Trends in Regional Cooperation in Latin America: the Crucial Role of Intra-Regional Trade

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A significant upsurge has taken place in reciprocal trade within Latin America during the 1990s. In fact, total intra-regional exports of Latin America doubled in the four years 1990-94. By 1994 reciprocal trade covered 22% of total exports of goods, capturing nearly two-thirds of the increase in exports of the region between 1990 and 1994. If attention is focused on manufactures, both growth and shares are notably higher; actually, intra-regional exports are more intensive in manufactures and in non-traditional products. In this sense, regional integration contributes to a more dynamic productive transformation of the domestic economies, and can contribute to complement policies directed to enhance systemic productivity.

This paper focuses on the efforts made by Latin America to foster trade within the region, and on the results achieved. Section I presents a brief survey of economic integration between 1960 and 1990, passing through the swings experienced. Section II presents the framework of our analysis. First, the empirical scenario is discussed, giving an account particularly of trade reforms implemented recently in the region. Then the analytical framework is examined, placing the discussion in a globalising world, but with both limitations to access and to production of non-traditional and manufactured exports. These products face distortions and "incomplete" markets that regional cooperation can contribute to remove progressively and efficiently. It is stressed that regional cooperation is significant for these products rather than for traditional exports, for which world markets will remain the main source of sales. Section III examines the evolution of reciprocal exports in the 1990s. It is shown that actually intra-regional exports are more intensive in technology and value-added. Thus they exhibit more linkages with the domestic economy than traditional exports. Section IV discusses some of the pending or omitted issues relating to reciprocal trade.

I Intra-Latin American Trade and Economic Integration: A Brief Historical Account

During the 1960s, ambitious attempts were launched in Latin America to

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integrate the regional markets. They resulted from a growing awareness that import-substituting industrialisation was beginning to be seriously constrained by the size of domestic markets. Economic integration was considered to be an essential component of proposals for Latin American industrialisation.[1]

Economic integration passed through three distinct stages. The first (the 1960s and early 1970s) was characterised by extensive state intervention, timetables for the gradual elimination of intra-regional trade barriers, and movements towards the establishment of common external tariffs. Subsequently, by the late 1970s, frustration with the growing gap between the high initial expectations and the actual achievements of the first phase of integration brought on a period of passivity and consolidation. During this second stage, Latin American and Caribbean countries (LACs), shocked by the debt crisis, abandoned their earlier targets and adopted a cautious approach, based primarily on bilateral trade agreements with a partial scope. The onset of the third stage, the new wave of regional integration in the early 1990s, was concurrent with the transformation of trade and industrialisation policies. It was no longer viewed as a stimulus for import substituting industrialisation and as an instrument of "collective defence" of Latin American markets from foreign competition; instead, closer cooperation was seen as a lever to boost Latin American exports to world markets. The different approaches are reflected in the notably different levels of external tariffs as well as of margins of preference.

The first stage of integration policy consisted of three separate attempts in Latin America and one in the Caribbean to form regional trade organisations. These organisations together included most LACs and 95% of the region's population, GDP and trade. In 1960 the Central American Common Market (CACM) agreement was signed; it included El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica (that joined in 1963). In the same year, the Latin American Free Trade Association (LAFTA) was formed; this was the largest of the region's groupings and came to include all Hispanic South America, Brazil and Mexico. In 1969, Bolivia, Colombia, Chile, Ecuador and Peru (with Venezuela joining four years later) established the Andean Common Market (ANCOM); its members continued to form part of LAFTA. In turn, the Caribbean countries formed the Caribbean Free Trade Area (CARIFTA), later replaced by the more ambitious Caribbean Community (CARICOM). Table 1 shows the relative importance in terms of population, GDP and trade of each of these groupings.

The momentum gained by the initial surge of activity in the 1960s was weakened subsequently by domestic political setbacks and the economic

1 See Prebisch, 1959; Sunkel, 1993.

Table 1 Latin American and Caribbean Common Markets: Population, GDP, GDP per Capita and Imports, 1960-90

	Population (millions)				Gross Domestic Product (at 1980 constant billions of $)				GDP per capita (at 1980 constant $)				Imports[h] (at 1980 constant millions of $)			
	1960	**1970**	**1980**	**1990**	**1960**	**1970**	**1980**	**1990**	**1960**	**1970**	**1980**	**1990**	**1960**	**1970**	**1980**	**1990**
1. Latin American Free Trade Association (LAFTA)[a]	183.0	240.5	306.4	375.0	234.0	405.8	702.5	794.5	1,279	1,687	2,293	2,119	27,310	38,572	80,124	80,395
2. Andean Group[b]	41.2	55.5	72.3	90.2	54.5	92.4	130.5	147.4	1,323	1,667	1,807	1,633	8,151	10,821	21,066	17,406
3. Mercosur	97.6	125.0	155.5	188.4	121.9	201.1	370.3	405.8	1,249	1,609	2,382	2,153	12,587	17,677	34,693	27,073
4. Central American Common Market (CACM)[c]	11.2	15.2	20.1	26.0	7.1	12.6	19.4	21.3	638	830	967	822	1,694	3,372	5,502	6,056
5. Caribbean Community (CARICOM)[d]	3.2	3.8	4.2	4.7		7.7	9.8	9.3		2,035	2,329	1,993	1,876	3,424	3,695	3,400[e]
6. Others[f]	8.1	10.4	13.0	16.0	3.7	6.3	11.3	13.4	457	599	869	837	905	2,312	4,833	4,768
TOTAL[g]	**202.2**	**266.2**	**339.5**	**416.9**	**244.9**	**424.7**	**733.3**	**829.2**	**1,211**	**1,595**	**2,160**	**1,989**	**29,908**	**44,256**	**90,459**	**91,220**

Notes:
a Argentina, Brazil, Chile, Mexico, Paraguay, Uruguay and the Andean Countries (in 1980 LAFTA became LAIA (Latin American Integration Area)).
b Bolivia, Colombia, Ecuador, Peru and Venezuela.
c Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.
d Barbados, Guyana, Jamaica and Trinidad and Tobago.
e Approximate value.
f Includes only Dominican Republic, Haiti and Panama.
g Because of lack of comparable date, it excludes Cuba and the Caribbean Community.
h Includes both imports of goods from group partners and from the rest of the world.

Sources: ECLAC, "Statistical Yearbook for Latin America", various issues, and ECLAC database.

shocks of the 1970s. Military coups in Brazil and Argentina disturbed the progress of LAFTA; similarly, the violent military takeover in Chile in 1973 placed serious obstacles in the path of the Andean Group. On the economic front, the 1973 oil crisis drove a wedge between oil exporters – such as Ecuador, Mexico and Venezuela – and most of their common market partners. Oil exporters, facing an abundance of foreign exchange and a contraction of their non-oil tradeable sector (the so-called "Dutch disease"), found it increasingly difficult to produce non-oil exports for their regional partners. At the same time, all countries in the region took advantage of easy access to cheap foreign loans during the second half of the 1970s, thereby reducing the need to earn foreign exchange through exports. The 1982 debt crisis also worked against the expansion of regional trade, as countries set up across-the-board import restrictions to save foreign exchange and dramatically reduced aggregate demand.

Despite these problems and the ups and downs, economic interdependence did in fact grow substantially from its low initial levels of the 1950s. Economic integration arrangements had a positive effect on regional trade, especially in manufactured goods.

