ See ECLAC, Las empresas transnacionales y América Latina: situación actual y perspectivas frente a la crisis (LC/R.369), Santiago, Chile, August 1984.

20/ See United Nations Centre on Transnational Corporations (CTC), Transnational corporations in world development: Third survey, United Nations, New York, 1983.

21/ See United States Information Agency, President's address to a joint session of the Congress, 18 February 1981.

22/ Ibid.

23/ See United States of America, The Economic Report of the President, United States Government Printing Office, Washington, D.C., 1982, pp. 4-5.

24/ Ibid., p. 167.

25/ Calculated by the Council of Economic Advisers. See The Economic Report of the President, transmitted to the Congress in February 1985, pp. 237 and 310.

26/ Ibid., p. 114.

27/ See ECLAC, The international economic relations and regional co-operation of Latin America, op. cit., p. 77.

28/ See International Monetary Fund, International Financial Statistics, Yearbook 1985, Washington, D.C., 1985.

29/ See SELA, La política económica de Estados Unidos y su impacto en América Latina (SP/CL/X.0/DT No. 10), Caracas, 1984.

30/ See "Growth slackens in U.S.", International Herald Tribune, 23 January 1985.

31/ See "Strong dollar divides the men from the boys", The Economist, 2 March 1985, p. 65.

32/ See United States Department of Commerce, "Current business statistics", Survey of Current Business, August 1975-August 1985.

33/ See United States Department of Commerce, "Selected national income and product account tables", Survey of Current Business, December 1982, 1983 and 1984 and January 1985.

34/ See United States Department of Commerce, "Current business statistics", Survey of Current Business, October 1984, August 1985.

35/ See "U.S. sales fell 3.3% in October", International Herald Tribune, 15 November 1985.

36/ See "Industry in U.S. seen prospering again in 1985", International Herald Tribune, 2 January 1985.

37/ See Board of Governors of the Federal Reserve System, Federal Reserve Bulletin, March 1985.

38/ Ibid.

39/ See "The growth will steam right through '86", U.S. News and World Report, 30 December 1985, p. 78.

40/ See United States Department of Commerce, "Federal budget developments", Survey of Current Business, September 1985, p. 16.

41/ See interview with W. Brock, United States Trade Representative, in U.S. News and World Report, 8 April 1985, p. 72.

42/ See International Monetary Fund, International Financial Statistics, Yearbook 1985, Washington, D.C., 1985.

43/ See Organization for Economic Co-operation and Development (OECD), Economic Outlook, No. 36, Paris, December 1984, p. 169.

44/ See United States Department of Commerce, "U.S. international transactions", Survey of Current Business, December 1983 and 1984 and September 1985.

45/ Ibid.

46/ See International Monetary Fund, Direction of Trade Statistics, Yearbook 1985, Washington, D.C., 1985.

47/ See ECLAC, Preliminary Overview of the Latin American Economy during 1985, Santiago, Chile, December 1985.

48/ Data from the ECLAC Statistics and Qualitative Analysis Division.

49/ Calculated by the Board of Governors of the Federal Reserve System (see Federal Reserve Bulletin, July 1985); see also ECLAC, Preliminary Overview of the Latin American Economy during 1984, Santiago, Chile, December 1984.

50/ See United States Department of Commerce, "U.S. international transactions", Survey of Current Business, September 1983, 1984 and 1985.

51/ See Organization of American States, Statistical Bulletin of the OAS, Vol. 6, Nos. 1-4, Washington, D.C., January-December 1984.

52/ See UNCTAD, Handbook of International Trade and Development Statistics, New York, 1983.

53/ See European-Latin American Research Institute (EURAL), América Latina y las Comunidades Europeas: los desafíos de una relación compleja, Buenos Aires, 1985.

54/ See Commission of the European Communities, "Orientaciones para fortalecer las relaciones entre la Comunidad Europea y América Latina", Comercio Exterior, Mexico City, June 1985.

55/ See SELA, Impacto de la segunda ampliación de la CEE sobre las exportaciones latinoamericanas, Caracas, August 1980; ICI/ECLAC, Las relaciones económicas entre España e Iberoamérica, Ediciones Cultura Hispánica del ICI, Madrid, 1982; and J. A. Alonso and V. Donoso, Efectos de la adhesión de España a la CEE sobre las exportaciones de Iberoamérica, Ediciones Cultura Hispánica del ICI, Madrid, 1983.

56/ Consideration is given here to the results obtained by this study because it is the most recent study, because it covers the greatest volume of trade and because it also analyses the positive impacts which the enlargement of EEC would have on Latin American trade.

57/ See in this connection UNCTAD, Monthly Commodity Price Bulletin, various issues.

58/ For more information see UNCTAD, Commodity Survey, 1980-1985 (TD/B/C.1/274), Geneva, 17 September 1985.

59/ According to recent OECD estimates, 51.6% of Brazil's agricultural exports destined for OECD countries are subject to non-tariff barriers. The corresponding figure for Argentina is 100% and for Mexico, 73.7%.

60/ In addition, EEC spends half its wheat earnings and 89% of its earning on dairy products on price supports or various ways of subsidizing European producers in the corresponding sectors.

61/ Calculated by ECLAC on the basis of international commodity quotations. This quarterly index includes 24 of the region's most important export commodities (26, when petroleum and petroleum derivatives are taken into account). The weights assigned to the three different commodity groups were calculated on the basis of the average value of their respective exports in the period 1979-1980. If petroleum is excluded, the relative weights are as follows: food and beverages, 57% (tropical products, 48.4% and temperate products, 8.6%); agricultural raw materials, 20.8%; and minerals, ores and metals, 22.2%. With petroleum included, these weights change as follows: food and beverages, 29.7%; agricultural raw materials, 20.8%; minerals, ores and metals, 11.5% and petroleum and its derivatives, 48.0%.

62/ Calculated on the basis of figures found in various issues of International Financial Statistics, an IMF monthly publication.

63/ The idea behind the Common Fund is that its existence may make it easier to put ICA conclusions into practice by ensuring the availability of the financial resources needed to establish and apply international measures, such as buffer stocks. It is felt that cyclical price movements differ for each commodity and that price fluctuations are not necessarily synchronized; it was therefore felt that a common fund covering various commodities would have greater force than the individual ICA's operating on their own.

64/ It is important to draw attention to the discussions held in various forums and in UNCTAD in particular on the need for mechanisms for compensatory financing for commodities, designed specifically to provide structural adjustment loans for the supply side to specific commodity sectors. This proposal could be of particular importance because the existing arrangements (those of IMF, EEC and the World Bank) are not aimed directly enough at structural maladjustments in the supply of commodities.

65/ See SELA, América Latina y el sistema de comercio internacional (SP/CL/XI.0/DT No. 7), Caracas, 1985, p. 63.

66/ See A. Olechowsky and A. Yeates, Trade barriers, structural adjustment issues and the international debt problem, UNCTAD, Caracas, 1 August 1984, table 3, p. 12.

67/ See UNCTAD, Methods of measurement of non-tariff barriers, UNCTAD/ST/MD/28, United Nations, 1985.

68/ See A. Olechowsky and A. Yeates, Trade barriers, structural adjustment issues and the international debt problem, op. cit., pp. 33 and 35.

69/ Decision 309 (XXX), of the Trade and Development Board of UNCTAD.

70/ The references made to this act in the following pages are based on "Section 302: Statement of Purposes"; Tariff and Trade Act, 1984, Congressional Records House, October 1984.

71/ For a complete presentation of the arguments set out by the United States Administration see: William Brock, United States Trade Representative, "A simple plan for negotiating on trade in services", The World Economy, Trade Policy Research Centre, London, November 1982.

72/ See in particular, the Ministerial Decision on services, adopted by the GATT Contracting Parties in November 1982; the conclusions agreed upon by the Contracting Parties in November 1984 as well as the decision relating to GATT activities connected with the Services Trade, November 1985.

73/ See GATT, document MDF/7/Rev.2, 22 November 1985. This document was prepared by the GATT secretariat and contains an analytical summary of the information exchanged by the contracting parties.

74/ See ECLAC, The international economic relations and regional co-operation of Latin America, op. cit., pp. 88-89.

75/ See UNCTAD, Los servicios y el proceso de desarrollo (UNCTAD/ TD/B/1008), Geneva, August 1984.

76/ See Jonathan D. Aronson and Peter F. Cowhey, Trade in services: a case for open markets, American Enterprise Institute for Public Policy Research, Washington, D.C., 1984.

77/ See the position of services in Latin America in: ECLAC, El comercio internacional de servicios: el caso de América Latina y el Caribe (E/CEPAL/R.341), Santiago, Chile, 1984.

78/ Cases quoted by Suman Kumar Modwell, K.N. Meheotra and Suchil Kumar, in Trade in Services, Indian Institute of Foreign Trade, New Delhi, November 1984.

79/ See Murray Gibbs, "Continuing the international debate on services", Journal of World Trade Law, Vol. 19, No. 3, Twickenham, England, May/June 1985.

80/ See UNCTAD, Los servicios y el proceso de desarrollo, op. cit.

81/ See Kiyoshi Kojima and Terutomo Ozawa, Japan's general trading companies: merchants of economic development, Paris, OECD, 1984.

82/ See "Services: the new economy", Fortune, 10 June 1985.

83/ See M. Gibbs, "Continuing the international debate on services", op. cit., p. 215.

84/ See "Le libéralisme de proche en proche", Paul Mentré, L'Express, 12 April 1985.

85/ See "Services: the new economy", op. cit.

86/ See, for example, Jacques Nusbaumer, Les services: nouvelle donnée de l'économie, Ed. Económica, Paris, 1984.

87/ See UNCTAD, Los servicios y el proceso de desarrollo, op. cit.

88/ See, ECLAC, Preliminary Overview of the Latin American Economy during 1985 (LC/G.1383), Santiago, Chile, 27 December 1985.

# Part Two

# REGIONAL INTEGRATION AND CO-OPERATION

# I. NEGOTIATIONS AND INSTRUMENTS FOR REVITALIZING REGIONAL TRADE

## A. BACKGROUND

### 1. Political commitments

As a consequence of the most intense and painful economic crisis which Latin America has faced since the Great Depression, governments have given proof of their political determination to take joint action in order to once again provide countries with prospects of development, and of a fairer and more symmetrical insertion within the world economy.

The first high-level political declaration is the Quito Declaration and the corresponding Plan of Action,1/ adopted at the Latin American Economic Conference in January 1984. This Declaration stated: "Latin America and the Caribbean are facing the most serious and intense economic and social crisis of this century, one which is characterized by unique and unprecedented features". "The crisis demands urgent solutions by means of joint actions founded on regional co-operation and on the forging of a common position aimed at strengthening the region's capacity for response". There is no doubt that this conference was of particular importance in that it represented Latin America and the Caribbean's return to the path of unity, through an attempt to strengthen their systems of co-operation and integration and to revive the regional market as a basis for initiating a process of economic revival, founded on the efforts of all the countries themselves.

Many of the proposals made by the Quito Plan of Action were subsequently incorporated into the legal regulations of ALADI, by resolutions adopted at the Second Meeting of the Council of Ministers of the Association, in April 1984.

The commitments made in the Plan of Action cover the main aspects of the region's external trade and establish specific guidelines for reviving the integration process. As can be seen in table 32, the extent to which these commitments have in practice been fulfilled has been extraordinarily low. Moreover, neither have subsequent ALADI resolutions been implemented, despite the fact that in a number of cases they merely represented nominal commitments. The Regional Tariff Preference is an excellent example of this type of agreement.

Table 32

COMMITMENTS MADE UNDER THE QUITO PLAN OF ACTION FOR REGIONAL INTEGRATION

| Issue | Commitment | 1984-1985 assessment |
| --- | --- | --- |
| Non-tariff restrictions to intra-Latin American trade (NTR) | - No further introduction of NTR's<br>- Elimination or gradual reduction of existing NTR's | - Resolution 5 of Second Council of ALADI Members sets a period of three years for the elimination of existing NTR's from 27 April 1984<br>- It has proved impossible to bring this resolution into effect almost two years after its approval |
| Latin American Regional Tariff Preference (RTP) | - Establishment of RTP within ALADI<br>- Negotiation over the participation of other Latin American and Caribbean countries in RTP | - The Second Council of Ministers of ALADI approves the Regional Agreement on Regional Tariff Preference<br>- The levels approved for RTP vary between 2 and 10% and its field of application was restricted as a result of the lengthy lists of exceptions defined by countries |
| Bilateral negotiations | - Intensification of bilateral or multilateral trade negotiations for the purpose of achieving a rapid increase in regional trade | - A round of negotiations was to be launched within ALADI in April 1986 |

Table 32 (concl.)

| Issue | Commitment | 1984-1985 assessment |
|---|---|---|
| Government procurement | - Promotion of operational mechanisms making it possible to take advantage of government procurement capacity by seeking to import from regional suppliers<br>- A regional preference in favour of Latin American and Caribbean suppliers and corporations through public tender | - No progress has been made towards redirecting government procurement or applying preference to regional suppliers |
| Making use of regional supply and demand for goods | - Taking advantage of regional supply and demand to facilitate purchases and sales of the region within the region itself; to intensify industrialization and to substitute extra-regional imports<br>- Creation of Latin American marketing enterprises<br>- Creation of an efficient system of trade information | - Unfulfilled |
| Counterpurchase agreements | - Analysis of existing opportunities for counterpurchase | - No significant agreements have been reached in this area. National legislation is incomplete and restrictive with regard to this |
| Strengthening of compensatory mechanisms | - Improvement and extension of the coverage of the system of reciprocal payment and credit<br>- Strengthening of export financing mechanisms | - Unmaterialized projects exist within ALADI |

The Declaration of the Montevideo Meeting in March 1985, signed by Presidents and high-level government representatives, reasserted the urgent need to modify the prevailing immobility.2/ The Declaration stated that "A practical means of asserting this solidarity is to combine efforts to make use of the broad channel open to reciprocal trade in the region to make use of the area's own internal bargaining power for its own benefit and to restore the value of the Latin American market for Latin Americans, in so far as possible redirecting our purchasing power towards our own suppliers".

As one means of materializing these aspirations, it was stated: "We undertake to carry out this year a round of negotiations to promote greater reliance on regional supplies, endeavouring to satisfy national demand for goods and services with growing amounts of products from our own countries under fair trading conditions". The regional round of negotiations will begin with a high-level political meeting between the member countries of ALADI, which will be held in Buenos Aires from 7-11 April 1986. Its aims will be to approve the definitive agenda of the round, to set its opening date and define a timetable for the meetings to be held and the political guidelines for regional co-operation which will govern them.

## 2. The evolution of intra-regional trade

Estimates available for 1985 indicate that the region's external trade continues to display adverse trends. Latin American imports shrunk by 2%, after having undergone a slight recovery in 1984. Exports in turn declined by approximately 6%, after an 11% increase in 1984.