LAFTA and Subregional Groupings

The Treaty of Montevideo which was signed in 1960 by seven LACs (despite strong US reservations) led to the establishment of LAFTA. LAFTA members, which subsequently increased to eleven nations, were to eliminate tariffs and other trade restrictions gradually in twelve annual rounds of negotiations, working within the general rules of GATT regulating economic integration agreements.

Considerable progress was made towards the elimination of trade barriers over the course of the first three annual rounds of negotiations. Following this brief period of success, however, negotiations stalled. The stalemate was attributable to three main features: (a) shortcomings within the Treaty of Montevideo itself; (b) lack of political will among several key member countries; and (c) antagonism to trade liberalisation by import substituters seeking to maintain monopolistic control over domestic markets.

First, the Treaty failed to include effective mechanisms to reduce internal tariffs and to bring about a common external tariff. Second, the Treaty lacked adequate measures to achieve an equitable distribution of benefits among member countries. Finally, insufficient attention was paid to harmonising economic policies among participants.

However, innovative financial arrangements and the so-called Complementary Agreements did allow significant progress in financial and trade agreements from the mid-1960s onwards. The Agreement on Multilateral

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Settlements and Reciprocal Credits, including all LAFTA countries and the Dominican Republic, was established by the central banks of the member countries in 1965. It aimed to foster a direct relationship between Latin American commercial banks, in order to avoid having to use external financial intermediaries in their reciprocal dealings; it was also intended to improve credit availability for reciprocal trade in countries with balance of payments problems. Initially, two-thirds of reciprocal trade was settled under this multilateral payment system, a figure which reached over 80% by 1980. An important result of this financial mechanism was the growing interconnection among local banks and the encouragement to reciprocal trade resulting from credit availability.

In the Complementary Agreements, two or more member countries could agree to liberalise trade of a specific group of commodities and establish other mechanisms to foster reciprocal trade. The Complementary Agreements took place mainly in sectors in which output was diversified within the (mostly transnational) firms, making intra-firm specialisation feasible. After 1964 most of the limited additional liberalisation that took place was implemented via new Complementary Agreements. By 1970 eighteen Agreements had been signed, all relating to manufactured goods.

Despite the loss of momentum after 1964, LAFTA persevered, even managing some additional tariff reductions at annual negotiation rounds. Indeed, despite all the problems, the share of intra-LAFTA trade in total trade of member nations nearly doubled between 1962-4 (7.6%) and 1979-81 (13.7%).

The continued increase in intra-LAFTA trade can be traced to four factors. First, there was a lag between the adoption of tariff preferences and their use by exporting countries, as market channels needed to be established, product designs adjusted, production bottle-necks overcome and information made available on regional trade opportunities. Second, the financial arrangements initiated in 1965 facilitated an increase in reciprocal trade. Third, the improvements in access to information, marketing and financial channels benefited all intra-LAFTA trade, including products not covered by tariff preferences. Fourth, trade among members of the Andean Pact (whose figures are included in LAFTA Trade), grew particularly quickly immediately after the creation of this group in 1969.

With the LAFTA experience behind them, participants in the Cartagena Agreement incorporated institutional arrangements which they considered more effective than those established under the Montevideo Treaty. First, provision was made for an executive body (Junta del Acuerdo de Cartagena) with some supranational powers. Second, the new treaty set out a clear schedule for trade liberalisation, including the gradual establishment of common external tariffs. Third, a system was designed to achieve an equitable distribution of benefits, comprising both sectoral programmes for industrial

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development and tariff preferences for the least developed members, Bolivia and Ecuador.

The Cartagena Agreement established that internal tariffs of about two-thirds of products were to be reduced by 10% per year, and phased out altogether by 1981.[2] However, this schedule was repeatedly delayed. Nonetheless, by 1979 the maximum internal tariff applied by Colombia, Peru and Venezuela to reciprocal trade of that large group of items was 32%, while the average tariff was 14% (only one-third of the 1969 value). The overall trade impact of the Andean Common Market agreement was largely positive during the 1970s. Intra-Pact exports of manufactures increased at an annual rate of 24%, while manufactured exports to third countries grew by a respectable 14%. By 1980 the Andean market absorbed 36% of all manufactured exports by member countries.[3]

As shown in table 2, an important feature of the growth of intra-LAFTA trade was the rapid increase of the share of manufactures – from 11% of total regional trade in 1960 to 46% in 1980.[4] The growth of manufactured exports to LAFTA partners was particularly strong in Argentina, Brazil and Mexico.[5] In Brazil, for example, exports of manufactures to LAFTA countries comprised 80% of its total intra-LAFTA exports in 1980, more than double the share of manufactures in total Brazilian exports.

To sum up, although LAFTA's achievements fell far short of the goals set out in the original Montevideo Treaty, the agreement did in fact contribute significantly to the expansion of intra-regional trade. The most outstanding gains were scored in the manufacturing sector, as LAFTA aided regional producers in their efforts to secure markets, increase capacity utilisation and use of economies of scale, and foster some investment.

The Central American Common Market (CACM)

Trade within the Central American Common Market (CACM) also rose rapidly in the 1960s. The CACM achieved a broad liberalisation of reciprocal trade and a common external tariff, with the share of intra-CACM exports reaching 28% of total exports and 96% of total manufactured exports in

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2 Intra-Andean trade was to be liberalised based on four categories, with separate tariff-reduction mechanisms for each category. Tariffs were immediately abolished on goods not produced within the Pact, and on goods included in the first tranche of the LAFTA common list.

3 Ffrench-Davis, Muñoz and Palma, 1994.

4 Between 1960 and 1980, manufactures rose from 13% to 47% of total intra-Latin American exports. This shift towards rising shares for manufactures took place despite the fact that food and raw material exports increased at a rather high rate of 5% per annum from 1965 to 1980.

5 The figure for Mexico decreases after the large rise in oil exports towards the end of the 1970s.

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Table 2 LAFTA (LAIA) and CACM: Shares of Manufactures in Total and Intra-Regional Trade, 1960-90
(percentages calculated on the basis of current dollars)

	1960		1970		1980		1990	
	Total Mfg exp./ Total Exports (1)	Intra-reg. Mfg exp./ Intra-reg. Exports (2)	Total Mfg exp./ Total Exports (3)	Intra-reg.Mfg exp./ Intra-reg. Exports (4)	Total Mfg exp./ Total Exports (5)	Intra-reg. Mfg exp/ Intra-reg. Exports (6)	Total Mfg exp./ Total Exports (7)	Intra-reg. Mfg exp/ Intra-reg. Exports (8)
LAFTA (LAIA)	3.4	10.6	9.8	33.4	17.3	46.1	33.0	51.3
Argentina	4.1	6.6	13.9	33.0	23.1	43.7	29.1	45.3
Brazil	2.2	8.4	13.4	47.3	37.1	79.9	51.9	82.9
Mexico	15.7	65.6	33.3	75.4	12.1	50.2	43.3	75.9
CACM	3.7	26.3	21.2	74.5	23.8	77.2	23.1	69.8
LATIN AMERICA[a]	3.4	12.6	11.5	40.5	17.9	47.3	33.1	52.6

Note: [a] Excludes Cuba and the Caribbean countries.
Sources: Column 1, ECLAC, "Statistical Yearbook for Latin America", Santiago de Chile, various issues.
Column 2, ECLAC, "Dirección y Estructura del Comercio Latinoamericano", Santiago de Chile, 1984.
Columns 3 to 8, United Nations Statistical Information System, COMTRADE databank.