In 1981 intra-regional trade reached 16 228 million current dollars. Three years later it only represented US$ 11 443 million. Estimates for 1985 reveal that a further decline of approximately 5% probably occurred. The relative importance of intra-regional exports in comparison with total exports declined from 16.6% to 11.7% between 1981 and 1984. The declining dynamism of trade within the integration programmes has been widespread, and such trade has been of less importance within total trade. The market of the various integration programmes has displayed a disturbing recessive trend. In any case, the levels of trade attained in 1984 were lower than those recorded at the beginning of the decade. The relative scale of trade within each programme has also considerably declined. The Central American Common Market (CACM), which under normal circumstances handled more than 20% of the area's trade, in 1984 merely represented 16.6%, which gives an idea of the scale of the problems affecting reciprocal trade. Similar trends were apparent within ALADI and the Andean Group, while the decline of trade among member countries of CARICOM was less pronounced (see table 33).

Table 33

LATIN AMERICAN AND THE CARIBBEAN: EXPORTS BETWEEN INTEGRATION ORGANIZATIONS, INTRA-REGIONAL AND TOTAL EXPORTS

(Millions of current dollars, FOB)

| | 1960 | 1965 | 1970 | 1975 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 a/ | 1984 a/ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ALADI | | | | | | | | | | | |
| Total exports | 7 344.8 | 9 388.7 | 13 786.7 | 29 664.2 | 44 630.1 | 60 729.0 | 79 569.1 | 87 040.9 | 80 737.8 | 82 019.7 | 88 512.1 |
| Exports to Latin America | - | - | 1 583.5 | 5 031.2 | 7 174.3 | 10 011.8 | 11 962.5 | 14 156.8 | 11 684.3 | 9 183.0 | 10 047.6 |
| Percentages of exports to Latin America/total | - | - | 12.4 | 17.0 | 16.1 | 16.5 | 15.0 | 16.3 | 14.5 | 11.2 | 11.4 |
| Exports within ALADI | 566.6 | 841.9 | 1 266.0 | 4 010.2 | 5 838.4 | 8 574.6 | 10 879.3 | 11 913.2 | 9 758.5 | 7 053.8 | 8 046.6 |
| Percentages of exports within ALADI/total | 7.7 | 9.0 | 9.9 | 13.5 | 13.1 | 14.1 | 13.7 | 13.7 | 12.1 | 8.6 | 9.1 |
| Percentages of exports within ALADI/exports to Latin America | - | - | 79.9 | 79.7 | 81.4 | 85.6 | 90.9 | 84.2 | 83.5 | 76.8 | 80.1 |
| Andean Group b/ | | | | | | | | | | | |
| Total exports | 3 586.8 | 4 346.0 | 5 419.1 | 12 897.8 | 16 293.4 | 23 937.5 | 30 064.5 | 29 758.9 | 26 954.0 | 24 813.6 | 24 425.2 |
| Exports to Latin America | - | - | 569.0 | 2 055.3 | 2 404.2 | 3 412.9 | 3 922.8 | 4 854.0 | 4 420.2 | 3 428.7 | 3 114.3 |
| Percentages of exports to Latin America/total | - | - | 10.5 | 15.9 | 14.8 | 14.3 | 13.0 | 16.3 | 16.4 | 13.8 | 12.8 |
| Exports within the Andean Group | 24.5 | 52.7 | 91.6 | 477.1 | 684.5 | 1 075.1 | 1 182.6 | 1 195.3 | 1 220.2 | 843.0 | 744.0 |
| Percentages of exports within the Andean Group/total | 0.7 | 1.2 | 1.7 | 3.7 | 4.2 | 4.5 | 3.9 | 4.0 | 4.5 | 3.4 | 3.1 |
| Percentages of exports within the Andean Group/exports to Latin America | - | - | 16.1 | 23.2 | 28.5 | 31.5 | 30.1 | 24.6 | 27.6 | 24.6 | 23.9 |
| Central American Common Market | | | | | | | | | | | |
| Total exports | 444.2 | 762.5 | 1 105.4 | 2 309.4 | 3 974.0 | 4 462.5 | 4 942.5 | 4 299.2 | 3 393.7 | 3 923.5 | 4 186.8 |
| Exports to Latin America | - | - | 313.7 | 645.9 | 965.7 | 1 034.2 | 1 172.0 | 1 260.4 | 969.4 | 956.8 | 881.0 |

Table 33 (concl.)

| | 1960 | 1965 | 1970 | 1975 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 a/ | 1984 a/ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Percentages of exports to Latin America/total | - | - | 28.4 | 28.0 | 24.3 | 23.2 | 23.7 | 29.3 | 28.6 | 24.4 | 21.0 |
| Exports within CACM | 30.9 | 132.8 | 287.1 | 541.3 | 862.8 | 898.7 | 994.3 | 972.3 | 761.2 | 755.1 | 696.2 |
| Percentages of exports within CACM/total | 7.4 | 17.4 | 26.0 | 23.4 | 21.7 | 20.1 | 20.1 | 22.6 | 22.4 | 19.3 | 16.6 |
| Percentages of exports within CACM/exports to Latin America | - | - | 91.5 | 83.8 | 89.3 | 86.9 | 84.8 | 77.1 | 78.5 | 78.9 | 79.0 |
| CARICOM c/ | | | | | | | | | | | |
| Total exports | 543.7 | 750.2 | 1 000.1 | 3 028.5 | 3 190.2 | 2 908.1 | 5 498.4 | 5 113.0 | 4 406.7 | 3 683.4 | 3 580.5 |
| Exports to Latin America | - | - | 63.2 | 259.7 | 297.6 | 439.6 | 593.9 | 677.0 | 728.3 | 480.3 | 440.0 |
| Percentages of exports to Latin America/total | - | - | 6.3 | 8.6 | 9.3 | 11.2 | 10.8 | 13.2 | 16.5 | 13.0 | 12.3 |
| Percentages of exports within CARICOM | 21.3 | 27.1 | 42.3 | 216.8 | 204.7 | 255.7 | 352.5 | 372.9 | 378.2 | 317.7 | 280.0 |
| Percentages of exports within CARICOM/total | 3.9 | 3.6 | 4.2 | 7.2 | 6.4 | 6.5 | 6.4 | 7.2 | 8.6 | 8.6 | 7.8 |
| Percentages of exports within CARICOM/exports to Latin America | - | - | 66.9 | 83.5 | 68.8 | 58.2 | 59.4 | 55.1 | 51.9 | 66.2 | 63.6 |
| Latin America and the Caribbean d/ | | | | | | | | | | | |
| Total exports | 8 532.5 | 11 518.6 | 15 212.2 | 36 182.8 | 52 712.2 | 70 265.6 | 91 325.7 | 97 956.8 | 89 858.4 | 90 895.4 | 97 636.1 |
| Intra-regional trade | 749.9 | 1 275.3 | 1 969.7 | 5 964.8 | 8 536.5 | 11 583.3 | 13 882.9 | 16 227.9 | 13 481.3 | 10 696.9 | 11 443.3 |
| Percentage of intra-regional trade/total | 8.8 | 11.1 | 12.9 | 16.5 | 16.2 | 16.5 | 15.2 | 16.6 | 15.0 | 11.8 | 11.7 |

Source: ECLAC, on the basis of official data.

a/ Estimates.
b/ Excluding Chile.
c/ Only includes Barbados, Guyana, Jamaica and Trinidad and Tobago.
d/ Including 11 ALADI countries, five CACM countries, four CARICOM countries, Panama and the Dominican Republic.

To sum up, the regional market and that of each integration programme in particular failed to soften the impact of the international crisis, and constituted an increasingly small portion of overall trade. It proved difficult to sell a large number of products on other markets, thereby accentuating the recession, particularly in the sector exporting manufactured goods.

Moreover, the international setting remains unfavourable for Latin America and the Caribbean. The region has become a net exporter of funds, the high levels of external indebtedness have made it necessary to adopt highly recessionary readjustment policies and protectionist trends have become more pronounced in the central countries, rendering even more difficult the necessary expansion of exports. All of these factors aggravate the political, economic and social conditions facing countries. There exists a broad consensus within the region that even the major countries will be unable to meet on their own the complex challenges facing them at the present time. Consequently regional unity represents a necessity for all, whatever the economic and political models which each may choose in accordance with its own national reality.

Moreover, experience has demonstrated the need to act simultaneously in both the international and the intra-regional spheres, if there is to be any hope of making use of regional bargaining capacity to counteract protectionist trends and improve the terms and conditions of negotiations on the external debt. Any effort in this direction would need to be based upon the Latin American market's potential for handling its own flows of trade. Proper use of the regional market implies a considerable change of attitude as has been stressed time and time again at many high-level political forums. Consequently, it is time for Latin America and the Caribbean to begin drawing up the political mandates. In other words, priority must be given to full utilization of the countries' own resources, by setting up as autonomous as possible a system for intra-regional trade, capable of contributing to national efforts at revival and development.

Another important background factor which must be borne in mind is the pressure which a number of developed countries are exerting for the organization of a new round of negotiations on goods, external investment, technology and services. With regard to this latter item in particular, the majority of the countries in the region still lack a clear position with regard to their interests and potential, despite the fact that the Tenth Latin American Council stated that this new round of negotiations will be held in a context dominated by managed trade, which should spur the region into adopting a common position. If this is to be achieved, it is essential that the region strengthen its own internal economic links.

## B. AIMS AND COURSES OF ACTION FOR A POSSIBLE REGIONAL NEGOTIATION

### 1. Negotiating framework

It has been acknowledged within ALADI that "regional rounds of negotiations represent the forum in which member countries will endeavour to transform these declarations (in political agreements) into measures, action and programmes to facilitate sustained recovery and expansion in their reciprocal trade and galvanize the integration process, by means of solutions which take into account the unfavourable circumstances affecting the region".3/

Achieving these aims, which have been agreed upon and encouraged by the governments themselves, requires the simultaneous adoption of measures designed to:

i) augment and stimulate intra-regional trade so as to recover at least the 1981 levels as rapidly as possible; and ii) define a coherent policy for removing regional barriers, i.e., involve all Latin American and Caribbean countries in these efforts, in accordance with article 25 of the 1980 Montevideo Treaty, and with the political mandates indicated above.

In order to make proper use of regional potential, resolute political determination is required both at the governmental level and on the part of operational agents, so as to considerably increase the levels of regional supply and restore as quickly as possible the levels of trade reached at the beginning of the decade. Efforts should also be directed at generating an intensive expansion of intra-regional trade, in order that it may achieve autonomous growth.

In order to achieve these ends, in the short term governments could take decisions designed to spark off a process of concertation and negotiations possessing the aforementioned characteristics. The above-mentioned meeting high-level governmental political representatives, which will be organized by ALADI from 7-11 April this year could provide the starting point for this process of negotiation. Within a process of this kind and scope, it is vital that participation from the ministries responsible for external trade as well as from the main State enterprises be of the highest executive level. It is also important that the heads of the central banks make a determined commitment to the objectives of the process. Consequently, from the very beginning every appropriate body in each country should become involved, both in a political and operational sense, as this is the only way of ensuring the required viability for the process and of shortening the time required to transform declarations into action.

An examination of the trend in reciprocal trade, and in particular of the deterioration experienced since 1982 reveals which lines of trade have been most affected by the regional crisis. Thus, for example, ALADI has observed that the most marked declines in trade are to be found in trade between Argentina, Brazil and Mexico with the other countries. It follows that an initial analysis within ALADI could centre on the potential for trade between medium-sized and less developed countries on the one hand, and the three largest countries on the other. There are three reasons for this: firstly, trade between Argentina, Brazil and Mexico (ABRAMEX) and the other ALADI member countries has constituted and still constitutes the major share of intra-regional trade; secondly, the imbalance in trade within ALADI is basically due to the relationship between these two groups of countries, and thirdly, it was principally this relationship which was affected by the slump in intra-regional trade between 1981-1983.

Another area of trade which has deteriorated is that of trade between medium-sized countries and less economically developed countries. As mentioned above, within the Andean Group, the CACM and to a lesser extent CARICOM, there has been a marked slump in trade between the main member countries of each subregional organization. Probably the most striking case is that of the Andean Group, since in addition, there has been a marked failure to apply the instruments designed to foment trade.

Just as it is quite obvious that the negotiating process must be based on the principal axes of regional trade, it is also logical that it concentrate on those flows which possess or which may possess the greatest potential for trade between all the countries of Latin America and the Caribbean.

This requires that indicators or levels of reference be given with regard to potential annual trade. If those countries which import most express their determination to purchase certain volumes of selected products within the region, this will rapidly instigate the process of consultation through the application of a new negotiating style centred on encouraging the revival or creation of enduring intra-regional trade flows.

In order to initiate the process in the manner described above —principal axes and countries which import a great deal— it is necessary for the largest countries in the region to manifest their intention to purchase therefrom and thereby to assume the leadership of the initiative. This requires that the initiative be given full political support and that high-level technical teams participate in order to bring it into effect. The natural partners for such a process would be the Andean Group, CACM and CARICOM, which, in association with the other member countries of ALADI are capable of providing adequate levels of supply of a number of products to satisfy a high proportion of the demand emanating from the largest countries in the region.

The fact that Brazil and Mexico, and to a lesser extent Argentina, which represent the largest countries in the region possess considerable control over their external trade and are capable of decidedly influencing the origin and destination of their imports and exports constitutes a major consideration. Consequently, such capacity could help materialize those trade flows which would in the long run be covered by the negotiations.

If the negotiations are to be initiated with the basic aim of restoring and creating new trade flows, it will be necessary to alter measures which restrict this aim. It would first of all be necessary to define integral projects for negotiation and secondly, to identify precisely which measures could ensure the viability of these trade flows. Such an approach would be in perfect harmony with the propositions set out in the various political agreements and, moreover, would be compatible with the flexibility characteristic of the 1980 Montevideo Treaty, should this be adopted as the nucleus of a series of regional negotiations. This would provide countries with a sufficiently broad frame of action, allowing them to choose a combination of measures to guarantee the negotiations as well as the trade flows on which agreements were to be reached therein. The ad hoc adoption of the necessary measures would minimize interference with national policies as well as with governmental agreements with other countries or outside bodies (GATT or IMF, for example).

In order to choose the products or groups of products which would be covered by the proposed negotiations it is necessary to set out a number of options. The main consideration in determining the choice should be to ensure fixed levels of trade together with a viable structure for redirecting exchange.4/

In this way, it would be possible to combine conditions of potential supply and demand ensuring a specific reorientation of trade. Such demand should in so far as possible be satisfied by an expansion in exportable supply, and efforts should be made to avoid a shrinkage in exports to third-party countries. In addition, demand in the largest countries should include products which the other countries in the region export to the rest of the world, since they offer a degree of competitiveness which would make it easier to bring about the process.

## 2. Specific negotiating factors

In addition to being highly selective and concentrating on the most significant types of trade, reorientating exchange towards Latin American and Caribbean suppliers should help to solve a number of major problems in the region's external trade. One of these concerns commodities which are experiencing a significant drop in demand and in prices. It consequently seems reasonable to satisfy as large a part as possible of regional requirements by creating a relatively stable market and lowering transport and insurance costs. A number of studies reveal the existence of considerable scope for redirecting trade in these products. For example, in 1984, according to figures provided by OECD,5/ countries in this organization imported approximately US$ 26 billion worth of goods from Latin America and the Caribbean. At the same time the region's imports of these same products reached US$ 2.5 billion. Agricultural products, and in particular purchases of soya bean and soya bean oil make up 80% of these purchases; in 1984, these represented more than US$ 1.2 billion. Purchases of meat, timber, leather and iron ore are also significant. The region is a net exporter of these products and consequently, it seems quite feasible to considerably lower its imports from outside countries. Such imports constitute approximately 22% of total intra-regional trade and around 32% of trade between ALADI member countries.