1970. Thus, progress in trade was much more significant in the CACM than in LAFTA.

Since industrialisation took place for the most part simultaneously with the integration process, vested interests grew as a force in favour of intra-regional trade. It was a case of integration-led import substituting industrialisation. Contrariwise, in LAFTA, the efforts to foster intra-regional trade in many cases were defeated by the vested interests built up during the earlier national phase of import substituting industrialisation between the 1930s and 1950s.

Drop of Reciprocal Trade in the 1980s

By the 1970s it had become apparent that economic integration, despite significant achievements, had failed to fulfil its early promise. Conflicts of interests, economic policy instability within the countries of the region, external pressures, and shortsighted domestic industrial groups, had all been growing obstacles to the process of integration. Furthermore, for governments embarking on the neo-liberal experiments of the 1970s and 1980s, particularly in the Southern Cone, Integration came to be seen as another form of protectionism, and was therefore rejected from an ideological point of view.

Although total and intra-regional exports continued to rise until 1981, the debt crisis of 1982 led to a sharp decline in reciprocal trade during the 1980s. For example, in current prices, the 1985-6 level of intra-Latin American exports was less than two-thirds of the 1981 level (US$10.4 billion and US$16.8 billion, respectively). Also, in 1986 intra-Andean exports were just over one-half the 1980 level, with intra-CACM trade falling by two-thirds. Overall, the ratio of regional to total exports returned to levels similar to those of the late 1960s.

A major factor in the decrease in intra-regional exports was the steep decline in import capacity throughout the region associated with the debt crisis. Contraction of domestic demand caused a generalised reduction of imports. Import restrictions, including goods from regional trading partners, were reintroduced as a means of saving scarce foreign exchange. Naturally, intra-regional exports are equal to intra-regional imports. In addition, large-scale currency devaluations in most Latin American countries meant that relative prices among them remained broadly stable, while exchange-rate realignment with the industrial countries reduced the relative costs of Latin American exports outside the region, contributing to an increase in the volume of extra-regional exports.[6] In nominal terms, manufactured exports to

6 In macroeconomic terms, aggregate demand, including all imports, was reduced. Output also experienced a drop, but exports to the rest of the world increased. The production of non-tradeables and of reciprocal exportables fell.

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non-Latin American countries rose by two-thirds between 1980 and 1985, while those to the region fell by over one-third during the same period.

During the economic downturn of the 1970s in the industrial countries, regional trade had performed as an anti-cyclical adjustment mechanism, as exports were redirected to Latin American trading partners. In contrast, in the 1980s, however, LACs endeavoured to reduce imports from all sources, but more intensively those from within the region. This must be viewed as a missed opportunity, since intra-regional trade could have provided expanded export outlets; this could have permitted higher levels of capacity utilisation, particularly in manufactures, thus reducing the heavy costs of adjustment in the 1980s.[7]

This period also saw a reassessment of the entire integration project. Fixed targets for trade liberalisation, regional planning and coordination of direct foreign investment policies were rejected in favour of a more flexible approach to integration, expressed in bilateral agreements with a partial scope. The new Montevideo Treaty of 1980 (in which LAFTA was renamed LAIA, the Latin American Integration Agreement) reflected this atmosphere. In this respect, it is significant that this change occurred before the 1982 debt crisis, that is, because of pessimism regarding the role and potentialities of economic integration, and of drastic changes in economic ideology. In turn, in 1987 the Andean countries joined the Quito Protocol, which revised their integration schedule. Despite the decline in Andean Pact trade, some aspects of the liberalisation programme were continued.

The Montevideo Treaty II, of 1980, was an attempt to salvage some of the trade gains of integration on the basis of bilateral agreements. Of the US$2.2 billion of intra-regional imports covered by trade preferences by 1984, 84% were carried out under bilateral agreements. Another feature of the new LAIA grouping was the endorsement of bilateral agreements with countries from outside the scheme. Mexico, for example, signed bilateral accords (including non-reciprocal tariff and non-tariff preferences) with Costa Rica, Cuba, Nicaragua and Panama. Argentina, Colombia and Venezuela entered similar agreements with several Central American countries.

In Central America continued political tension between the Sandinista government in Nicaragua and the US-supported regimes in Honduras and El Salvador made it particularly difficult to produce a new CACM treaty. The increase in political tensions posed obstacles to CACM regional trade. However, the debt crisis was the main discouraging factor. In this sense, Central America faced in the 1980s a similar type of problem to the rest of Latin America. The sharp recession discouraged reciprocal trade more

7 Ffrench-Davis, Muñoz and Palma, 1995.

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intensively than that with extra-regional markets. Given the large share that manufactures had captured in intra-regional exports, the manufacturing sector suffered a significant impact with the drop of reciprocal trade. In addition, declining international prices for the region's commodity exports, and the general overvaluation of CACM currencies, generated increased pressure for protection. During the 1980s import barriers were raised and bilateral agreements replaced CACM mechanisms. Eventually, nonetheless, political obstacles were overcome, and a presidential summit in 1990 launched a new integration agreement, the *Comunidad Económica Centroamericana.* The main objectives of this new scheme were to preserve earlier gains and to proceed via bilateral agreements.

The most outstanding bilateral agreement of the 1980s was the Argentina-Brazil accord of July 1986, covering issues as varied as the renegotiation of tariff preferences, binational firms, investment funds, bio-technology, economic research and nuclear cooperation. Of the sixteen protocols signed, the most significant was the first, that dealt with the production, trade and technological development of capital goods. This bilateral agreement gave birth in 1991 to Mercosur, when Paraguay and Uruguay became members of the process.

Quite another form of economic integration was the Caribbean Basin Initiative, launched by the Reagan administration. Its beneficiaries were Costa Rica, Honduras, El Salvador, Guatemala, Panama and the Caribbean region (except Guyana and Cuba). This agreement provided for duty-free access to the US market (excluding textiles, garments, footwear, leather apparel, work gloves, canned tuna, oil products, watches and watch parts) for twelve years. Sugar, however, a major commodity export from the Caribbean, remained subject to import quotas. To qualify, goods must be exported directly to the US and have a minimum domestic value added of 35%. Costa Rica and the Dominican Republic benefited most from investments encouraged by the new scheme, as capital moved into the electronic, fisheries, wood and furniture industries, as well as some non-traditional agricultural products such as strawberries, melons and cut flowers.

A more ambitious proposal was put forward by the Bush administration in 1990. Presented as the US President's "Initiative of the Americas", its stated objective was the creation of a free-trade zone stretching from the Port of Anchorage to Patagonia. The first step towards this objective was the establishment of a free trade zone including Canada, the US and Mexico – the North American Free Trade Agreement, NAFTA – intended to encompass all Latin America at some unspecified future date.

The Bush administration's proposal represented a complete reversal of the initial motivation for integration in the 1950s. Economic integration was then envisaged both as an essential stimulus to import substituting industrialisation

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and as a creative defence against US economic superiority, and was therefore opposed by that country (with the exception of the Alliance for Progress period).

Over a period of three decades LACs had launched a varied range of initiatives to achieve economic integration. Several efforts achieved some degree of initial success, but stalled in the later stages of negotiations, as they moved into areas where conflicts of interest were more pronounced. With the benefit of hindsight, it is apparent that many of the goals set out in the original agreements were overly ambitious and in some cases economically and politically naive. The inability of the various groupings to meet their objectives undoubtedly damaged the credibility of the entire integration project, and generated frustrations which hampered attempts to achieve more practical goals.