A second major feature concerns the utilization of the States' purchasing power. Estimates made by the Institute for Latin American Integration (INTAL) evaluate State imports in 1982 at an average of 40% of total external purchases.6/ Subsequent studies reveal that out of the US$ 71 billion worth of imports made by ALADI member countries in that year, purchases by State-owned entities constitute approximately US$ 29 billion. If imports of fuel (US$ 14.5 billion) and agricultural products (US$ 5.5 billion) are excluded, there remain approximately US$ 9 billion of which a high proportion are manufactured goods. For a number of technical reasons it is not possible to provide projections relating to recent years. Nonetheless, these figures provide a rough estimate from which it is possible to conclude that if such trade were redirected towards regional supply it would have a significant reactivating impact upon the productive sector.

A third problem concerns revival of the industrial sector. The shrinkage both in demand and in the availability of currency have had a marked impact upon this sector's evolution, and consequently measures such as the above would contribute towards easing its predicament. Reactivation in this sector needs to be conceived and designed so as to improve opportunities for industry, so that their impact may be of benefit to all countries.

With regard to those countries in the region which possess a more developed industrial sector, intra-regional exports of manufactured goods could provide an opportunity for intensifying and rounding off the process of industrialization which has already taken place, particularly with regard to intermediate inputs for the manufacturing sector itself and for those manufacturing sectors which are closely linked to it, as well as in capital goods. As far as those countries with medium to low levels of industrial development are concerned, exports may enable them to specialize in those areas in which they already possess comparative advantages or in which it may be possible to bring such advantages into being on the basis of the most significant domestic demand, such as for example, mining, agriculture, fishing and other basic sectors, or by directing manufacturing production towards mass-produced consumer goods. So far, attempts in the region to harmonize development with industrial activity have left much to be desired, but this in no way means that it is not worthwhile and even necessary to strive to achieve this. It should be remembered that the basis of the European Economic Community was the Steel and Coal Community, which at the time represented strategic sectors for consolidating European industrialization. Consequently, it would be desirable to bring about co-ordination in those branches of industry which are crucial for sustaining more autonomous and dynamic growth in this sector. A clear and intense effort to direct intra-regional trade flows in manufactured goods could contribute to achieving this.

Clearly, there is considerably more potential for exports from the less-developed and smaller countries towards the rest of the region than in the opposite direction. This may restrict any attempt to expand intra-regional trade. Consequently, as is the case in the majority of integration treaties and in the various political agreements, it would be necessary to specify special treatment for medium-sized and less developed countries.

Imbalances in trade are due to a variety of causes. The heterogeneity of countries' productive output, the varied levels of development, the considerable importance of a number of products, such as petroleum, for example, are some of the reasons which account for countries having trade deficits or surpluses within an integration system. It is necessary to bear this in mind in preparing the negotiations to revive reciprocal trade, in order to ensure that it does not hamper the recovery of trade and the expansion of new trade flows.

The problem of imbalances is more significant in the case of those products in which trade is protected by customs preferences, which means that intra-regional imports are more costly than imports from outside countries. Consequently, it is desirable that a relative balance be attained in such trade, at least in the medium term.

On the other hand, such merchandise trade as is carried out on equal terms to those prevailing in the international market will show similar imbalances to those which exist between each individual country and the rest of the world. A number of commodities provide excellent examples. Increasing regional supplies of oil, copper or wheat, etc. neither increase nor reduce trade balances if the transactions are at international prices. The same holds true for a number of manufactured goods and inputs which it may from time to time be possible to purchase within the region, to satisfy the particular requirements of a country, and which are not protected by preferential trade terms involving higher costs.

A final feature of particular importance is the necessarily multilateral manner in which the issue of the trade balance must be dealt with, since a bilateral approach may have extremely restrictive results. In view of the economic characteristics of countries, it is understandable that certain disequilibria exist between a certain number of them taken two by two, although such imbalances may be offset within a multilateral arrangement.

It is impossible to consider trade in isolation from problems of payment and finance. These factors may either facilitate or act as a brake on trade negotiations. ALADI and CACM have been examining a number of options in this respect for a certain period of time. Particular attention was given to this issue at the Latin American Economic Conference where the Council of Ministers adopted a special resolution on the subject, although a solution has yet to be found. Consequently, it seems appropriate for the countries which promoted this measure for financing trade to instigate a movement with similar political thrust involving active participation on the part of the central banks. In spite of this, it is likely that solutions to problems of funding and credit of a general nature will be out of step with the adoption of arrangements concerning trade. In order to solve the problem resulting therefrom it is vital that the heads of the central banks meanwhile contribute towards the preparation of suitable formulas for increasing trade in the goods which are the subject of negotiations, in accordance with the prevailing circumstances in the region. They should also examine the possibility of injecting further funds to increase the system's liquidity.

The proposed system would initially be set up within the sphere of ALADI, but would in no way be exclusive. On the contrary, from the regional viewpoint it is increasingly urgent that a determined and systematic policy be put into operation, with different levels of intensity, so as to incorporate all of the countries in Latin America and the Caribbean.

## II. THE SEARCH FOR MODES OF CONVERGENCE BETWEEN INTEGRATION AND CO-OPERATION

### A. THE CONCEPTS OF INTEGRATION AND CO-OPERATION AND A NUMBER OF AREAS OF DIVERGENCE

There are no broadly accepted interpretations of the terms integration and co-operation; consequently, neither is there a clearly marked border between these concepts. They frequently appear to be synonymous. On other occasions, they signify different approaches within a single process or set of circumstances. For a number of people, co-operation is the antechamber of integration; such a relationship acknowledges a degree of evolution as well as degrees of or possibilities for convergence. For others, there is an opposition between both concepts and however far they are explored, they may in no way meet.

Etymologically speaking, integration is the act and impact of integrating, i.e., completing by addition of parts or making up the parts which lack to make up a whole. Co-operation, on the other hand, represents the act and consequences of co-operating, i.e., of working together with one or several others to achieve the same end.

The use made of these terms at the international level reveals somewhat clearer distinctions. The concept of integration is directly associated to external trade, and is confined to the legal norms laid down by GATT. Consequently, it almost exclusively designates the concepts of free trade area, customs union or common market.

Broad use is made of the concept of co-operation by the Council for Mutual Economic Assistance (CMEA). Prior to 1971, this constituted the central feature of the process of links and interdependence pursued in order to consolidate mutual economic relations. The subsequent adoption of the "Programme for deepening and improving collaboration and developing socialist economic integration" states that when "co-operation in the economic, scientific and technical spheres is intensified, integration strides forward".7/ In other words, co-operation is conceived as part of an overall process of integration.

Broad and varying use is also made of the concept of co-operation in the international sphere. It constitutes a set of norms and principles which generally regulates economic relations between nations. With regard to links between developed and developing countries, typical examples are norms such as preferential terms of trade, non-discrimination and official development assistance. Such measures are clearly voluntary and their aims are not always met. Recent trends in the international economy have jeopardized a whole set of principles which once were of considerable importance.

In particular, the concept of co-operation has been adopted within the framework of economic relations between developing countries. Economic co-operation (ECD) and technical co-operation (TCD) between these countries has become an increasingly vital element for stimulating South-South relations. Such co-operation, which also extends to other developing regions, is not the concern of this article, as the analysis has centred on intra-Latin American relations alone. Nor is the question of what is known as "hemispheric co-operation" dealt with, as this is preferably fomented within the framework of OAS. United States' participation endows this initiative with special features, different from those which are the concern of this article.

As a starting point, it is necessary to focus attention exclusively on the regional sphere and begin examining the viability of greater convergence between the spheres of integration and co-operation, so that both types of action may as far as possible be directed at similar aims. Simultaneously, greater inter-penetration and interaction between the organizations active in each sphere is desirable.

Cohen and Rosenthal 8/ have stated that "although so much has been written on the subject of integration, interpretations of what it implies are far from uniform". They identify four simplified levels of definition, ranging from "the total abolition of customs barriers between different national economic units (the partial elimination of such barriers would be only economic 'co-operation')" to "the unification of several economies in a single whole, with total mobility of factors within this expanded economy, and total unification of policies under the direction of centralized institutions".

The authors conclude: "For the purpose of the present note, any set of joint activities, promoted by common institutions, which raises the level of economic interdependence among a group of countries may be considered an integrating process. The degree of intensity of this process will be as great or as limited as the member countries may desire".

In practice, in the region the concept of economic integration has been associated with the conventional aims of a free-trade zone, customs union or common market. The most advanced stages involve a certain number of supranational features which governments have usually been reluctant to accept; when these have been partly accepted, they have been subject to tight restrictions. This is the case in the Central American Common Market (CACM) or the Andean Group, which possess a number of these features. In both cases, such features were the outcome of the evolution which they underwent, and not the result of a deliberate initial design.

Regardless of the supranational aspects, which are themselves a complex issue, there is no doubt that within Latin America the concept of integration has always been closely associated with the expansion of markets and consequently with the abolition of tariffs and non-tariff barriers. It is assumed that a unified economic zone would make it possible to make full use of economies of scale with the consequent increases in output and productivity. Generally speaking, it was thought that the creation of a broad market structure would, through free competition, provide a healthy stimulus for the economic development of the associated countries, particularly in the industrial sector. It was thus accepted that the expanded market of the integrated countries, and the free interplay of supply and demand would constitute the most efficient factors in the process of resource allocation.

A number of compensatory mechanisms were adopted by the CACM and the Andean Group, such as the Régime for Industries in Central American Integration and the Sectoral Programmes for Industrial Development. These mechanisms, which acted at the level of specific projects, were designed to act as a complement to the action of the market and facilitate equitable distribution of the benefits of integration. Regrettably, extremely limited use was made of these instruments, and in both cases, with varying degrees of intensity, preference was given to a commercial approach which finally became the most characteristic feature of Latin American integration.

To sum up, integration plans centred their efforts on designing and putting into practice all the necessary mechanisms to facilitate the expansion of markets, such as the removal of tariff and non-tariff barriers, a common external tariff, compensatory payments systems, etc. It wasassumed that this would spark off a gradual and cumulative process which would bring about successive stages of increasing intensity. Harmonization of certain basic policies in the field of external trade would make it possible to co-ordinate other policies and in the long term culminate with the establishment of subregional economic units.

This was at the root of the "universal" vision of integration and the implicit assumption that it would almost automatically become a major factor in the conception and execution of national policies or plans. Consequently, there also arose an erroneous assumption as to the irreversible nature of the process. These visions as a whole helped generate excessive expectations with regard to the progress actually made, which, although significant, remained considerably more modest.

With varying degrees of importance and emphasis, this view predominated within the region for a considerable period of time. It basically represented an imitative approach which, to some degree, aimed at reproducing within Latin America a number of the institutional features of international relations, principally between developed countries. Thus, for example, the structure of the Montevideo Treaty by which ALALC was set up, was particularly influenced by the norms of GATT. In other more advanced cases, the EEC provided a model. However, the traditional approach merely facilitated the reproduction of norms of a commercial nature. Sectoral approaches, such as the European Coal and Steel Community first, and the agricultural community second, were neither considered nor correctly applied.

The tendency to identify integration and free trade led to a restrictive view of the potential of concerted regional action. Economic interdependence was almost exclusively viewed from the commercial viewpoint, and success or failure was measured in terms of the evolution of reciprocal trade. In many cases, it was forgotten that the direction of trade and fluctuations in its level are the simultaneous result of a number of factors, and that the measures chosen to bring about integration only affect some of these, and not always the most significant.

As a result of this conceptual inflexibility, several initiatives, preferably of a sectoral nature, aimed at increasing interdependence between countries were described as being nothing more than co-operation. In other words, the orthodox view of integration assigned them a smaller role, as they lacked "universal" character. In addition, this directly called into question co-operation itself, both from a conceptual and an instrumental angle. This erroneous interpretation also led to assumptions as to the impossibility of convergence between the two processes.

Practice revealed that the identification of integration with free trade did not reflect the region's historical political and economic reality. In so far as new and far-reaching areas of turbulence appear every day in the international environment, and affect the regional setting, such identification appears even more inadequate. The search for new alternatives gives priority to the concept of co-operation, or otherwise to the concept of integration in a far less conventional sense than in the past.

## B. THE CRISIS OF INTEGRATION AND THE RISE OF CO-OPERATION?

The actual evolution of integration processes, viewed from the above standpoint, began to reveal sharp contradictions shortly after they began to move towards the fulfillment of their respective aims. The benefits of the process were not shared out equitably: as was to be expected, the most developed countries reaped most of the advantages. The less developed countries had practically no supply of exportable goods, and consequently were denied access to the new markets. In its most orthodox and conventional approach, integration failed to instigate a dynamic process leading to its transformation into a factor of some importance for the design and application of the principal national economic policies. On the contrary, it became an end in itself thereby accentuating its distance from the reality of countries. The rigid instrumentalist approach could not claim to superimpose itself on national policies or to modify them, nor could the scanty commitments actually made draw operational agents to their cause. Simultaneously, it proved impossible to break the vicious circle set up by the insignificance of intra-regional trade, inadequate to justify any subordination of the relevant national policies to the aim of integration.

Towards the end of the 1960s, the crisis was widespread. ALALC was endeavouring to reassemble, altering its course by means of the Caracas Protocol. The conflict between EL Salvador and Honduras had grave repercussions for the CACM. Hope centred on the political thrust and on the innovative structure which was beginning to see light with the Andean Group.

Towards the beginning of the 1970s, awareness of the crisis was sharpened by external factors. The inconvertibility of the dollar, the slack growth of international trade, the rise in oil prices constituted factors which among others began to bring about substantive changes in established international economic patterns and to have a negative impact upon the regional economic outlook.

In a number of cases, as pointed out by Rosenthal 9/ for Central America, the "crisis" of integration did not concern so much the distance between aims and achievements as the divergence between achievements and expectations. Circumstances were different in the case of other programmes. Real crises broke out --and still persist-- undermining the conceptual operating bases of integration. In a large number of cases, these crises prevented the instrumental measures which would bring the broad market into being from reaching culmination; reversals even occurred in the processes, and agreements which had been painstakingly achieved were cancelled. The way was open for excessively bilateral flows which, by definition, run counter to the type of multilateralism inherent in the integration processes which it had been attempted to construct in Latin America and the Caribbean.

The roots of the crisis affecting integration are to be found in its inability to adapt and respond to the new circumstances affecting trends in the international economy. This is why countries gradually redirected their efforts towards bilateral or sectoral arrangements, within a new conceptual and instrumental framework closer to the more traditional form of co-operation.