Another major problem was that the larger, more developed countries did not do enough to dispel doubts among the smaller and poorer countries that the benefits of increased regional trade would be shared by all member countries. Domestic political and economic obstacles were also important. In many countries, domestic producers were reluctant to surrender quasi-monopolistic control over local markets.

The lack of commercial, financial and infrastructural ties existing prior to these efforts did not augur well for the kind of rapid, comprehensive integration sought under the various agreements. In addition, the emphasis on tariff reduction as the principal mechanism of integration was misplaced when non-tariff obstacles accounted for a large share of trade barriers.

Despite these problems, some important gains were made. Until the 1980s crisis, intra-regional exports had doubled as a share of total Latin American exports. Achievements were more substantial in the CACM than in the Andean Pact and LAFTA; but even in the latter two, intra-regional trade expanded significantly, allowing for some specialisation and increasing rates of capacity utilisation. Furthermore, the more dynamic export activities in intra-regional trade were those with larger domestic valueadded. However, its main setback was that it was unable to provide the essential "critical mass" market, expectations of sustainability, and the degree of competition required for it to succeed in the long run.

In the last analysis, the main obstacles to regional economic integration were the same ones that constrained economic development in general in Latin America during this period: lack of continuity in domestic economic policies, abrupt political changes, shortsightedness of entrepreneurial groups, over-ambitious expectations in designing agreements, several external shocks, and the foreign debt crisis.

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II The Analytical and Empirical Framework in the 1990s

The Empirical Scenario: Trade Liberalisation in Latin America

Trade reforms have been undertaken as part of a broad-ranging process of change in which international competitiveness and exports play a leading role. Most countries are searching for an export-led development. Nonetheless, in contrast with the experience of East Asian nations, the main instrument of trade reform has been a rather indiscriminate and rapid liberalisation of imports.[8] The aim is to expose producers of importables, which have often been receiving a high level of protection, to outside competition, while also encouraging the output of exportables. It is expected that this will result in higher productivity, less inefficiency, the absorption of new technologies and increased specialisation. Producers that do not adapt to outside competition would be pushed out of the market, and the resources liberated by their displacement, supposedly, would be smoothly absorbed by other activities, primarily in the production of exportables. The latter would be encouraged by cheaper and more easily available imported inputs and by an expected exchange-rate devaluation.

Many countries in the region have undertaken such trade liberalisation reforms in recent years (see table 3). Most LACs introduced reforms that could be described as drastic and sudden. In fact, the liberalisation of imports was carried out within a period of just two or three years (1989-1990 to 1992-1993). In all cases, albeit to varying extents, quantitative restrictions were dismantled and tariffs lowered significantly.

Generally speaking, the tariff protection provided at present differs considerably from its pre-reform levels, and the spread of rates of effective protection has diminished substantially. No country has yet adopted a zero tariff rate, however, and only Chile has had a uniform tariff since 1979 (currently 11%). Bolivia is close to it, with two tariff brackets and a 10% maximum. Other countries have a number of different tariff rates, with ceilings ranging from 20% to 35%, and average rates of between 10% and 18%. These regional trends in trade policy have been complemented by a drive towards the conclusion of bilateral or multilateral free trade agreements covering a wide spectrum of items.[9] The fact that tariffs are different from

8 Agosin and Ffrench-Davis, 1993.

9 Until June 1990, the mainstream opinion was that integration accords should be of a partial, very limited scope, along the lines of the Latin American Integration Association agreement in force at the time. The majority view was that trade blocs were inefficient and hindered world trade. President Bush's Enterprise for the Americas announced in June 1990 changed that view, however, and concerns about trade diversion now appear to have faded away.

Table 3 Latin America (Selected Countries): Summary of Unilateral Trade Liberalisation

Country	Programme starting date	Maximum tariff		Number of tariff rates		Average tariff		Non-tariff barriers	Variation in real exchange rate [a]
		Initially	Year-end	Initially	Year-end	Initially	Year-end		
Argentina [b]	1989	65	30		3	39 [c]	15 [c]	In 1988 the value of industrial production subject to restriction was reduced from 62% to 18%. In 1989-1991 non tariff restriction, temporary additional duties and specific duties were eliminated.	-49
Bolivia	1985	150	10		2	12 [d]	7 [d]	With few exceptions, all import bans and license requirements were abolished.	92
Brazil	1988	105	35	29	7	51 [e]	14 [e]	In 1990 the list of banned imports and prior-licencing requirements were eliminated. However, national-content requirements for intermediate and capital goods will be maintained.	44
Colombia [b]	1990	100	20	14	4	44 [d]	12 [d]	Nearly all restrictions concerning the prior-licencing requirement were lifted in late 1990.	-4
Costa Rica	1986	100	20		4	27 [e]	14 [e]	Import permits and other restrictions were phased out in 1990-1993.	10
Chile [f]	1973	220	10	57	1	94 [e]	10 [e]	In the 1970s quantitative limits on imports were eliminated.	-10
	1985	35	11	1	1	35 [e]	11 [e]	Price bands were re-introduced and an anti-dumping system was established.	32
Mexico	1985	100	20	10	3	24 [c]	12 [c]	The coverage of import permits was reduced from 92% of foreign purchases in June 1985 to 18% in December 1990, and official import prices were eliminated.	-15
Peru [b]	1990	108	25	56	2	66 [e]	18 [e]	Import licences, authorisations, as well as quotas and bans, were eliminated in September 1990.	-28
Venezuela	1989	135	20	41	4	35 [d]	10 [d]	The number of categories subject to restrictions was reduced from 2,200 in 1988 to 200 in 1993. Specific duties, which in some cases raised the maximum tariff to 940%, were abolished.	15

Notes: *a* From the year before the liberalisation programme began up to 1993; the exchange rate for exports has been used.
b Tariffs include surcharges.
c Weighted by domestic production.
d Weighted by imports; simple average for 1993 gives 9.7%.
e Simple average of tariff items.
f Chile's first trade liberalisation programme was completed in 1979. The uniform tariff of 10% remained in force until 1982. Thus, the information in the first row is for that period (1973-82). The second row contains information for 1985-93. Import tariffs, after rising to 35% in 1984, were successively reduced to 20% (1985), 15% (1988) and 11% (1991).

Source: ECLAC (1994b), table V.

zero but with moderate levels leaves space for reciprocal tariff preferences that imply more limited trade diversion than in earlier integration programmes.

In a number of countries, trade liberalisation has been accompanied by the liberalisation of the balance of payments capital account. Under the conditions prevailing in international capital markets since the start of the 1990s, when external financing began to flow to Latin American countries once again, the liberalisation of the capital account has prompted considerable exchange-rate appreciation,[10] just when trade reforms urgently required a depreciation. In fact, the majority of nations have revalued their currencies since 1990. An exchange-rate index (weighted by GDP) gives a revaluation of 25% between the average of 1987-90 and 1994. Some countries (like Chile and Colombia) have been more successful than others in countering appreciating pressures on their exchange rates; in order to do so, they had to resort to foreign exchange controls and other heterodox forms of "financial engineering".[11]

In general, import liberalisation has not been accompanied by other policies promoting the production of exportables, while public efforts to enhance systemic productivity have been rather isolated and weak.[12]

The Analytical Bases

From the point of view of development theory and policy, the standard approach to trade integration tends to rest on very weak assumptions. The conventional literature on economic integration focuses on tariff preferences in a framework of optimal competitive equilibrium. This equilibrium is assumed to be disturbed only by the existence of import restrictions.

In this framework, integration is beneficial only if it implies a move toward free trade, that is, if the effects of trade creation (shift toward cheaper sources of supply) are larger than those of trade diversion (shift toward more costly sources of supply). The crucial issue is how costs are measured. In the standard approach it is at present market prices net of tariffs, discounting transitional costs as well as acquirable competitivity. The assumptions lead to the obvious conclusion that overall unilateral liberalisation is the optimal national policy and so better than integration.

Why, then, do so many nations want to be involved in integration processes? In this context we will refer to five issues related to trade in goods and services.

10 Calvo, Leiderman and Reinhart, 1993; ECLAC, 1995, ch. XI; Ffrench-Davis, 1992.
11 See Devlin, Ffrench-Davis and Griffith Jones, 1995.
12 See the comprehensive discussion in ECLAC, 1995.

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First, world markets are not wide open and stable. Nonetheless, they are broad, particularly for trade in natural resources and semi-manufactured commodities. Actually, with or without participation in integration processes, world markets will continue to be crucial for traditional exports of LACs; instability prevails in those markets, but it refers more to prices than to access (of volume). However, for many non-traditional products, access to markets is more limited and unstable. It is for these type of products that regional integration becomes more relevant.

Second, given those distortions in world markets, economies of scale and specialisation are more difficult to secure. Improved access to foreign markets helps to make use of those economies, and in fact this achievement has been a leading force encouraging regional integration.

Third, factors markets are incomplete or distorted. Labour training, technology and long-term capital are scarce, with non-existent or infant markets and with significant externalities.[13] These domestic market failures are heavier for non-traditional exports, whether of natural resources, manufactures or services. If access to external markets is improved for these exportables, it can strengthen the efforts to complete markets and dilute segmentation.

Fourth, infrastructure, trade financing and knowledge of markets (marketing channels, organised transportation, standards, etc.) are biased against intra-regional trade in LDCs. All these "factors" of trade have been traditionally more developed for deals with the "centre", while they are non-existent or more rudimentary for trade among neighbouring LDCs. This is a significant variable explaining why intra-regional trade has been lower among LACs than what the gravity of geography would suggest.

Fifth, in economies that are reforming trade policies, sliding away from excessive and arbitrary protection to import substitutes and inputs of exportables, significant transitional costs tend to emerge. These are enhanced if the exchange rate happens to appreciate, as has been the case in most LACs in the 1990s.[14]

East Asian nations minimised transitional costs with an export-led strategy for opening to the world economy.[15] In fact, the path of adjustment was intensive in the positive pulls of increased output of exportables (characteristic of an export-led reform), vis-à-vis rather weak negative pulls of import de-substitution; strong negative pulls are more characteristic of an import-led reform. Given the LACs' option for the latter sort of trade reform, a parallel process of regional cooperation becomes more attractive, in order to increase

13 ECLAC, 1995, ch. VII.
14 See Devlin, Ffrench-Davis and Griffith-Jones, 1995.
15 See Agosin and Ffrench-Davis, 1993.

the efficiency of the productive transformation.[16] In fact, increased reciprocal imports are compensated with reciprocal exports. Thus, regional cooperation adds a compensatory ingredient to a given unilateral import liberalisation, fostering reciprocal exports in tandem with reciprocal imports. It is even more welcome if the exchange rate has appreciated in the process. Hence, the doses of positive and negative impulses to economic activity and investment are more balanced with regional cooperation than is the case in pure unilateral import liberalisation. As discussed below, the beneficial effects of fostering reciprocal trade in these circumstances have become evident in recent years.

III Trade Integration Agreements in the 1990s

Trade integration has been making great progress in the 1990s. On the one hand, trade and investment flows among the countries of the region have displayed extraordinary growth.[17] On the other, integration agreements among various groups of countries have proliferated. These second-generation agreements are very different from those inherited from the past. Already numbering more than thirty, they generally seek the effective liberalisation of most of the partners' trade within unusually short periods of time.

Various factors have helped to shape these new circumstances. They include the widespread return to democratic regimes, which has facilitated closer relations between countries; the gradual recovery from the most devastating effects of the debt crisis; and the liberalisation of economies in general and trade regimes in particular.

Proliferation of Trade Agreements

Two types of trade liberalisation agreements can be identified.[18] First, four subregional integration agreements are in operation: the Central American Common Market (CACM), the Cartagena Agreement, the Caribbean Community (CARICOM) and the Southern Common Market (Mercosur). Of these, Mercosur is the most recent, having been set up when Argentina, Brazil, Paraguay and Uruguay signed the Treaty of Asunción on March 1991. Second, about thirty geographically more limited agreements have been signed (see table 4), mostly in the context of the Latin American Integration Association (LAIA). Trade liberalisation commitments have been formalised

16 ECLAC, 1995b.
17 On reciprocal investment flows see Griffith-Jones' paper in this volume.
18 See ECLAC, 1994a, pp. 42-47.

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bilaterally or between groups of countries; for example, between the CACM countries and Mexico, between those countries and Colombia and Venezuela, and between CARICOM countries and Venezuela.

Table 4 Bilateral And Multilateral Agreements

Countries or agreements	Year Signed	Tariff Reduction on positive list products	Overall tariff reductions with exceptions
Argentina-Uruguay (ACE N° 1)	1982	X	
Brazil-Uruguay (ACE N° 2)	1882	X	
Chile-Uruguay (ACE N° 4)	1985	X	
Mexico-Uruguay (ACE N° 5)	1986	X[a]	X[a]
Argentina-Mexico (ACE N° 6)	1986	X	
Mexico-Peru (ACE N° 8)	1987	X	
Argentina-Peru (ACE N° 9)	1988	X	
Argentina-Colombia (ACE N° 11)	1988	X	
Argentina-Paraguay (ACE N° 13)	1989	X	
Argentina-Bolivia (ACE N° 19)	1989	X	
Argentina-Brazil (ACE N° 14)	1990		X
Bolivia-Uruguay (ACE N° 15)	1991	X	
Argentina-Chile (ACE N° 16)	1991	X	
Chile-Mexico (ACE N° 17)	1991		X
Argentina-Venezuela (ACE N° 20)	1992	X	
Argentina-Ecuador (ACE N° 21)	1993	X	
Bolivia-Chile (ACE N° 22)	1993	X	
Chile-Venezuela (ACE N° 23)	1993		X
Chile-Colombia (ACE N° 24)	1993	X	
Brazil-Peru (ACE N° 25)	1993	X	
Bolivia-Brazil (ACE N° 26)	1994	X	
Brazil-Venezuela (ACE N° 27)	1994	X	
Ecuador-Uruguay (ACE N° 28)	1994		X[b]
Bolivia-Paraguay (ACE N° 29)	1994	X	
Ecuador-Paraguay (ACE N° 30)	1994	X	
Bolivia-Mexico (ACE N° 31)	1994		X[c]
Chile-Ecuador (ACE N° 32)	1994		X
CARICOM-Venezuela	1992	X	
Central America-Mexico	1992		X[d]
Colombia and Venezuela-Central America	1993		X[d]
Colombia, Mexico and Venezuela (G-3)	1994		X
CARICOM-Colombia	1994	X	

Notes: *a* Uruguay has a positive list of Mexican products eligible for reduced import duties, whereas Mexico has a negative list of exceptions.
b The given preference consist in a reduction of 50% of the taxes applied to the imports from non-LAIA members countries.
c The available information would support the prediction that the tariff reduction would be slow but generalised with some exceptions.
d Asymmetrical preferences.
Source: ECLAC, on the basis of information of LAIA Secretariat.