Moreover, it must be recognized that, particularly during the previous decade, the region faced an extraordinarily complex set of circumstances which, in addition to modifying the political structure, created a highly hostile environment for the promotion of Latin American interdependence. Powerful political movements based on the doctrine of national security, the adoption of neo-liberal models taken to their extreme, and easy access to funds, directed government —and entrepreneurial— action along diametrically opposed paths to those leading to regional unity.

The need to create and intensify regional interdependence, both for political and economic reasons, "led to the increasing popularity in Latin America of a more pragmatic approach to integration, which a number of authors designated as "informal integration" or "integration by projects", which occasionally renounced the universal approach and final aims, and replaced, or complemented them, with joint action in those areas of economic activity in which there was scope for co-operation between two or more countries. This approach no doubt exerted considerable influence over the conception of SELA, as well as that of ALADI".10/

It was in the energy sector that this new approach began to take shape. The international environment became increasingly unsettled as a result of the problematic outlook for energy at the beginning of the last decade. Although the Latin American State Petroleum Enterprises Mutual Aid Association (ARPEL) had indeed been in existence since 1964, the scale of the problem required a comprehensive political framework for concertation. The Lima Agreement, by which the Latin American Energy Organization (OLADE) was set up, was signed in November 1973 after speedy negotiations, and was open to all sovereign States in Latin America and the Caribbean who desired to join. Thus, an extreme interpretation of subregionalism came to an end, and a pluralist dialogue began concerning the principal problems in the energy sector.

The change in conceptual approach was no easy matter. While the Lima Agreement introduced a set of innovative measures in the regional sphere, the Agreement itself, and to a much greater extent OLADE's First Programme of Work, were heavily influenced by conventional forms of integration. In the short term, priority was given to the creation of a Latin American energy market and the establishment of a financial organization to carry out projects in the energy field as well as others directly connected with energy. The organization's functions included offsetting, on the Latin American market, any eventual maladjustments resulting from the different amounts of resources available.

The first major reorganization of the operational and conceptual base of OLADE came to an end in 1980, with the adoption of the San José Declaration, which established an operational programme of work. This organization's experience indicates that a considerable period of time was necessary before settling upon the main guidelines for developing co-operation in the energy field.

Simultaneously, a number of mechanisms for co-operation began to appear. These included the Latin American and Caribbean Group of Sugar-Exporting Countries (GEPLACEA), the Union of Banana-Exporting Countries (UBEC) and the Multinational Caribbean Shipping Line (NAMUCAR), which constitute the immediate background for the programme of co-operation established as part of SELA's Action Committee. After 1975, these became regular instruments for promoting co-operation. During SELA's first five years of existence nine committees were set up, covering a variety of major sectors. Some of these culminated with the creation of a permanent and autonomous co-operation agency (in the case of fertilizers, the Latin American Multinational Fertilizer Marketing Corporation, MULTIFERT; in that of fishing, the Latin American Organization for the Development of Fishing, OLDEPESCA). Others completed their activities after having partly fulfilled their aims within a fixed term (Guatemala and Nicaragua). In the case of other Committees it proved impossible to establish a sound framework for co-operation and their activities proved fruitless, as in the case of food supplements.

The phase of review and the search for further alternatives culminated with the signing of the Montevideo Treaty in 1980, which established the Latin American Integration Association (ALADI). This Association concentrates on expanding trade between its members. It has renounced traditional approaches and opened the way for a new style or form of integration, or more correctly, of trade co-operation in Latin America.

## C. CHARACTERISTICS AND CONDITIONS OF REGIONAL CO-OPERATION

Efforts to bring about co-operation in Latin America and the Caribbean display a wide variety of experiences covering a diversity of sectors and approaches. Naturally, a number of initiatives have had satisfactory results, others failed to mature and some proved negative. With regard to co-operation itself, crises also occurred in expectations, as well as real crises and complex processes of consolidation. It is far from easy to provide an overall description of the broad range of experience; however, it is possible to identify a number of requirements for regional co-operation on the basis of the various attempts so far made:

a) The principles of equality, sovereignty and independence of States, of solidarity and non-intervention in domestic matters, and of respect for the different political, economic and social systems clearly constitute essential factors for the success of a co-operation programme.

b) A central aim for co-operation is the provision of assistance in the execution of given national policies or plans through the development of specific projects involving two or more Latin American countries. This implies acknowledgement of the need for common interests between participants and a clear understanding that the pursuit of any venture will lead to greater benefits --or lower costs-- if it is carried out by concerted action between countries.

c) Consequently, co-operation has a complementary role to play with regard to national policies; i.e., it represents only one means of achieving the particular concrete aims. It may be expanded and intensified, provided countries share multiple and specific common objectives. In its narrowest sense, co-operation focuses countries' interests on a concrete activity or project, which may even be of a temporary nature. Co-operation will expand and intensify as the number of joint projects increases or if there exist broad areas for possible concrete action within a given sector.

d) It seems desirable to make a clear distinction between such co-operation as exclusively links Latin American and Caribbean countries with one another and international co-operation in a broader sense. This in no way prevents the joint or concerted negotiation of different types of agreements with industrialized countries. However, this form of international negotiation must not be considered part of regional co-operation as described here, but rather within the context of international economic relations.11/

e) Institutional aspects operate at two interrelated levels: the national and the multilateral. At the national level, it is vital to identify and involve operational partners who will carry out the domestic policies; this ensures the maintenance of a direct link between the agreement (bilateral or multilateral) and real requirements, as has been clearly demonstrated by those co-operative ventures which have made most progress. At the multilateral level, co-operation may acquire various institutional forms, which will reflect the type of agreement involved and also, to a relative degree, the domestic structure of the participating countries. Consequently, there is a considerable degree of variation, which it is hard to incorporate into predetermined models.

Moreover, it should be pointed out that the Panama Agreement, which gave birth to SELA, stipulates that more than two countries must sit on the Action Committees, and consequently automatically eliminates bilateral co-operation. It is most likely that this stipulation originated in the fear of excessive bilateralism. Nevertheless, binational co-operation today constitutes an increasingly significant trend, particularly with regard to across-the-border co-operation. Moreover, a number of major projects, for example, Itaipú, represent cases in which long-term economic interdependence has been established. The launching of this project has even had an incidence upon the rate of development of Paraguay and Brazil. Such ventures take place under the auspices of international treaties which are in practice of a permanent nature.

One characteristic of processes of regional co-operation is that they address areas which are not normally included within conventional integration programmes. In a number of cases, this has only taken place indirectly, when a given sector has been subjected to norms of a general nature, as may be the case of, for example, a liberalization programme.

In addition to accounting for a significant difference between integration and co-operation, these considerations also provide an explanation for the high level of dispersion in the field of co-operation. There is a tendency for each initiative to act as specifically required by its sector or field of action. A number of common approaches exist between various initiatives, but these pursue separate paths as the execution of a particular project develops.

Without attempting to draw up a typology of co-operation, it is possible to distinguish between: 12/

a) Sectoral co-operation, for example in the field of transport and infrastructure, in energy, in joint exploitation of natural resources, etc.

b) Entrepreneurial co-operation in the public and private sectors, as in the case of the Latin American Iron and Steel Institute (ILAFA), ARPEL, the Latin American Association of Capital Goods Industries (ALABIC), etc.

c) "Functional" co-operation, for example in health (the Hipólito Inanue Agreement of the Andean Group), education and culture (the Andrés Bello Agreement).

d) Trade co-operation, for example through the joint promotion of exports, co-ordination of imports, the establishment of networks for the exchange of trade information, and the organization of trade fairs and exhibitions. Examples of this are UBEC and MULTIFERT.

e) Technological co-operation, in the form of initiatives such as the Latin American Technological Information Network (RITLA), the Andean System for Technological Information (SAIT), the production of enriched foodstuffs and, in general, the Andean Projects for Technological Development (PADT).

f) Political co-operation, in the form of joint stands in defence of democracy and self-determination, and joint action to put an end to wars or to avoid them (the Contadora Group).

Trade co-operation is closely linked to action characteristic of an integration process. However, it is necessary to point out that major instrumental differences exist. Within trade co-operation there is no question of using tariff policy as an overall means of promoting trade nor as the central axis of a specific process of resources allocation. When tariff measures are adopted, they are of a limited and temporary kind, with no global or multilateral pretentions. The promotion of exports to outside countries was the central activity of the Multinational Banana Trading Company S.A. (COMUNBANA). MULTIFERT channels considerable volumes of fertilizer imports from international markets, and should the enterprises which participate in the multinational possess surpluses, these are sold on the regional market regardless of the existence of tariff or non-tariff barriers.

A common factor of these types of co-operation is their permanent nature, as they generally involve long-term or enduring measures. Nevertheless, temporary forms of co-operation exist which may be particularly important; the fact that co-operation is temporary is no indication of its relative importance, but rather of the fact that it is linked to the attainment of predetermined aims constituting the co-operation programme being promoted. The San José Agreement is one example of considerable political and economic significance, and is exemplary of this type of co-operation. Under the terms of this international agreement, Mexico and Venezuela assumed responsibility for supplying hydrocarbons to countries in Central America and the Caribbean. In addition they set up a financial department to help lighten the burden of payments for petroleum. This worthwhile initiative was instigated in 1974 by Venezuela, and when Mexico joined in 1980, the number of beneficiary countries was increased.13/ The agreement is on an annual basis and has been regularly renewed, in spite of the readjustments which are taking place on the petroleum market. The prevailing price trends could lead to the introduction of major changes in this agreement. In spite of this, it has to be recognized that it has played an extraordinarily significant role during a critical period in both the regional and international spheres, which has had a particularly serious impact upon the petroleum importing countries in the Caribbean and Central America.

An inherent feature of the legal and functional structure of SELA's Action Committees is their temporary nature. Although in many cases the issues covered were far-ranging, considerations of time made it necessary to focus attention upon those areas in which there was greatest potential for harmonious action. A number of Committees adopted permanent modes of co-operation covering almost all the aspects of the original programme. This was the case of OLDEPESCA. In other cases, the permanent aspect of co-operation merely represented part of the original platform: MULTIFERT has taken over the most important responsibilities of the Action Committee on Fertilizers in the commercial field, but excludes consideration of production; the circumstances which prevailed at the time made it impossible to identify opportunities for co-operation in the field of fertilizer manufacture. However, the issue may be raised again by countries at the opportune moment.

It must be emphasized that permanent action in the field of co-operation requires the prior constitution of a consistent system of interrelations, in order to provide adequate long-term support. In other words, a high level of coincidence is necessary between national and multinational objectives, as well as systematic interaction between the day-to-day activities of countries and the co-operation organization together with ample participation on the part of the national operational agents.

If the present outlook for co-operation is considered, it is clearly apparent that the absence of any of the above central requirements will lead to the process being left in abeyance or failing to produce the planned results. On the contrary, if these conditions are fully met, co-operation will be most effective and is capable of relatively self-sufficient development, notwithstanding the occasional slump.

We are not aware of any systematic presentation of significant experience allowing alternative paths for present or future co-operation efforts to be plotted. Nor does there seem to exist any inventory of initiatives which, for a variety of reasons, failed to materialize, nor a list of the reasons why other projects failed to sufficiently mature. At the same time, before the Panama Agreement came into operation, steps towards co-operation lacked a protective legal and institutional framework which would also ensure their dissemination and provide them with multilateral features even though they concerned action restricted to a few or even two countries. Once SELA came into operation, countries were theoretically obliged to channel their initiatives through this organization. As this has only been partly the case, co-operation has remained extremely spontaneous and generally speaking bilateral, making it difficult to systematize experiences (be they satisfactory or unsatisfactory), or to foment further action and lay down minimum guidelines for co-ordination between co-operation organizations as well as between these and integration programmes.

Latin America and the Caribbean are far from possessing a coherent and sound co-operation policy which would ensure maximization of the benefits deriving from the various initiatives taken over time.

It would be possible for a policy of co-operation to endeavour to interlink the many projects in operation and, in general, to draw the full benefits from the principal experiences recorded. In addressing the concept of a regional policy for co-operation it seems first of all necessary to specify that there is no question of restricting national initiatives by incorporating them into particular legal and institutional plans. Secondly, neither there is any question of establishing a centralized legal code establishing compulsory steps which in many cases are merely formal and which, moreover, may even distort certain projects. On the contrary, a policy of regional co-operation —at least in its initial stages— should attempt to clarify the various initiatives, maintain an up-to-date register of projects making it possible to gather experience, facilitate a variety of forms of collaboration by reinforcing the action of each organization and avoiding the duplication of efforts, establish or strengthen bodies to promote further action and in general, endeavour to render the process as efficient and operational as possible.

The keystone of the system could be provided by the platform for co-operation which countries adopt periodically within the framework of SELA. Within the medium term, this should constitute a regional goal and remain so in spite of the fact that this institution's 10 years of experience have revealed the difficulties of putting this idea into practice. Potential at the subregional level is another matter and will be examined below.

The specific features of each co-operation initiative contain considerable diversity. This dispersion leads to each isolated co-operation activity remaining in a tight circle, as a result of too pronounced and excessive a sectoral outlook, which frequently makes it impossible to carry out an appropriate regional assessment of the progress made or the difficulties encountered. Without losing sight of the specific nature of co-operation, it seems logical to move, when so required, towards a new outlook seeking a broader framework and attempting to project and put into practice an intensive process of intra-Latin American co-ordination.

These observations are of particular importance in the case of bilateral co-operation. A large number of initiatives between any two countries, particularly in certain frontier areas have not been integrated into a specifically regional outlook. They frequently facilitate trade, directly increase interdependence and in a number of cases possess clear potential for being restructured, and expanded to a trilateral or even multilateral level. However, their bilateral character excludes them from broader processes, and they seem to lay outside the desired pattern of regional interrelation.

## D. SOME EXPERIENCE OF CO-OPERATION

### 1. Selected cases

Five concrete examples of co-operation are presented below. They were selected as they represent experience in different fields and possess considerable potential for stimulating initiatives with the same aims or derived therefrom. In addition, they constitute examples of the broad thematic and instrumental spectrum of regional co-operation and of the approaches which may be adopted therein.

a) Co-operation in the nuclear energy sector

The strategic importance of the peaceful use and military applications of this sector is well known. Its considerable impact in the scientific, technological and economic fields influences a variety of activities.

Development of nuclear energy requires heavy investment and access to technologies which are closely protected by developed countries or which they sell only under extremely restrictive conditions. There is a clear monopolistic trend restricting the possibility for the majority of countries in the region to acquire this type of knowledge. Consequently, one particularly important goal for the countries of the region with an interest in this area is the attainment of a fairly autonomous level of technological development, which, for the reasons given above, will only prove feasible within a sound framework of regional co-operation.

Consequently, considerations of a political and geographical nature are of particular significance. Border disputes and in general relations between States require that the issue be addressed with particular care. The bilateral and multilateral efforts underway in the region and the aims already achieved, reveal the potential for progress in particularly important and sensitive areas, once rigid geopolitical concepts have been set aside.

The recent Declaration by the Presidents of Argentina and Brazil on nuclear energy (Iguazú, November 1985) which considers expanding co-operation to other Latin American countries and seeking means of ensuring the region's concern with peace, security and development, constitutes a particularly important step forward.