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The common denominator of all these agreements is a preferential treatment in the form of increasingly lower duties on a list of goods targeted for internal trade liberalisation, maintaining tariffs to imports of those products from third countries.

A comparative analysis of the various integration agreements[19] shows that, since 1990, the relative importance of agreements that seek broader trade liberalisation has grown by contrast with the narrower trade agreements of the past. This can be seen in three areas: broadening of the range of products to which tariff reductions apply by focusing negotiations on lists of exceptions rather than on lists of products eligible for trade liberalisation; programmes directed to a complete and rapid phasing out of tariffs, rather than to reducing them; and intended removal of non-tariff barriers.

Many first-generation bilateral agreements[20] that use "positive" lists of products to be given preferential treatment are still in force. Moreover, a degree of fragmentation has occurred within some subregional groups, such as Central America or the countries of the Cartagena Agreement, which is reflected in bilateral or trilateral liberalisation agreements or in commitments with smaller geographical coverage than earlier subregional agreements. Mercosur, on the other hand, includes an ambitious commitment to extend free trade to all goods produced by member countries, while other subregional agreements operate with negative lists of exceptions.[21] In the case of Mercosur, member countries agreed to abolish, during the transitional phase, all tariffs and restrictions applied in their reciprocal trade. To this end, a programme of progressive, linear, automatic lifting of internal tariffs was applied according to a timetable which was fulfilled by the end of 1994.[22]

The countries of Mercosur will form an integrated market of 200 million people, or 45% of the Latin American population,[23] covering 59% of the region's land area, with a gross domestic product of nearly US$700 billion – 49% of the regional total – and US$62 billion on world exports. In other words, in its present dimension, Mercosur will create an integration space which accounts for roughly half the value of Latin America's main economic indicators, and which will therefore have unmistakable potential and drawing power.[24]

19 See ECLAC, 1994a, tables II-6 and II-7
20 See ECLAC, 1994a, table II-5
21 See ECLAC, 1994a, table II-7
22 The trade liberalisation trend has recently been modified somewhat due to the growing external imbalances accumulating in several countries and the reconversion problems emerging in sensitive sectors.
23 In this context, Latin America is defined as the eleven member countries of LAIA, the six Central American countries, the Dominican Republic and Haiti.
24 See Bouzas, 1995a.

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Mercosur also has promising potential for expansion, eventually becoming a pole for convergence of the several moves toward Latin American trade integration. Actually, advanced negotiations are under way with Chile to put an association in motion, probably in the form of a free trade agreement. Talks have also been taking place with the Andean Pact, particularly Bolivia.

Bilateral agreements, unlike subregional schemes, generally do not provide for the adoption of common external tariffs. Three subregional agreements currently have agreed and implemented a common external tariff schedule to be applied by all members: Mercosur since January 1995, while the Andean Pact started in February 1995. The CACM has in effect a common external tariff approved by four of its member countries since mid-1993, although they apply many exceptions.

In the absence of common external tariffs, rules of origin of imported goods take on primary importance:[25] if different levels of protection apply, goods from non-member countries can be imported into a low-tariff country and then re-exported to other members of an integration scheme without paying duty. To avoid this distortion, bilateral agreements include commitments to adhere to the LAIA rules of origin, although most of these agreements, as well as subregional ones, envisage the possibility of formulating specific rules that do not necessarily reflect LAIA guidelines. The resulting possibility that a wide variety of rules will be adopted poses certain risks, since such rules could cause distortions in trade and in the allocation of investment.

Recent agreements tend to include greater sectoral commitments than the older bilateral agreements, although the relevant clauses establish commitments that are very different from the sectoral investment programmes launched under previous subregional processes, particularly the Cartagena Agreement and the Central American Common Market. A number of recent sectoral clauses are restrictive, imposing special rules of origin that are more stringent than those applied to other products that enjoy preferences.[26] This is true particularly of the automobile industry, but specific commitments involving more stringent rules or quantitative restrictions also exist in the cases of capital goods and natural gas. In other cases, sectors (including also services) are identified with generic commitments which would have to be made specific later.

Sectoral agreements concluded under wider schemes make special reference to certain services, particularly transport, in order to create opportunities for extending integration into new areas. Provisions on reciprocal investment protection and promotion take on crucial importance in such

25 See Garay and Estevadeondal, 1995.
26 See ECLAC, 1994b.

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cases, as can be seen from recent bilateral agreements which pay more attention to the topic than subregional agreements.[27]

Lastly, recent integration agreements seem to have a more limited institutional framework than earlier ones. Bilateral agreements and Mercosur both provide for intergovernmental entities to supervise their application, but these entities are not secretariats or agencies like those established in previous subregional agreements. Differences are also apparent between the more formal dispute settlement mechanisms of older subregional agreements, especially the Court of Justice established under the Cartagena Agreement, and the more pragmatic provisions of newer integration agreements which generally foresee dispute panels.

In brief, there is a growing number of second-generation bilateral agreements spreading throughout the region. In general, they seek to liberalise trade in most items through lists of automatic tariff cuts to be implemented in a relatively short term. In this way, an increasingly intricate constellation of regional, subregional and bilateral preferences and regulations is being created, which will require careful and timely efforts towards their convergence in order to reap and consolidate the net benefits of regional integration.

Rising Intra-Regional Trade and Changed Composition

Total intra-regional exports more than doubled in current value between 1990 and 1994. Initially it was principally a recovery from the sharp drops of the 1980s. However, given a notably rapid growth, the prior peaks were soon reached. A new record was achieved in 1992, with an additional jump in 1993. The progress continued, although at a more moderate pace, in 1994, influenced by rising exports to Brazil, compensated by a drop in intra-regional exports to Argentina, and particularly to Venezuela. By 1994, 22% of the exports of goods of LACs were to regional markets (see table 5).

The rise in reciprocal trade and in total exports applies to most of the region, among CACM and Andean nations, as well as in Mercosur. Only the Caribbean countries display stagnation.

The profile of intra-regional exports reveals a drastic change in composition: the predominance of primary exports was replaced by manufactures, which now account for one-half of intra-trade. A quarter of trade is in semi-manufactures, which have not changed their relative importance. The notable increase in manufactured exports corresponds especially to "new" industries, including both labour-intensive and capital-intensive products (see table 6). This category of "new" industries includes a wide number of products, as

27 ECLAC, 1995a.

Table 5 **Intraregional and Total Exports, 1990-94**
(billion of dollars and percentage shares)

	1990	1991	1992	1993	1994[a]
LAIA					
– Intraregional	12.2	15.0	19.4	23.2	27.0
– World	112.7	110.6	115.7	122.2	138.0
LAIA/World	10.8%	13.6%	16.8%	19.0%	19.6%
Andean Group					
– Intraregional	1.3	1.8	2.2	2.9	3.4
– World	30.8	28.6	28.1	29.7	33.5
Andean Group/World	4.1%	6.2%	7.9%	9.6%	10.0%
MERCOSUR					
– Intraregional	4.1	5.1	7.2	10.2	11.4
– World	46.4	45.9	50.5	54.3	59.7
MERCOSUR/World	8.9%	11.1%	14.3%	18.8%	19.1%
CACM					
– Intraregional	0.6	0.7	0.9	1.2	1.2
– World	3.9	4.0	4.7	5.1	5.7
CACM/World	16.0%	17.4%	19.8%	22.6%	21.6%
CARICOM					
– Intraregional	0.4	0.4	0.5	0.6	n.a.*
– World	3.9	4.0	4.7	5.1	n.a.*
CARICOM/World	12.6%	11.6%	11.6%	12.8%	n.a.*
Latin America and the Caribbean[b]					
– Intraregional	16.0	19.3	24.4	29.2	33.5
– World	122.0	120.3	127.6	133.7	150.0
LAC/World	13.1%	16.0%	19.2%	21.8%	22.3%

Notes: a Figures exclude gross and net exports of maquila.
b Includes LAIA, CACM, Bahamas, Barbados, Belize, Dominican Republic, Guyana, Haiti, Jamaica, Panama, Suriname and Trinidad and Tobago.
* Not available.
Source: ECLAC (1995a), on the basis of official data.

varied as machinery and equipment, cars and other vehicles, household appliances, and chemicals.