The most important peaceful use of nuclear energy is for the generation of electricity in nuclear power plants, and its development has led to the establishment of a set of interlinked activities. These essentially concern the manufacture, construction and operation of nuclear power plants, the production of nuclear fuel together with a number of complementary features of this set of activities. The peaceful use of nuclear energy has diversified and spread into new fields, thereby increasing its technological and economic significance.

Local construction of nuclear power plants requires active participation on the part of the conventional electrical, mechanical and metallurgical sectors, which must carry out the necessary modernization in order to provide inputs requiring complex technologies and stringent quality standards. This progress in turn overspills into more traditional areas, such as that providing equipment for the food industry, the chemical industry, forging and welding large components, special non-destructive tests, control instruments for industries, processes and others, as a result of which the impact of the technological development associated with the nuclear industry affects many other areas of productive activity.

Autonomous technological development in the nuclear energy field involves the solution of extremely complex scientific problems involving considerable risks and consequently requires considerable investments in terms of financial, human and material resources, far in excess of those at present available in the vast majority of countries in Latin America and the Caribbean. If priority is given to the peaceful use of nuclear energy, it becomes vital to foster concerted efforts between a number of countries in the region in order to strive to attain autonomy both in so far as manufacturing capacity is concerned and with regard to the development of autonomous technologies, in view of the international monopoly which the developed countries possess in this area.

Nuclear co-operation in the region was stimulated by the rise in the price of hydrocarbons. On the basis of the capacity of Argentina and Brazil, a number of forms of bilateral co-operation began to develop or to intensify. These have continued to progress in spite of the overall difficulties affecting relations between certain countries. The case of Argentina and Chile is particularly significant, as the co-operation agreements remained in force even during the periods of greatest border tension.

The Programme of Co-operative Regional Arrangements for promoting nuclear science and technology in Latin America (ARCAL), constitutes the first attempt at multilateral co-operation in the sector. It arose from an initiative within the Andean Group designed to bring about greater development in the nuclear field through co-operation. Subsequently, Argentina, Brazil, Chile, Paraguay, Uruguay and Guatemala, which had been participating as observers, became member States. In addition, at the present time Cuba, Costa Rica and Mexico are observers.

Annual co-ordinating meetings at which information is also exchanged take place within the framework of ARCAL. In 1984 it was agreed to develop further initiatives relating to radiation protection, nuclear analytical techniques, the use of reactors, the radiation treatment of foodstuffs, etc. In 1985, plans were approved to carry out the first projects over a period of five years.

ARCAL has completed its organizational phase and is progressing towards the execution of concrete projects, on the basis of complementary uses of resources and knowledge. The programme unquestionably relies on the support granted by Argentina and Brazil, which have attained high levels of technological development in the sector and consequently, are in a position to provide the technical backing required by the programme. The region is making the first tentative steps towards a major programme of scientific and technical collaboration in an area of particular importance. This effort must be extended to the broad area of joint aims which the region pursues. If this initiative is incorporated therein, it could lead to an intensification of nuclear co-operation, setting it at the service of a whole range of regional needs.

At the bilateral level, the active role played by Argentina, which possesses the appropriate infrastructure as well as agreements with various Latin American countries is particularly noteworthy. Agreements are in force with Brazil, Chile and Peru.

The Argentine National Atomic Energy Commission (CNEA) was established in 1950. From the beginning it was clearly realized that if the sector was to develop it was necessary to achieve a certain degree of technological autonomy, both for the sake of the technology itself and in view of the particular conditions affecting technology transfers in this sector. The Commission has almost continually pursued an approach closely in line with the above, involving a clearly defined policy of pursuing openings in Latin America, by means of training courses, seminars and, in general, the dissemination of its experience. The CNEA has achieved a high technological level which provides a foundation for the bilateral and multilateral co-operation pursued by Argentina.

Nuclear co-operation between Argentina and Brazil has been on the increase, particularly in recent years. Inter-institutional agreements are in force allowing for joint activities in the field of experimental physics, the exchange of information and of specialists. Since 1980, commercial operations have begun in the field of zirconium alloy tubes, rental of uranium concentrates and the supply of reactor elements.

The recent Declaration on Nuclear Policy signed by Presidents R. Alfonsín and J. Sarney (November 1985) expresses the hope that binational co-operation in the field of the peaceful uses of atomic energy will be extended to other Latin American countries. Consequently, it was agreed to establish working parties, under the supervision of both governments and composed of representatives of the respective nuclear enterprises, in order to promote technological and nuclear development as well as the creation of mechanisms to protect the interests of peace, security and development in the region.

Co-operation between Argentina and Peru is centred on the activities of the Huarangal Project whose aim is to build a nuclear research centre. Argentina has provided technical knowledge and has directly participated in the construction of the reactor. This co-operation makes the broadest possible use of Peruvian entrepreneurial capacity. Argentine enterprises are also participating in the project, generally in association with or in an advisory capacity to local firms.

Co-operation between Argentina and Chile includes horizontal co-operation, the exchange of specialists, technical training, agreements on radioisotopes and nuclear fuels, industrial applications as well as collaboration in the field of nuclear medicine. Co-operation began in 1976 and in 1984 was extended to cover the supply of fuel elements. Under the terms of this agreement, Argentina guarantees priority to Chile in the supply of enriched uranium.

The three examples of bilateral co-operation briefly set out above reveal a considerable number of joint activities in a sector of particular importance. Intensification of the multilateral patterns established by ARCAL and the expansion of bilateral relations should help to extend the present bases for operations within this type of co-operation. Its projection into the regional sphere is of particular importance in view of its major scientific, technological and economic impact.

b) The Latin American Association of Capital Goods Industries (ALABIC)

Imports of capital goods into Latin America rose from US$ 4 834 to US$ 27 618 million between 1971 and 1981. Merely US$ 1 540 million (little more than 7% of the total) were from the region itself.

A number of investigations have revealed that many countries in the region, including medium-sized and even a number of small countries possess installed capacity and technical skills capable of satisfying all or part of the demand for imported equipment.

It has also been demonstrated that the region's industrial capacity has not been properly divulged; that in major areas there is virtually no circulation of information between enterprises in different countries and finally, that there is often even considerable ignorance of national potential. This is particularly notorious in a number of medium-sized countries. One of the consequences of this situation is the failure to seize the opportunities which appear for joint production ventures.

Finally, there is an outstanding tendency to use traditional sources of supply in the developed countries. This trend exists even when external supply offers no particular financial advantages.

In these circumstances, a group of entrepreneurs began to seek ways of generating effective reciprocal support to facilitate their operations and provide the potential purchasers with guarantees based on their collective experience. This led to the establishment of ALABIC whose fundamental aims are to promote the development of the metallic construction industry and to strengthen the position of Latin American enterprises involved in the design and the manufacture of capital goods.

In order to achieve these aims it will be principally necessary to: i) promote increasing participation on the part of industry in each country and in the region in supplying the equipment required by the Latin American market; ii) stimulate awareness and contacts between enterprises, the exchange of information, experience and techniques; iii) co-ordinate entrepreneurial action in the sector and collaborate with firms in seeking solutions to the financial problems affecting activities; and iv) instigate a sustained effort to reduce dependence on outside engineering.

Special mention should be made of the agreement to co-ordinate the action of the associated enterprises, in order that the experience, technical development and capacities of the most outstanding among them provide support for fledgling enterprises or for those which require specialized advice or technical backing.

This is the most characteristic feature of the organization. It establishes a guiding principle for joint action and may become a factor to galvanize common action and facilitate the use of local and regional sources of supply.

ALABIC represents a particularly promising entrepreneurial form of co-operation. Its prospects will grow provided it succeeds in increasing the number of participating enterprises and proves capable of establishing functional and operational links with other efforts taking place in the sector. From this viewpoint, in addition to reinforcing its action, it appears important for it to seek operational methods allowing it to make use of the capacity of integration organizations, development banks (CAF, CABEI, CDB) and other co-operation bodies through joint action, making use of the various instruments available to the institutions in order to ensure the viability of its aims and projects.

c) Amazon Co-operation Treaty

The Amazon Co-operation Treaty 14/ is an agreement of a general kind. It contains a platform made up of long-term concepts which provides major definitions of principles and opens the way to a series of options and different courses of action. Consequently, its true nature and scope will emerge from the way in which it is applied.15/

The principles embodied in the Treaty essentially constitute a reassertion of the rights and responsibilities of each country over its respective mazonian areas. They constitute a clear Latin American response to any further attempt at internationalization or future foreign intervention in and utilization of this vast area. Similarly, the Treaty attempts to fully integrate these territories into the respective development plans, in accordance with the priorities and aspirations of each participating nation. Consequently, bilateral or multilateral co-operation must play a role in providing help and assistance for the efforts made by each country to explore and conserve these resources.

The central elements of the Treaty are of an eminently political character. In addition to the features mentioned above it should be added that promoting and organizing a continuous and long-term process of rapprochement, contact and negotiation between the parties constitutes an undeniable step forward, not only in view of the pronounced heterogeneity and economic importance of the participants, but also in view of the undenied and well-known border disputes which exist. These became sharper at the beginning of 1981 as a result of the conflict between Ecuador and Peru, and remain subject to varying tension, as a result of, among other factors, the dispute between Guayana and Venezuela.

In conjunction with the serious economic and financial difficulties which the participating countries face, these conflicts have delayed the effective application of the Treaty. In addition, the pronounced imbalances between the countries, their different geographical areas and disparity of interests constitute a set of major restrictions which it will be only possible to overcome in the long term and within an extremely flexible framework based upon total respect and support for the policies which each country, acting in a sovereign manner, desires to promote within the Treaty. Future prospects are therefore a fundamental element in assessing the significance and scope of the Treaty.

Consequently, within the medium term two fields of action appear to deserve priority. The first of these concerns co-operation in the field of exploration research, technological development and training of human resources required in order to face the political, economic, scientific and administrative challenge involved in exploiting the enormous resources contained in the Amazon region. This implies an awareness of the delicate ecological balance existing in the area on which irreversible damage may be inflicted.

A second area of particular interest concerns development of the transport and communications infrastructure and improvement of services. The impact of co-operation in this area has unquestioned repercussions as a result of the existing cross-frontier connections and the variety of possibilities they offer.

During this initial stage of the Treaty's application, limited progress has been made in both areas. A number of actions characteristic of a nascent process of horizontal technical co-operation have been undertaken. In many cases they have taken place within the multilateral framework provided by the Treaty. Nevertheless, they have primarily been brought about thanks to bilateral arrangements. The Treaty even provides for this, and explicitly acknowledges —for obvious geographical reasons-- that bilateral factors will be of considerable importance in the action undertaken.

Although the outlook and action of the Treaty covers the long term --it is of indefinite duration--, the limited nature of the achievements made during its first years is a source of concern. Clearly, these do not correspond to the inherent potential of resources in the Amazon area. A number of explanatory factors have already been mentioned. A further significant factor is the absence of a Secretariat with the capacity to formulate proposals and become an element capable of inspiring and stimulating co-operation. From this angle it is clearly possible to identify a weakness which may unduly prolong the period necessary for this major initiative to mature. The idea of a pro-tempore secretariat, occupied in turn by the various foreign ministries, to some extent reflects the spirit of the Treaty, but nonetheless indicates a disturbing institutional weakness.

Finally, it is worthwhile stressing two factors which appear to be central. The Treaty, together with all the activities in the geographical area it covers grants preference to a long-term approach. However, in order to reap benefits in the future it is necessary to intensify and rapidly progress in the process of present-day co-operation.

The second fundamental factor is that it seems unadvisable to continue examining the problems of the Amazon in isolation from other initiatives designed to underpin Latin American interdependence. The links which have been forged between Andean countries and members of ALADI as well as with other Latin American member nations of SELA, open the way to joint action and initiatives which could prove to have unsuspected potential. Naturally, there is no question of reducing the autonomy of the Amazon countries with regard to their central objective. Nor is it claimed that the other countries in the region should have even indirect access to the exploitation of these resources. It is merely suggested that if relations between the Amazon countries are considered within a regional context, it is quite likely that a variety of sources of co-operation will appear capable of becoming major factors in the process of creating and intensifying the reciprocal relations necessary to attain regional unity over the long term.

From this viewpoint, if the Executive Secretariat of ALADI and the Board of the Cartagena Agreement were for example to make a determined commitment to intensifying co-operation in general and such co-operation as could be developed within the Amazon Co-operation Treaty in particular, they could provide the appropriate technical support to the pro-tempore secretariat. This would constitute a step towards linking this form of co-operation with other projects undertaken by these organizations. It would also make it possible to partially offset the lack of continuity with regard to these initiatives which is occasionally apparent at the governmental level, enabling them to become incentives for the signing of other intergovernmental agreements.

d) Andean Reserve Fund (FAR)

FAR 16/ provides a particular example of a type of financial co-operation developed within an integration plan. It was designed to assist the member countries of the Andean Group in solving their global balance-of-payments deficit, to improve the liquidity of investment and of international reserves and to help harmonize exchange, monetary and financial policies within the framework of the Cartagena Agreement.17/

It is clearly apparent that the Fund covers a far broader range of activities than those directly linked with intra-subregional trade. This is merely one factor taken into consideration in addressing the demand for credit formulated by countries.

In spite of the adverse financial circumstances affecting Andean countries, FAR has gradually established itself and proved capable of extending the scope of its activities. In turn, the Andean countries have worked jointly in a satisfactory manner which has increased confidence in this instrument. This is clearly illustrated by the evolution of its paid-in capital. This was initially US$ 240 million and then rose as a result of successive increases to US$ 357.5 million towards the middle of 1985, with a total capital of US$ 437.8 million. These increases are in line with the policy of maintaining the level of capital in real terms by periodically capitalizing part of the profits and gradually increasing ordinary reserves so as to increase the ratio of paid-in capital against reserves to a minimum 10%.

The credit granted in support of the balance of payments reached US$ 450.5 million in 1985, representing an increase in the region of US$ 100 million over the previous year. Most of this credit was granted to Colombia --US$ 229 million--, for payment in 12 consecutive quarterly payments starting in 1986. Nevertheless, Colombia was able to pay off this loan in full at the beginning of that year. This is of particular significance if it is borne in mind, that, in financial terms, credit granted by FAR is considerably cheaper than that granted by international banks and consequently reflects a desire to give priority to strengthening the Fund in preference to other financial commitments.

The issue of securities, known as Andean Pesos, provides another significant example of the activities of FAR. In December 1984, the Board authorized the issue of this paper for use as a means of payment between the central banks of the member countries and by other authorized bearers (JUNAC, CAF and the Andean Parliament). Andean Pesos may be used for any kind of payment, if both parties agree. They are automatically accepted in payment for trade balances between the Andean countries and within ALADI's system of payments and compensation. The mechanism operates as an automatically renewed credit and constitutes a net increase in regional liquidity on the basis of an issue made by the Fund. During 1985 its use was limited, which explains why FAR authorities are taking a number of measures to extend and stimulate its use.

FAR has recently begun to participate in renegotiation of Bolivia's external debt, providing technical and financial support. This participation is of particular importance in that it involves direct collaboration with a member country in its relations with the IMF, the World Bank and international banks.

FAR is a relatively medium-sized institution in comparison with the scale of the balance-of-payments problems facing countries; nevertheless, it possesses the necessary guarantees, adequate management capacity as well as clear support from the central banks of the member countries.

The Latin American Economic Conference recommended to ALADI that, in conjunction with other regional financial bodies it should as soon as possible present a study into the possibility of establishing a Reserve Fund to finance balance-of-payments disequilibria. FAR could play a major role in this respect, as it represents a satisfactory example of regional financial co-operation with unquestioned potential for extension, either directly or indirectly, to either other areas of finance or other countries in Latin America and the Caribbean.

e) Latin American Organization for the Development of Fishing (OLDEPESCA)

Following seven years of joint activity within the Action Committee on Sea and Fresh Water Produce of SELA,18/ the participating countries decided to establish a permanent organization responsible for stimulating the development of fisheries in the region by means of intra-regional co-operation in the sector.

The activities carried out by the Committee first of all revealed the need for the countries of Latin America and the Caribbean to jointly face the problems affecting the fisheries sector in order to satisfactorily meet food requirements and the imperatives imposed by the Law of the Sea and the Strategy for Fisheries Management and Development adopted by the World Conference on Fisheries Management and Development held by FAO in June 1984.

Secondly, these activities revealed the striking degree of multilateralism in the sector. The majority of projects or initiatives undertaken revealed a real possibility for duly supported joint actions, providing broad scope for the intensification of a process which has proved particularly dynamic from its very beginning.

A third factor of considerable importance for co-operation in general arises from the working arrangements which were established at the very beginning of the process. This concerns the deep involvement of government experts or country's research institutions in the various projects or initiatives. This has generally ensured considerable convergence between co-operation programmes and national plans, thereby guaranteeing an independent process of evolution. Hardly any changes have been made to the programme of work since the Committee began operating. It consequently deals with the main preoccupations of the countries who initiated this form of co-operation.

OLDEPESCA arose out of the need for regional co-operation and was able to make use of the work which had already been carried out thanks to a preparatory process and to continue it into the future in accordance with the guidelines laid down by the countries themselves. In spite of the progress made and the degree of consolidation achieved, progress in the evolution of the committee towards a more permanent organization has been considerably slower and more arduous than anticipated. In practice, although a transition mechanism exists, countries have diminished their degree of participation and the organization has become less dynamic. It is probable that the requirement for legislative ratification in order to enter the Organization is one factor which to a large extent explains this lower level of activity.

At the purely regional level, OLDEPESCA maintains close links with ALADI and to a lesser extent with the Permanent Commission for the Conservation and Exploitation of the Maritime Resources of the South Pacific (CPPS). Together with ALADI, the organization has been examining the desirability of establishing a commercial fisheries agreement --in the form of a partial agreement--, which proposes two basic types of action. On the one hand, increasing intra-regional trade in fisheries products, so as to raise low-cost and reliable regional supply; this would directly lead to the properly organized replacement of supplies from outside countries by Latin American supplies. In addition, an attempt is being made to agree on common positions in international markets so as to maintain and as far as possible improve the present terms of access to markets, improve price levels and generally foment a gradual rationalization of exports to international markets by increased participation in channels of commercialization.

Contacts with the CPPS are of more recent date. The countries gave an express mandate for the establishment of a working party in order to prepare a regional agreement on tuna fish. This agreement, which is in its preparatory stage, would be designed to establish norms and regulations to cover fishing of this major resource.

In spite of the difficulties which OLDEPESCA is experiencing, there is no doubt that regional co-operation in this sector has proved its viability and focused the attention of governments. If these efforts are to be intensified, it is first of all necessary for the countries which belong to the Committee and other important countries on the Atlantic seaboard to join. Argentina has already expressed its intention to do so. Secondly, a further stimulus would be provided by an intensification of the organization's relations with integration programmes. The trade agreement, which attempts are being made to establish as part of ALADI, represents a step in the right direction. Similar initiatives could be taken within CARICOM, the CACM and the Andean Group. Such a diversification of action within a relatively disparate geographical area does not involve major changes in the organization's programmes of work as such changes are already underway.

2. Experience of a general nature

Generally speaking, the process of regional co-operation is associated with institutions such as the Latin American Energy Organization (OLADE), the Group of Latin American and Caribbean Sugar Exporting Countries (GEPLACEA), and the Union of Banana Exporting Countries (UBEC), etc. For the purposes of this study, an attempt will be made merely to specify the role played by institutions of this type in the process of co-operation and promotion of regional interdependence and an attempt will also be made to provide an outline of their relations with national sectoral policies. To this end, there follows an examination of a number of common features of a general nature, which may be drawn from the manner in which the main co-operation institutions operate.

The first common factor is the close correlation between the evolution of co-operation and international circumstances as well as those prevailing on certain specific markets. An increase in the activity and even an intensification of the evolution of these organizations is deeply influenced by these circumstances. GEPLACEA has traditionally co-ordinated the Latin American position in negotiations to renew or modify the International Sugar Agreement. Such co-ordination in fact constitutes a priority issue in the group's programme of activities. In other cases, such as that of OLADE, activity also appears particularly intense at times of conflict within the hydrocarbon market. This indicates that the external variable would seem to operate as a stimulus to regional solidarity and consequently to co-operation itself. This holds true, although to a lesser extent, in the case of OLDEPESCA.

From this viewpoint and under present circumstances the sectoral policies of participating countries do not seem to be the only determining factor in the co-operation process, which may help to explain a number of periods during which joint action has been at a standstill.

Another fairly common feature of these organizations is the stress laid on horizontal technical co-operation. In all cases and with varying degrees of intensity, programmes have been organized in this area. These have led to a number of fairly significant achievements, among which is the intensification of reciprocal knowledge among countries which directly helps to broaden the very foundations of co-operation. This is particularly true when national experts belonging to different subregional groups are involved and whose contacts are, for various reasons, usually restricted to direct contacts within their own field.

As far as the process of Latin American interdependence is concerned, horizontal technical co-operation may be likened to the concept of seed capital. This means that it produces often intangible results which gradually increase the achievements of co-operation by interconnecting operational agents in different countries. The exchange of information and knowledge in specific areas establishes links between national policies thereby facilitating their connection to multilateral programmes and strengthening co-operation itself. Restricting or failing to take advantage of this type of opportunity obviously weakens both the process of co-operation and reciprocal links between countries.

Generally speaking, co-operation organizations have lacked the capacity to ensure the participation of all countries interested in a particular sphere and in a position to take a share in joint ventures. GEPLACEA is the organization with the most fully developed regional vocation, as 23 Latin American and Caribbean sugar-exporting countries belong to it, thereby ensuring that it is fully representative. A broadly representative group of countries also belong to OLADE. The geographical scope of the remaining organizations is rather limited. Neither Ecuador nor Brazil have ever belonged to the Union of Banana Exporting Countries (UBEC). While close contacts exist with Ecuador, it has to be recognized that the main exporter does not belong to the Union. OLDEPESCA has failed to persuade any of the Atlantic seaboard countries or Colombia to join. It should be borne in mind that mention has only been made of the most important countries in the sector.

These observations indicate that regional efforts suffer from a high degree of dispersion or a pronounced lack of cohesion. They may also reflect the fact that the programme of activities of particular co-operation programmes does not coincide with the sectoral interests and priorities of the majority of countries in the region.

There is no question of claiming that it is necessary for all countries in Latin America and the Caribbean to belong to a co-operation programme in order for it to prove operational.

This would be in direct contradiction with the very nature of such programmes. Nevertheless it is necessary to assert the desirability of a minimum foundation capable of providing satisfactory and efficient support for such programmes. Any worthwhile attempt to regionalize a co-operation should begin by examining the way in which countries organize their participation. This requires assessments designed to adjust and alter the respective programmes of activities so that they may be satisfactorily harmonized with national plans, with the political and operational decisions taken by all participants as well as with a permanent system for promoting co-operation.

Another common feature is the lack of resources and limited executive capacity of the technical secretariats of the majority of organizations, who tend to give priority to administrative aspects. This operational weakness leaves limited opportunity for seeking elements of co-operation with the desired incidence and potential. In order to organize a technically viable and politically attractive programme of activities, a period of preparation is necessary as well as intense consultation with those national institutions which will be involved, so as to ensure satisfactory correlation between national policies and co-operation programmes. Considerable support on the part of countries is necessary if these programmes are to be carried out, but it is necessary to bear in mind that the evolution of processes is facilitated by the existence of secretariats possessing minimum capacity and resources.

In addition, institutional aspects may be of decisive importance to a number of processes. Thus, the creation of the Council of Ministers of OLADE (six Ministers belong, it covers a large geographical area and holds highly operational quarterly meetings) made it possible to advance with surprising speed and facilitated the preparation, adoption and bringing into operation of major projects such as the Latin American Programme for Energy Co-operation (PLACE).

Co-operation is not a process which takes place spontaneously. A number of focal points capable of initiating co-operation are necessary if its pursuit is to prove feasible. Among these, institutional aspects are of particular importance since, among other things, they allow multilateral programmes to be harmonized with national programmes.

Despite the progress made at the instrumental and political levels, the conceptual and operational problem remains a source of preoccupation. As has been pointed out above, each organization seeks to achieve the greatest degree of autonomy possible. There is no shortage of examples to confirm that it is often far more efficient to pursue joint activities with other organizations, nevertheless, co-operation has in practice been left in the background.

On the contrary, stress should be laid on the sharing of efforts, giving priority to the most efficient alternative, promoting reciprocal support and ensuring the process is as operational and multilateral as possible.

In other words, it would be desirable to define and foment a new approach to processes of Latin American co-operation in order to amalgamate efforts, combine and multiply capacity, link together initiatives of all kinds and produce a new operational framework for integration and co-operation.

A further dimension of co-operation arises from entrepreneurial agreements, be these public or private. Entrepreneurial associations formed as part of ALALC, such as the Association of Latin American Industrialists (AILA), the Latin American Preserves and Allied Manufacturers' Association (ALICA), etc., involve a certain degree of co-operation. Generally speaking, their activities are centred on the organization of annual meetings or congresses and they usually limit themselves to exchanging information on national conditions. In a number of cases they also examine possibilities for bringing about trade negotiations —normally making use of the instruments provided by ALADI— which are subsequently submitted to governments.

Those institutions which group State and private enterprises of particular importance from the economic angle constitute a second level. In addition to those tasks described above, they carry out studies and generally provide technical support for the sector's activities. The recent activities of the Latin American Iron and Steel Institute (ILAFA) on the subject of protectionism in the industrialized countries and the proposal for a partial agreement within the steel industry, under the auspices of ALADI, provide examples of the type of co-operation pursued by this Institute in recent years.

In addition to emphasizing and stressing the importance of such initiatives, there is every likelihood that these organizations possess considerable under-utilized potential. As most of them cover sectors which are of importance to the countries in the region, it is well worth examining means of allowing them maximize their potential to help revive the regional economy.

Co-operation which takes place in the field of certain specific entrepreneurial activities represent a third level of co-operation. Transnational corporations provide clear examples of this type of direct co-operation between specific enterprises. It is probably this type of co-operation which has suffered most from the tension and problems which have affected co-operation. Latin American transnational corporations have suffered a marked regression. The short-lived but successful transnational corporation PANCAFE, was obliged to cease its operations before the United States would sign the International Coffee Agreement. The Multinational Banana Trading Company (COMUNBANA) has had to temporarily cease operations as a result of the impossibility of controlling a sufficient share of supplies of the fruit to compete with transnational corporations. The Caribbean Multinational Shipping Line (NAMUCAR) has experienced a marked decline in freight carried, thereby jeopardizing its already precarious situation. Apparently, the Latin American Multinational Fertilizer Marketing Corporation (MULTIFERT) is the only transnational which remains fairly active, although it too is facing serious problems.

Consequently, co-operation based on the creation and subsequent operation of transnational corporations would seem to be at a crossroads. There is a broad consensus that this constitutes a worthwhile and important alternative for co-operation, but experience is revealing the pitfalls which lie in its path.

A variety of situations exist at the bilateral level. Some entrepreneurial arrangements are facing complex circumstances such as those described above. Binational enterprises directly associated with the production phase are another case, as in the example of the firm Monómeros Colombo-Venezolano S.A. Initiatives directly connected with infrastructure activities constitute another case unaffected by the trends described above. Generally speaking their continuity is ensured by the very nature of their activities —which are to a certain extent strategic and generally protected by specific political agreements operating within the framework of long-term international treaties or agreements.

A common factor or feature of these forms of co-operation is their isolation from or lack of links with organizations responsible for co-operation and integration, which may be explained by the lack of concrete political co-ordination in the region, which would make it possible to co-ordinate and structure such activities.

In view of the extreme diversity of the countries which are potential participants in joint action as well as the diversity of the co-operation ventures themselves, it is desirable for them to operate within groups which are smaller in size than the region as a whole, which in no way prevents subsequent more global co-ordination. A more decentralized plan could bring about gradual progress in relatively allied areas or within subregions with similar problems and priorities. The establishment of modules for promotion and execution could stimulate a worthwhile movement towards co-ordination. For example, it is clear that OLADE and ARPEL —and even CIER-- could harmonize their activities so as to avoid pursuing what in fact represent parallel operations and reorganize their collaboration in those areas of common interest.

## E. CO-OPERATION WITHIN INTEGRATION

The Central American Common Market and the Andean Group no doubt represent the most ambitious integration programmes from the instrumental viewpoint and with regard to their aims. Efforts to reinforce economic, technological or cultural interrelations between the participating nations endeavoured to overcome the institutional constraints inherent in the international treaties which were at their root. With varying degrees of intensity, and despite the serious hurdles they had had to face in recent years, they have made progress in both fields, in a whole range of areas which lie beyond the merely commercial approach generally adopted by integration processes.

The scope of activities in these programmes reflects the conviction that integration is a complex process which must reach into the various areas of interest of the national societies which have entered into association. A number of the measures they have adopted constitute a natural complement to the policy of expanding the market, as is the case of certain financial measures or of arrangements to facilitate transport, for example. Nevertheless, this trend towards increased scope covers a number of issues which are directly linked to the creation of interdependency between countries, with no direct links to trade policy. The agreements relating to electrical interconnection in Central America, the Andean Projects for Technological Development --PADT--, agreements in the fields of health or of education are different examples of a single process.

It is probably in the field of financial and monetary co-operation that progress has been most significant. Institutions such as the Central American Bank of Economic Integration (CABEI), the Caribbean Development Bank (CDB) or the Andean Development Corporation (CAF) have adopted totally different aims and procedure from those of a mere complement to free competition within the expanded market. They are designed to facilitate and render viable investment processes themselves; in many cases they give priority to their impact on national and subregional development. In other words, they are multilateral financial bodies which do not merely restrict themselves to integration projects, but which cover a far broader range of activities.

In the case of the Andean Group the existing infrastructure in the field of agreements on payments and reciprocal credits within ALALC-ALADI helped further its activities. These agreements, together with the extensive network of interrelations which has grown up over many years between the central banks of South America, Mexico and the Dominican Republic, no doubt facilitated subsequent initiatives such as FAR and more recently the Andean Peso.