The diversification of products and markets has assumed different forms within the region.[28] Brazil, and to a lesser extent Uruguay and Colombia, have achieved the highest degree of diversification. They have substantially reduced the share of their 10 principal products in total exports. They have increased the number and importance of non-traditional primary products

28 See ECLAC, 1995b, ch. III.

Table 6 Latin America (14 countries)[a]: Composition of Exports by Destination, 1970-1974 and 1992 (percentages)

	United States		Japan		Latin America and the Caribbean		EEC and EFTA		Total	
	1970-1974	1992	1970-1974	1992	1970-1974	1992	1970-1974	1992	1970-1974	1992
A. Primary commodities	47.0	39.8	66.1	48.3	51.0	25.1	59.6	43.8	53.6	36.3
1. Agricultural products	25.5	15.1	32.8	17.4	11.7	9.4	46.9	26.6	29.9	16.6
2. Mining products	6.3	0.9	31.5	20.0	1.0	2.0	6.7	6.9	6.2	4.4
3. Energy products	15.2	23.8	1.8	10.9	38.3	13.8	6.0	10.3	17.6	15.3
B. Industrialised products	52.6	58.9	32.0	50.4	48.8	74.4	40.0	54.1	46.0	62.1
1. Semi-manufactures	40.1	22.1	27.1	38.0	23.3	25.1	33.6	34.2	33.6	28.5
1.1 Based on agriculture and labour-intensive	5.6	5.1	3.1	7.8	7.5	7.8	15.8	17.0	9.5	10.2
1.2 Based on agriculture and capital-intensive	8.6	1.8	6.1	6.6	3.1	3.6	2.6	4.6	6.0	3.9
1.3 Based on minerals	6.7	6.2	17.2	23.6	6.4	8.2	13.5	11.1	9.2	9.1
1.4 Based on energy	19.2	9.1	0.7	0.2	6.2	5.5	1.7	1.4	8.9	5.3
2. Manufactured goods	12.5	36.8	4.9	12.4	25.5	49.4	6.4	19.9	12.4	33.6
2.1 Traditional industries	5.0	8.6	2.0	1.4	4.8	8.4	3.6	6.3	4.3	7.3
2.2 Basic-input industries	1.6	4.5	1.1	5.8	4.8	10.7	0.7	3.7	1.9	7.3
2.3 New labour-intensive	3.9	11.0	1.5	4.1	8.7	13.0	1.0	5.8	3.6	9.1
a) Low technological content	0.4	1.3	0.1	2.3	1.7	2.1	0.2	0.6	0.6	1.3
b) Medium technological content	1.6	5.7	0.2	0.4	4.1	6.7	0.4	1.3	1.4	3.0
c) High technological content	1.8	4.0	1.2	1.4	3.0	4.2	0.4	1.3	1.4	3.0
2.4 New capital-intensive	2.0	12.6	0.4	1.1	7.2	17.3	1.1	4.1	4.6	9.8
a) Low technological content	0.3	0.5	0.0	0.4	0.7	1.1	0.0	0.1	0.3	0.5
b) Medium technological content	1.3	10.4	0.3	0.5	5.0	14.4	0.6	2.9	1.7	8.1
c) High technological content	0.4	1.6	0.1	0.1	1.5	1.8	0.4	1.0	0.6	1.3
Other	0.4	1.3	1.9	1.3	0.2	0.5	0.4	2.0	0.4	1.6
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Note: *a* Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Mexico, Paraguay, Peru, Uruguay, and Venezuela.
Source: ECLAC (1995b) table III.9., on the basis of official data. The criteria for classification of exports is detailed in "Estudios e Informes de la Cepal", No. 88, November 1992, pp. 30-34.

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and semi-manufactures, as well as successively incorporating various types of manufactures in their exports. Mexico concentrated on sales to one destination (the United States), but diversified the composition of its exports, especially in manufactures, by incorporating new products. Argentina's diversification has been somewhat erratic as a result of political changes and the successive recessions of the 1980s. Nevertheless, though less intensively than Brazil and Mexico, it has diversified its supply of commodities and semi-manufactures as well as some manufactures, and the destination of exports. Chile boosted its exports of manufactures to the region, although from a reduced base, and diversified exports of natural resources and semi-manufactures. Peru, without modifying the essential features of its specialisation, incorporated a number of manufactures. Exports from Ecuador, Bolivia and Paraguay were concentrated on a few primary products and were channelled towards one main market: the United States for Ecuador, Latin America for the other two countries.

Latin America and the Caribbean are very important and dynamic markets for the sales of manufactures for several LACs.[29] For Chile, Colombia and Ecuador this is by far the largest market, whether for traditional manufactures, basic inputs or new industries. This concentration is not so marked in the case of Argentina, Paraguay and Uruguay. They have a considerable diversification of markets for their traditional industries and, in Argentina, also for exports of basic inputs. However, Latin America has been and continues to be the almost exclusive destination for exports from the new industries of these countries. The same is true of the subregional market as regards the new industries of Costa Rica and Guatemala. Brazil has channelled its export manufactures to different markets. The United States continues to be the main buyer of traditional products from Brazil, followed by Europe. As for basic inputs, other developing regions have displaced Latin America as the main destination, but in the case of new industries, the region is the most important market for Brazil. A significant exception is the case of Mexico, where the regional market for new exports has less relative importance than the United States.[30]

Intra-Regional Trade and Technological Intensity

Development based on a growing and sustained international competitiveness is boosted by the dynamic effects derived from technological

29 ECLAC, 1994a.

30 Regressions carried out by ECLAC for the period 1970-91 show that there was a strong positive relationship between the importance of Latin America as a destination and the share of new industrial products in total exports of Argentina, a relationship that is positive but less intense for Brazil. In Chile, the exercise revealed a strong positive correlation for all

apprenticeship. The strategies to improve international linkages, based on productive development, emphasise the role played by trade in the process of stimulating the development of activities which make intensive use of knowledge and technology, and generate externalities in these areas.

It is a common belief, well supported by standard trade theory, that exchange among developing countries tends to concentrate in goods that are more technology-intensive than exports from developing to industrial countries.[31]

Studies based exclusively on foreign trade data confirm this argument. Table 6 shows how intra-regional exports are more intensive in technology, particularly advancing from low to medium technological content, more suited to the semi-industrialised stage of Latin America.

The same conclusion is also corroborated in a more recent ECLAC study[32] which combines data on trade and on domestic output. The figures show that products which encounter a relatively high share of their demand in the regional market exhibit more advanced technological characteristics than exports channelled toward extraregional markets.[33] Thus they can contribute with larger externalities to the domestic economy, and thence to productivity increases.