Despite geopolitical tension and the economic crisis affecting its member countries, the Central American Common Market has maintained or intensified co-operation activities. Among these it is worth mentioning the renewed efforts made by Ministers of Planning to carry out joint action, the creation of the Committee on Technical Co-operation, the achievements of the Central American Electrification Council, as well as those of the Commissions on maritime and rail transport together with a whole variety of initiatives in various fields. Mention should also be made of the recent adoption of the Central American External Tariff.

The Caribbean Community (CARICOM) is another integration programme responsible for significant joint undertakings, in addition to those pursued in order to consolidate a common market. The ultimate aim of these measures is to establish a community of nations and a variety of areas are covered, such as transport, food and agriculture, industry, energy and what is known as "functional co-operation". Activities in this field include health and population, education and culture, tax administration, sport and youth.

The majority of CARICOM's member countries take a part in the financing of petroleum, fertilizers and asphalt supplied by Trinidad and Tobago to the less-developed countries in the Community. They also belong to the Caribbean Development and Co-operation Committee (CDCC) which has, in association with regional bodies, prepared a number of measures in support of these nations.

Finally, it should be mentioned that the Latin American Free Trade Association (LAFTA) --known as the Latin American Integration Association (ALADI) since 1980-- paved the way for a considerable number of measures in the field of co-operation and was responsible for establishing a lengthy list of entrepreneurial bodies representative of the various sectors of Latin American economic activity. Many of these bodies were established thanks to the favourable environment for integration which predominated during the first years of LAFTA's existence.

As an illustration, it is worth remembering organizations such as the Latin American Manufacturers' Association (LAMA), the Latin American Preserves and Allied Manufacturers' Association (ALICA) and the Latin American Iron and Steel Institute (ILAFA); the Latin American State Petroleum Enterprises Mutual Aid Association (ARPEL) and the Regional Electricity Integration Commission (CIER); the Latin American Railways' Association (ALAF), the Latin American Road Transport Association (ALATAC), the Latin American Shipowners' Association (LASA), the Latin American Civil Aviation Commission as well as monetary and financial institutions such as the Centre for Latin American Monetary Studies (CEMLA) —prior to ALALC-- the Latin American Association of Finance and Development Institutions (ALIDE) and the Latin American Banking Federation (FELABAN).

Industrial complementarity, monetary and financial co-operation as well as co-operation in the fields of transport, communications and infrastructure are some of the areas in which joint action within the former ALALC is outstanding. However, there is little doubt that the Association's central preoccupation lay with the creation of a free trade area and the development of the instruments directly designed to achieve this aim.

As has often been observed, the present-day ALADI rather constitutes an open programme: non-member developing countries may participate by means of partial agreements, with no constraints imposed by deadlines --except those agreed upon by the Council of Ministers for certain instruments-- with considerable flexibility as regards the methods and types of agreements to be reached, and with limited multilateral components. It could almost be described as a broad-ranging co-operation agreement in the field of trade and trade instruments, rather than a classical model of integration.

Moreover, new forms of integration --or of co-operation-- have been sought within the operational mechanisms of complex and many sided integration programmes, such as the CACM, the Andean Group and CARICOM, in order to tackle common problems deserving priority. This approach, known as "project integration", is of increasing importance in these programmes. Even prior to the crisis, the Andean Group, for example, had adopted it in so important an area as agriculture. This sector, whose range of production is quite similar in the five countries, had clearly been left in the background by the Andean countries. Tariff mechanisms had not produced satisfactory results and the seriousness of the food problem at the national and subregional levels made new approaches vital. These led to the application of an _ad hoc_ agreement relating to protection of the food supply.

The aim of any integration process is to increase economic interdependence among member countries, so as to assist in executing development plans by a gradual process of interlinking. Reciprocal trade is a major indicator of progress in this direction and not only concerns trade measures but also a variety of links between the economic agents of member countries. Ideally, interrelations should involve all participants. However, the region has gone over from highly multilateral programmes to more markedly bilateral ones. Co-operation may help to stimulate new forms of multilateralism laying down plans for various forms of interdependence which may in the medium term lead to a more orderly and dynamic expansion of reciprocal trade. This issue will be dealt with in the following section.

## F. MEANS OF PROMOTING REGIONAL CO-OPERATION

Following the Latin American Economic Conference held in Quito in January 1984 a high-level political process has been underway designed to reassess and give priority to the capacity and potential of Latin American integration and co-operation. At various meetings —many of which were headed by the highest authorities of the countries in the region— the majority of the most pressing problems have been addressed and the adoption of a variety of measures based on joint and co-ordinated action between countries has been promoted. However, the operational organizations and bodies in the region have failed to bring about achievements and progress corresponding to the political framework defined by governments, and even less to the needs arising from the serious economic situation affecting all countries in Latin America and the Caribbean. On the contrary, generally speaking the operational capacity of these bodies is clearly at a standstill, and in some cases has been seriously weakened.

The roots of the problem seem to lie in two interrelated areas. The first of these concerns the distance, as regards the governments as a whole, between the declarations expressing political will and the concrete action they need to subsequently undertake. Governments draw up and adopt ambitious programme platforms which the executive units fail to instrument, possibly as a result of differing visions of national interest when projected into the multilateral sphere. Thus the gap between the political determination expressed by the high government officials and actual economic action makes it impossible to bring about a process of co-ordination in strategic areas in order to solve the present complex economic situation and that which the region will face in coming years.

Under present circumstances, aggravated by the structural shortcomings of the regional economy, multilateral forums have given priority to strengthening the processes of integration and co-operation. However, progress in the instrumentation of the agreements adopted (Quito Action Plan, Montevideo Meeting, ALADI Council of Ministers) have been modest and particularly slow. This lack of concrete achievements aggravates the loss of credibility in the region's capacity for concerted action and confirms entrepreneurial skepticism, which in turn eliminates one of the region's most specific and vigorous alternatives for overcoming the crisis and reviving its productive systems.

A second area of preoccupation is with the methods adopted to promote regional integration and co-operation. In recent years considerable effort has been centred on partial and rather conventional aspects of intra-regional trade. Notwithstanding their relative importance, these have been the central preoccupation of organizations, and other measures relating to trade and co-operation which could stimulate and accelerate the process as a whole have either not been tackled or have been left in the background.

Thus, for example, the majority of integration programmes have devoted considerable time and resources to setting up a system of tariff preferences, while neglecting aspects such as State purchases or the improvement of the new payments mechanisms which at the present time may prove decisive factors in directing trade flows. Similarly, due importance has not been given to co-operation over the most characteristic instruments of integration. The potential of co-operation has been squandered, by considering it to be an independent process, spontaneous in nature and almost always bilateral. This is partly due to the institutional clearage existing between the bodies which promote co-operation and the secretariats of the integration programmes.

When SELA was established, an attempt was made to set up a permanent centre for the promotion of Latin American co-operation among the 25 States belonging to the System. However, for a considerable period of time countries and the Permanent Secretariat have given priority to activities of co-ordination and consultation. The Action Committees have been bereft of the support necessary for their consolidation, and new steps in this field are few in number. Irrespective of this situation imposed by actual circumstances and the lack of interest on the part of many countries towards participation in the proposed measures, the fact is that an organization such as SELA must satisfy the requirements of a large number of extremely diverse countries, and is thereby obliged to approach co-operation from what may be described as a horizontal angle, i.e., it needs to be sufficiently broad and flexible to facilitate the participation of nations of extremely varied degrees of development situated in the different geographical areas of the region.

With this in mind, it may be stated that SELA and its Permanent Secretariat simultaneously face two problems. First of all, the overall weakness of economic links between countries, as a result of the crisis and of its dissociative effects, has restricted its capacity for concrete action. Secondly, as a result of the heterogeneity of the member countries and of the geographical size of its sphere of action, SELA has been faced with the obligation to design extensive programmes, thereby making it difficult for its co-operation projects to address specific issues. Consequently, countries have failed to channel many of their ventures through SELA's institutional framework, thereby preventing it from playing its proper inductive, activating and co-ordinating role.

This situation has a number of drawbacks which basically concern the transparency of these efforts, and the possibility of their being co-ordinated and interconnected --so as to effectively accumulate capacity-- and of satisfactorily organized programmes being submitted to governments. In this respect, stressing the need for a focal point does not mean that it is necessary to set up a dominant centre, to direct co-operation as a whole, but rather to establish a co-ordinating nucleus in order to overcome a number of problems such as those mentioned above.

Provided there was a firm intention to promote co-operation among the secretariats of the subregional integration programmes --SIECA, CARICOM, JUNAC, ALADI--, the work carried out by SELA would be reinforced. Its basic task could focus on the promotion of interconnection between these efforts, encouraging their extension into the international sphere, promoting projects whose very nature requires their extension into a broader sphere than the subregional one, and ensuring that countries which are members of no integration programme are given the opportunity to join any number of specific projects.

There exists a series of co-operation projects whose interest is limited to specific geographical areas, and which are consequently non-priority from SELA's viewpoint. From a legal angle, infrastructure projects, joint exploitation of shared natural resources together with a whole range of bilateral initiatives are beyond the scope of the Panama Agreement's regulations. In other cases, such as the International Entrepreneurial Group of Central and Western South America (GEICOS), there exist forms of co-operation which are not included within the System's present programme base, in view of its connection with the particular requirements and programmes of subregional frontier areas.

Such projects --entrepreneurial, bilateral or subregional-- often have a marked incidence on economic relations, as they promote regional interdependence; in some cases, they may significantly affect external flows (use of transport facilities by landlocked areas, for example). However, few regional institutions possess clear programmes to stimulate and foment such co-operation. On the contrary, such projects depend solely on the capacity of participating countries to carry them out. The latter find it difficult and costly to maintain permanent lines of action designed to identify and promote co-operation projects, thereby delaying or weakening the creation of new links of mutual interest in the region. In so far as present integration programmes possess a permanent activity or mechanism focused on stimulating and promoting such activities, the process is likely to gather impetus and make more ambitious integration projects viable, by extending the network of relations between member countries.

A further line of action would involve the systematic promotion of operational relations between the various co-operation bodies or programmes. The central idea is to establish effective and concrete forms of co-operation, facilitating the development of joint efforts to tackle particular issues and taking advantage of the particular features of each group.

As was mentioned above, many of these undertakings are the outcome of bilateral agreements. Placing such relations within a multilateral context represents a major challenge for the development of an activity such as that being tentatively outlined here. Provided countries realize that this merely involves promoting and rendering viable initiatives which they themselves have conceived or desire to promote, and that no attempt is being made to transform the negotiating process itself into a multilateral one, there is every likelihood that support will be found for defining a strategy. The advantages and drawbacks of this new dimension of bilateral relations must be the object of a careful and detailed analysis.

To sum up, what is being proposed is the systematic promotion of co-operation ventures in the field of trade, infrastructure, joint exploitation of natural resources, energy, transport and communications, science and technology, banks and financing, the productive sectors, joint enterprises, etc., by the following means:

a) At the level of the subregional integration programmes, the creation or strengthening of bodies specialized in co-operation, where this is justified, whose main aims would be: i) to gather and analyse information on co-operation activities carried out by the member countries, to assess their results and consider the direct and indirect impact they have had upon the process of interrelation between countries, so as to acquire experience of the modalities for co-operation; ii) to examine the background and causes behind those co-operation activities which failed to materialize as scheduled (for economic, political, ecological, etc., reasons) as such restrictions may have changed; iii) to carry out a survey of co-operation ventures within each country, in both the public and private sectors, so as to choose those of greatest interest for two or more countries and which have not yet been carried out, iv) to suggest to governments and promote further ventures, based upon systematic examination of the real circumstances and shortcomings of nations and groups of nations, and on their potential for contributing to the tasks of subregional integration.

b) To strengthen SELA in order that it may fulfill its role as regional co-ordination of activities in the field of subregional co-operation and collaborate with those countries which do not belong to any integration programme so as to facilitate their participation in a variety of co-operation projects.

The advantage of giving co-operation activities a multilateral bent lies essentially in the greater stability which may be provided for countries by the existence of a framework of commitments and powers which have been collectively endorsed by the nations belonging to the system. This is important for long-term ventures, particularly in view of the political instability characteristic of the region. For less-developed countries, the existence of a permanent promotion mechanism may provide valuable help in their negotiations with larger countries, in view of the experience and background information which each co-operation body could accumulate.

As far as the secretariats of the integration programmes are concerned, systematizing their action to promote co-operation could help to open up a new and significant course of operations, giving a renewed impetus to their contacts with the governments of their member countries in different spheres, as a complement to their usual activities.

There is no lack of awareness of the implicit danger of bureaucratizing co-operation in one way or another. Nevertheless, everything will depend on the flexibility and efficiency of the units incorporated into the integration programmes. In any case, the idea is to constitute small technical groups operating in close contact with either governments or the private sector at those levels in which bilateral or multilateral co-operation ventures originate or are instrumented, such as ministries, public or private enterprises, universities, etc.

In the case of ALADI in particular, building a mechanism such as that outlined above is particularly important, since despite the length of time which has gone by, neither the member countries nor the General Secretariat possess any such instrument. The latter could deepen its activity in those fields which either directly or indirectly stimulate reciprocal trade or strengthen regional interdependence. It could carry out its task without preventing the Association from continuing to focus its efforts on the trade sphere. There is no question of proposing an option which involves a dispersal of resources; on the contrary, an attempt is being made to develop a line of activities to provide structural support for the work carried out by the Association in the field of trade, bearing on those tasks which enhance regional cohesion and which consequently broaden the programme's basis of support.

## III. THE SERVICES SECTOR IN INTRA-REGIONAL TRADE

### A. THE SERVICES SECTOR IN THE BALANCE OF PAYMENTS

The services sector is of increasing importance in the economies of both developed and developing countries. It represents almost two-thirds of gross domestic product in the developed countries, and in Latin America and the Caribbean approximately 50% of regional productive activity.19/

The international services trade has also experienced vigorous growth, and towards the beginning of the 1980s was equal to one-third of the merchandise trade, and was worth US$ 600 billion in absolute terms in 1980.20/

Generally speaking, the services trade has favoured the industrialized countries. The member countries of ALADI21/ have recorded an increase in their deficit on non-financial services, with imports of around US$ 30 billion and exports of approximately US$ 20 billion in 1981.

The trend in the services trade of ALADI countries during the first half of the 1980s is set out in table 34, broken down into major items.

With regard to exports, the predominance of Travel (tourism) towards the beginning of the decade is apparent; however towards 1985 transport and insurance, travel and other services were on an equal footing. This occurred within the context of a continual decline in income from services, from a maximum of US$ 18 billion in 1981 to US$ 13.5 billion in 1985.

As far as imports are concerned, most expenditure throughout the whole of the period was on Transport and insurance, even though in absolute terms its level declined, reflecting the crisis, from US$ 11 billion in 1981 to US$ 7.3 billion in 1985. A significant decline also occurred in expenditure on Travel which fell by half between 1980-1981 and 1985.