From the research carried out by ECLAC,[34] three main conclusions emerge:

- Regional trade has more sophisticated technological features. Such goods are to be found mainly in the chemical sector, non-electrical machinery and transport equipment. They are also sectors in which international demand tends to be more dynamic. Their price trends are more stable and tend to evolve more positively over the long term than prices of traditional exports intensive in natural resources.
- The sectors which exhibit a strong export drive toward the region also tend to show – frequently with a lag – a drive towards extraregional markets, which suggests that the promotion of intra-regional trade has a significant space for complementarity with the promotion of extraregional exports.
- These same sectors are those in which the region has a high dependence on extraregional intermediate imports, and therefore intra-regional trade benefits from having access to inputs and equipment which may be imported from third countries. Consequently, the relaxation of excessive import restrictions has contributed to foster and upgrade exports.

31 Different policy approaches tend to share this prediction. However, they diverge on the policy implications that are derived from it.

32 Buitelaar, 1993

33 ECLAC, 1994a.

34 See Buitelaar, 1993

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To sum up, intra-regional trade, because of its different characteristics – associated with vicinity, the diverse marketing channels and features of markets of destination –, complements the LACs' linkages with the global economy. Actually, it provides a dynamic context of technological apprenticeship and use of economies of specialisation, leading to greater and more efficient international competitiveness, with an increasingly more diversified basket of products and balanced pattern of specialisation.

Economic Recovery and Intra-Regional Exports

Recovery of economic activity in LACs has undoubtedly been associated with the renewed access to external financing.[35] However, booming intra-regional trade has contributed to the real counterpart of the adjustment process that is under way. Particularly, the encouragement of intra-regional exports, in the framework of adjustment with recession that was still prevailing in the late 1980s, has increased the demand for domestic resources and for investment. In fact, it made the rise in aggregate demand more intensive in effective demand, as compared to a scenario without any integration effect.

The particular conjuncture faced implied that there was installed capacity to respond to the increased demand for non-tradeables and for new tradeables for regional markets. Since this demand has been sustained for several years, it has also encouraged investment pari passu with the shortening of the gap between capacity and use of it.

Tariff preferences, removal of import restrictions and creation of additional outlets for domestic output (harmonisation of standards, transportation, improved infrastructure, marketing channels, reciprocal investment, etc.) explain the existence of a bias in the composition of expenditure and output. However, exchange-rate movements have reinforced a restructuring of output in the direction of increased reciprocal trade as compared to exports to the rest of the world. In general, real exchange rates appreciated for producers of tradeables offered to third countries, while they have remained more stable among LACs.[36]

Table 7 presents a very rough estimate of the high weight achieved by reciprocal exports in the increase experienced by the effective demand for domestic resources (obviously, by definition, equal to the increase in GDP)

35 ECLAC, 1995b, ch. XI.

36 Recall that appreciation has worked principally vis-à-vis non-regional currencies. Between 1990 and 1994, the large majority of LACs had revalued their exchange rates with respect to the rest of the world.

between 1990 and 1994; all figures are measured in 1980 US dollars.[37] GDP rose US$116 billion and exports of goods and services increased by US$50 billion, that is 43% of the additional GDP available. It is evident that exports are a leading component of growth. Of that percentage, an estimated 54% was generated by intra-regional exports.[38] Thus reciprocal exports have been more significant than exports to other regions. If we take into consideration the different quality of reciprocal trade, the significance of LACs in the recovery of the region is further enhanced.

Table 7 Growth of GDP, Intraregional and Extraregional Exports in Latin America, 1990-94
(billions of 1980 dollars)

	1990	1994	Growth rate	Growth amount	Share in GDP growth
GDP	829.2	945.2	14.0%	116.0	
Exports	172.7	222.7	29.0%	50.0	43.1%
Intraregional[a]	22.6	49.7	120.0%	27.0	23.3%
Extraregional[a]	150.1	173.0	15.3%	23.0	19.8%

Notes:
a Total exports of goods and services disaggregated according to the shares in current prices of exports of goods in 1990 and in 1994. Services are principally freight of merchandise, transportation of people, and tourism.
Source: ECLAC, for 19 LACs, on the basis of official data, converted to 1980 US dollars.

Of course, if one works with per capita figures or with current dollars, the relative weight of regional trade becomes notably larger. Evidently, intra-regional trade made a significant contribution to the recovery of the real economies of LACs.

37 The very rough estimate has several biases. However, since the results are extremely strong, those biases do not invalidate the conclusions of the text. The main biases relate to: (a) export figures are, as usual, gross of imported inputs; consequently, they overestimate the weight of exports in effective demand; (b) the composition of trade is in current dollars, data that are crossed with the share of trade in GDP in constant 1980 dollars; probably, the prices of exports to LACs performed better than those to the rest of the world, which deteriorated sharply in 1980-94.

38 The equivalent figure for 1990-93 was much higher: two-thirds. The change with respect to 1994 reflects the softening of the rise in trade among LACs. Anyway, the latter continued to increase faster than exports to the rest of the world.

IV Some Omitted or Pending Issues

Regional economic integration offers significant economic as well as political, social and cultural benefits to Latin America. However, we are certain that transition can involve large costs and uncertainties.

The first years of the present decade have implied a relatively easy transition. Integration took place amid a recovery of economic activity and with intra-regional imports which had been overadjusted downward. Thus, space for large non-conflictive increase in reciprocal trade was at hand. As shown, the region made good use of this opportunity.

Macroeconomic equilibrium was also, apparently, being achieved in a sustainable way. Unfortunately, progress in stabilisation of price levels and fiscal balances was being achieved, at least partially, at the expense of investment in people and in infrastructure. In parallel, a too rapidly growing deficit on the current account was being generated. In fact, the deficit of the region multiplied by five between 1990 and 1994, rising to US$50 billion. Financial markets appeared willing to overfinance those growing deficits until November 1994. In fact, in 1992-94 the region received a yearly net inflow averaging US$60 billion, a figure clearly in excess of the absorptive capacity of the LACs' economies. As a consequence, Latin America accumulated huge international reserves, equivalent to 6.5 % of GDP in 1991-93.

As is well known, the mood of the market changed abruptly at the end of 1994. This implies that some LACs will have to start, once again, deep downward adjustments.

These are two general issues that pose a challenge to future progress in regional cooperation. As the easy stage of rising reciprocal trade approaches an end, effective mechanisms of solution to disputes and harmonisation of macroeconomic policies will come more in demand.

The convergence of the more than two dozen partial agreements will also require imaginative tackling and soon rather than late. The sooner the convergence is agreed and implemented, the lesser will be the consolidation of contradictory and divergent trends, thus minimising the need for subsequent costly productive restructuring. The convergence could proceed more expeditiously if one scheme, for instance Mercosur, itself becomes a focus of attraction for other LACs or groups of them.

NAFTA might also be a complicating issue, posing additional challenges to the needed convergence within Latin America. This last issue is covered in the paper by Roberto Bouzas in this volume.

Finally, the distribution of benefits and costs among partners has been absent in the policy and academic efforts of the 1990s. The issue is obviously less visible in the particular macroeconomic and reciprocal trade conjuncture faced in the early 1990s. In the future it may become more significant for

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achieving sustainability of regional cooperation and a better reaping of potential benefits. The issue would also become more relevant when any country or group of them merges with another group, affecting the profile of trade creation and diversion.

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