Under the item Other official and private services, a certain degree of inelasticity may be observed, in spite of the shrinkage of aggregate demand and demand for imports from member countries. This item includes what are known as "new services", particularly activities in the field of informatics, telecommunications, design engineering, and consultancy services.

One area of particular interest is that of transport and insurance. This represented 30% of ALADI's exports of non-financial services and 40% of imports, and accounted for a significant share of the balance-of-services deficit.22/

Table 34

ALADI COUNTRIES: EXPORTS AND IMPORTS OF SERVICES

(Billions of dollars)

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|
| Exports | 16.2 | 18.0 | 13.3 | 11.9 | 14.1 | 13.5 |
| Transport and insurance | 4.0 | 4.5 | 4.1 | 4.2 | 4.7 | 4.4 |
| Travel | 7.4 | 8.6 | 5.6 | 4.8 | 5.7 | 5.0 |
| Other services | 4.8 | 4.9 | 3.6 | 2.9 | 3.7 | 4.1 |
| Imports | 24.8 | 28.7 | 25.7 | 17.8 | 18.1 | 17.9 |
| Transport and insurance | 10.1 | 11.0 | 8.9 | 7.2 | 7.5 | 7.3 |
| Travel | 9.4 | 11.6 | 8.9 | 5.1 | 5.6 | 5.2 |
| Other services | 5.3 | 6.1 | 7.9 | 5.5 | 5.0 | 5.4 |

Source: ECLAC, on the basis of IMF statistics.

This interest is also reflected in the commitment made by the Quito Plan of Action to "identify specific areas for the promotion of regional and subregional co-operation plans with respect to services, especially in the transportation, insurance and reinsurance sectors".23/

## B. TRANSPORT AND INSURANCE

A more detailed examination of the Transport and insurance sector has been considered desirable, bearing in mind, in addition to its weight in the balance of payments, its links with external trade in goods, and the experience accumulated on the subject.24/25/

To this end, an analysis was made of currency income and expenditure on transport and insurance by the principal countries in ALADI as well as of expenditure on other services supplied by firms outside the area.

The main results are set out in table 35, which presents the distribution of the global trade of the member countries under consideration, according to the nationality of the means of transport.

Table 35

ALADI COUNTRIES: DISTRIBUTION OF THE VALUE OF IMPORTS AND EXPORTS BY NATIONALITY OF MEANS OF TRANSPORT

(Percentages) a/

| Countries | National flag b/ | Zonal flag | Extra-zonal flag |
|---|---|---|---|
| | | Imports | |
| Argentina | 43 | 7 | 50 |
| Brazil | 79 | 3 | 18 |
| Colombia | 30 | 10 | 60 |
| Chile | 29 | 7 | 64 |
| Peru | 29 | 11 | 60 |
| Uruguay | 35 | 16 | 49 |
| | | Exports | |
| Argentina | 21 | 3 | 76 |
| Brazil | 41 | 7 | 52 |
| Chile | 23 | 10 | 67 |
| Peru | 25 | 12 | 63 |
| Uruguay | 26 | 18 | 56 |

Source: ECLAC, on the basis of official data provided by countries.

a/ The data cover the following periods: 1982 for Argentina and Uruguay, 1981 for Brazil and Colombia, and 1978 for Chile; data relating to Peru corresponds to 1982 (exports) and 1977 (imports).

b/ In a number of countries, in particular Brazil, this includes transport by foreign ships chartered by national shipping companies.

This analysis leads to the following conclusions:

i) national firms' share of the transport of imports, measured by value, represents approximately 30% in medium-sized countries (Colombia, Chile, Peru and Uruguay), slightly more in the case of Argentina (40%) and considerably more in Brazil (80%). In the case of Brazil, the national flag includes foreign ships chartered and operated by national shipping companies;

ii) the share in the transport of imports from other ALADI countries of firms from within the area fluctuates between 7 and 16% in the medium-sized countries, and slightly more in the case of Argentina and Brazil;

iii) there is ample room for substituting expenditure on imports of transport services in the medium-sized countries within ALADI and in Argentina, where the share of outside firms in the transport of imports ranges from 50% to 65%;

iv) dependence on extra-zonal transport services is far greater in the case of exports from member countries. In every case, the percentage of exports carried by ships sailing under extra-zonal flags is higher in value terms than the equivalent percentage of imports. This suggests that there is potential for promoting exports in the field of transport services;

v) the share of national transport enterprises in their nations' exports, in value terms, is similar among the medium-sized countries and Argentina (from 20 to 25%), and higher in Brazil (40%). As in the case of imports, foreign ships are chartered and operated by national shipping companies and included with those sailing under the national flag;

vi) with regard to the cost of transport, the results indicate that the average rate for freight and insurance is between 8 and 9% of the CIF import value. This rate is considerably lower in the case of purchases of fuel.

As regards intra-zonal trade, table 36 presents the distribution of the value of trade among ALADI member countries, by nationality of the means of transport.

Analysis leads to the following conclusions:

i) national and zonal transport represents a considerably higher share of the value of trade with ALADI countries than of total trade. In particular, the percentage for transport by other ALADI countries is higher;

ii) dependence on extra-zonal transport is considerably lower, with the exception of petroleum purchases made by medium-sized countries, whose fleets of oil tankers are quite small;

iii) there may be room for substituting the cost of transport imports from the rest of the world, particularly in the case of medium-sized countries. In this respect, greater regional integration with regard to transport of fuel could lead to increased trade between ALADI countries and a saving of convertible currency;

iv) with regard to the transport cost of intra-zonal trade, the average rate between member countries is lower than in the case of outside purchases made by those three countries for whom information was available (Argentina, Brazil and Chile). This would seem to reflect the greater geographical proximity of ALADI member countries, or the type of import products involved.

These results are preliminary, in view of the heterogeneity of the information and as the statistics covered different periods for each country. Thus, information relating

Table 36

ALADI COUNTRIES: DISTRIBUTION OF THE VALUE OF INTRA-ZONAL IMPORTS AND EXPORTS BY NATIONALITY OF THE MEANS OF TRANSPORT a/

(Percentages)

| Countries | National flag b/ | Zonal flag | Extra-zonal flag |
|---|---|---|---|
| | | 1. Intra-zonal imports | |
| Argentina | 48 | 16 | 36 |
| Brazil | 75 | 21 | 5 |
| Colombia | 32 | 52 | 16 |
| Chile | 33 | 11 | 56 |
| Peru | 5 | 21 | 74 |
| Uruguay | 40 | 29 | 31 |
| | | 2. Intra-zonal exports | |
| Argentina | 34 | 8 | 58 |
| Brazil | 72 | 23 | 5 |
| Chile | 31 | 23 | 46 |
| Peru | 23 | 56 | 22 |
| Uruguay | 66 | 31 | 3 |

Source: ECLAC, on the basis of official data provided by countries.

a/ The data cover the following periods: 1982 for Argentina and Uruguay, 1981 Brazil and Colombia, and 1978 for Chile; data relating to Peru corresponds to 1982 (exports) and 1977 (imports).

b/ In a number of countries, in particular Brazil, this includes transport by foreign vessels chartered and operated by national shipping companies.

to 1982 was available for Argentina and Uruguay, to 1981 in the case of Brazil and Colombia, and 1978 in that of Chile. As far as Peru is concerned, the information is mixed as it relates to 1982 in the case of exports and 1977 in that of imports. A number of countries were excluded for lack of statistics. In order to evaluate the concrete feasibility of substituting imports or exports of extra-zonal transport by national or zonal transport it will be necessary to carry out a deeper analysis, and examine the volumes of external import and export trade (in addition to the monetary value), by analysing the transport provided by different means of transport and extending the investigation to those countries which were not considered. In addition, it is essential to provide for a special classification of products on the basis of the type of transport they require (general bulk transport, refrigerated, liquid, etc.).

It will also be necessary to investigate the other items in the services sector. This will assist in defining the role which the tertiary sectors should play in external economic relations, in countries' development strategies and in regional integration and co-operation.

In this respect, there is strong pressure at the present time for multilateral negotiations on services, foreign investment and technology transfer to be initiated within GATT. The United States is principally responsible for instigating these negotiations with the prime objective of establishing free trade in services and technology, as well as the free flow of direct foreign investment.

The position taken by Latin America with regard to international negotiations on services is clear and has been adopted within the framework of SELA:26/ GATT exclusively covers merchandise trade, it is in no way competent in the services sphere and it is undesirable that the issue of foreign investment and technology should be examined in the multilateral negotiations. Any treatment of the issue should be subordinated to the aims of the region's economic development, and greater knowledge is vital and must precede any discussion in the international sphere.27/

It is consequently vital to carry out groundwork in order for action to be possible, and to define a strategy for the development of the sector at the national level as well as for the exploitation of the potential for regional co-operation and integration. The Quito Plan of Action has already provided guidelines as well as action deserving priority which point in this direction.

The preliminary analysis carried out revealed first of all that there is widespread interest in co-operation and integration within the transport and insurance sector. The type of co-operation which may be considered includes selective substitution of imports of extra-regional transport services by national or regional transport; co-operation over the joint transport of certain products, such as crude oil or grains (coffee, cereals, fertilizers, etc.), taking advantage of mixed transport vessels of the tanker-bulk transport --or ore-carrier type, and granting preferential treatment to Latin American and Caribbean firms providing services.

## Notes

1/ The Quito Declaration and Plan of Action were adopted at the Latin American Economic Conference. This marked the culmination of a process initiated by the President of Ecuador, Dr. Osvaldo Hurtado, at the beginning of 1983 when he requested the Secretariats of ECLAC and SELA to suggest bases for a Latin American response to the international economic crisis. This document led to the Santo Domingo Agreement (Dominican Republic, August 1983). A Follow-up Group established by countries carried out the groundwork for the Conference which was held in January 1984, with technical assistance from ECLAC and SELA. Twenty-six representatives of Latin American and Caribbean Heads of State or Government and Personal Representatives of the Heads of the State attended.

2/ The Declaration of the Montevideo Meeting was signed by the Heads of State and high officials from 16 countries in the region, at the investiture of the President of Uruguay, Dr. Julio María Sanguinetti (March 1985).

3/ ALADI, Una propuesta para la rueda de negociaciones (Doc. 152.2), 25 June 1985 (preliminary version).

4/ In carrying out an exercise of this kind, reference should be made to the achievements of ALADI as set out in the following ECLAC documents: "Algunas modalidades del comercio regional: intercambio compensado" (LC/R.440), Santiago, Chile, 3 June 1985, and "Potencialidad de exportación de Argentina, Brasil y México hacia los países medianos y menores de la Asociación Latinoamericana de Integración (ALADI) y el equilibrio comercial" (LC/R.450), Santiago, Chile, 23 August 1985.

5/ The figures are provided by OECD data, and consequently the region's exports are expressed CIF and imports FOB. This method of calculation makes the figures less comparable, but provides a more up-to-date overall view. The countries examined include all of Latin America and the Caribbean. The products are: coffee, fruit, tobacco, meat, fish, cocoa, sugar, rubber, soya beans, leather, timber, wool, cotton, hemp, lead, zinc, iron ore, bauxite, tin and copper. Semi-manufactured goods derived from the above are also included, such as powdered cocoa, refined sugar, soya oil and cake, and unwrought lead, iron and copper ingots, and unwrought copper alloys (blister and refined).

6/ IDB-INTAL, Compras estatales e integración económica, Buenos Aires, December 1982.

7/ J.M. Vacchino, Integración económica regional, Universidad Central de Venezuela, 1981, pp. 323 and 334.

8/ Isaac Cohen Orantes and Gert Rosenthal, "Reflections on the conceptual framework of Central American economic integration", CEPAL Review, No. 3, Santiago, Chile, first semester 1977. United Nations Publication, Sales No.: E.77.II.G.3.

9/ Gert Rosenthal, Algunas lecciones de la integración económica en América Latina: El caso de Centroamérica, internal mimeographed document, November 1983.

10/ G. Rosenthal, Algunas lecciones..., op.cit.

11/ Co-operation between developing countries pursues its own paths, which may in some cases coincide with the modalities and spheres of action of co-operation between countries in Latin America and the Caribbean.

12/ Eduardo Gana and Jan Heirman, Integración y cooperación regionales, internal mimeographed document, p. 11.

13/ During the same period, Trinidad and Tobago brought a relatively similar scheme into operation covering some countries in the English-speaking Caribbean.

14/ Signed in Brasilia, 3 July 1978, by plenipotentiaries from Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru, Suriname and Venezuela. It came into force on 2 August 1980.

15/ For further details on the main features of the Treaty see, among other sources: ECLAC, Regional integration and co-operation in the 1980s (E/CEPAL/G.1151), Santiago, Chile, 1981; IDB-INTAL, El proceso de integración en América Latina en 1980, INTAL, Buenos Aires, 1981; J. Moncayo García, El Pacto Amazónico, mimeographed, Quito, 1982.

16/ The Agreement establishing the Andean Reserve Fund (FAR) was signed in Caracas on 12 November 1976; it came into force in June 1978 and its financial operations got underway in September the same year.

17/ For further details on the characteristics of FAR, see: ECLAC, Regional integration and co-operation in the 1980s, op.cit., and América Latina: Panorama actual de la integración y cooperación regionales (1984) (E/CEPAL/L.299), Santiago, Chile, 1984; FAR, Angel Serrano B., El FAR, instrumento financiero de la integración andina (1982), and IDB-INTAL, Evolución y perspectivas de la cooperación financiera en América Latina (1982), INTAL, Buenos Aires, 1982.

18/ Set up in October 1977 by nine countries. Towards the end of 1982 16 member States of SELA participated.

19/ Leiva Lavalle, Patricio, "Comercio internacional: ¿hacia un sistema multilateral en servicios?", Cono Sur, Santiago, Chile, FLACSO, vol. IV, No. 4, September-October 1985.

20/ ECLAC, El comercio internacional de servicios: el caso de América Latina y el Caribe (E/CEPAL/R.341), Santiago, Chile, 1984.

21/ No reliable statistics relating to recent years are available for any Latin American and Caribbean countries outside ALADI.

22/ "The balance-of-payments figures are lacking to the extent that freight earnings which are derived by the national vessels from carrying the country's own imports and from chartering of ships to the country's own nationals are not reflected in the accounts because they do not result in receipts of foreign currency". UNCTAD, Trade and Development Board, Committee on Shipping, Eleventh Session, Review of Maritime Transport, 1982, TD/B/C.4/258, 25 May 1983.

23/ Quito Declaration and Plan of Action, Quito, January 1984. p. 21.

24/ ECLAC, Proyecto de conclusiones sobre el Seminario de Comercio Internacional de Servicios (E/CEPAL/SEM.15/R.6), Santiago, Chile, April 1984.

25/ Sepúlveda W., Tomás, Los fletes marítimos en la economía nacional: el caso de los países de ALADI, ECLAC, Conference Room Document 4, Seminar on the International Trade in Services, April 1984.

26/ Decision 192, Article 6 of the Tenth Latin American Council of SELA, October 1984.

27/ Leiva Lavalle, Patricio, "Comercio internacional: ¿hacia un sistema multilateral en servicios?", op.cit. See, in addition, Proyecto de conclusiones del Seminario de Comercio Internacional de Servicios, op.cit.

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