

International Trade from the 1980s to the 1990s: The Latin American Perspective

Paolo Bifani

1. Introduction: Latin America and the Evolving Character of International Trade

The current Uruguay Round of multilateral trade negotiations clearly reflects some of the most dramatic changes in the world economy, and the efforts to control the originating factors. The increasing internationalisation of the world economy is forcing national economies to restructure so as to adapt themselves to the constraints and opportunities of the emerging new international division of labour.

Two major interrelated factors are behind world economic changes: a scientific and technological revolution, and the shifts in international trade. Scientific and technological flows have become important components of international economic relations. Today's world is not the same as that in which GATT was created. On the other hand, developing countries are faced with an enormous and difficult task which, for the particular case of Latin America is made more awkward by the current disarray of national economies, marked by the gloominess of external debt and slowing rates of growth.

In 1988 the Latin American and Caribbean region exhibited a further slowdown of the GDP rate of growth to only 0.7 per cent. This poor performance implies a level of GDP equivalent to the regional GDP per capita of 1978. The consumption per capita was 9.3 per cent lower than that prevailing in 1980. At the same time inflation reached an average record of 470 per cent, with a consequent fall in real wages in most countries. These eight years of continuous poor performance have been associated with a massive outflow of financial resources: since 1982 the total transfer of resources outside the region reached 45 per cent of the external debt at the end of 1988. The net outflow in 1989 was equivalent to almost 25 per cent of the total value of regional exports of goods and services, or approximately 4 per cent of the regional GDP. Before 1982 the region was receiving annually resources equivalent to 2.5 per cent of GDP. The reversal of the situation implies a fall of about six points — much the same as the decline in the regional coefficient of capital formation [ECLAC 1988].

During the past 25 years the growth of international trade has consistently exceeded the growth of world

production, and is thus becoming a driving force in the process of economic growth and development. This is why countries are giving increasing attention to external trade, which is becoming one of the strategic elements of economic policy in both developed and developing countries.

One of the most important phenomena of the past 40 years is not only the rapid expansion of international trade, but the fact that it is associated with increasing multilateralism, and the proliferation and diversification of physical goods that enter into the global market. Moreover, trade grew faster among countries with similar factors' endowments, and intra-firm and intra-industry international trade has become a salient feature of international economic relations. Besides, the global internationalisation of the economy implies movements of factors of production: capital, labour, technology, information, know-how. Finally, the trade of intangibles (services, information, knowledge) has been growing more rapidly than trade of tangible merchandise. Behind these global changes we discover technological change, and the ability to appropriate and to master the new technology.

The changing characteristics of international trade force countries to create a national infrastructure which can provide a favourable environment and the conditions for local firms to be competitive internationally. The capacity of each country to insert itself into the international economy, and to benefit from the opportunities generated by the rapid expansion of international trade to accelerate national economic growth is becoming more and more dependent on its technological capacity, and its links with productive activities and trade policies.

It can be argued that the world economy is in a transitional phase towards a new international division of labour. This new international division of labour is now at a turning point; there is a confrontation between the hegemonic leader, and those who, by their economic and technological achievements, have the conditions to share and benefit from leadership. The followers in their turn are fighting for a better international position in order to accelerate their economic development, and do not want to be obstructed in their search and access to the elements needed for it. The debate over the Uruguay Round reveals that, despite recent progress in the

theory of international trade, the divorce between theory and reality remains unshaken, and permits the arbitrary interpretation of real facts and/or bastard utilisation of concepts in order to legitimise political decisions that are essentially the expression of interests. Until the Tokyo Round, the main concern of MTN was the liberalisation of international trade by the elimination of tariff barriers. The new situation forces the explicit consideration in the negotiations of those new elements that have emerged preponderantly during the last decade, and the incorporation of those elements that, on the basis of special waivers, have been left aside (e.g. trade in agricultural products). This fact takes concrete shape in the different groups established in the Uruguay Round.

2. The Tripolar Structure and Supranational Economic Areas

An Emerging Tripolar Structure

One of the most difficult problems to be faced by Latin America in the 1990s is the consolidation of supranational economic areas. The strengthening of the EEC and its macroeconomic and trade policies have already affected the international trade system. They are likely to have more relevance with the implementation of the Common European Act in 1992. Besides, the recent free trade agreement between the United States and Canada is likely to have important effects on international trade, and in particular on Latin American countries, which are heavily dependent on trade with the United States.

In addition, the present pattern of international trade is evolving towards a tripolar system based on supranational economic areas: the EEC, the USA-Canada free trade area, and an East Asian pole formed by the four NICs (South Korea, Hong Kong, Singapore and Taiwan), the four 'new' NICs (Indonesia, Philippines, Thailand and Malaysia) and Japan. This tripolar structure concentrates the most important economic flows. In this scheme, Latin America, with the exception of Brazil and Mexico, is becoming increasingly marginalised.

This phenomenon is demonstrated by the historical trends of trade flows, and by the magnitude and direction of the flows of foreign direct investment, which also tend to be concentrated in the tripolar structure [see Bifani (forthcoming) for details of the argument].

One of the most striking facts of the 1980s was the increasing absorption by developed countries of international flows of foreign direct investment, and the decreasing amount that goes to developing countries. Of the foreign direct investment (FDI) which has gone to developing countries, the sources of FDI have greatly diversified. For Latin America this

decreasing flow of investment has been associated with a change of direction: in 1980 the region absorbed more than 60 per cent of FDI to developing countries', in 1985 it obtained only 35 per cent, while the share captured by Asian countries increased from 32 per cent to nearly 50 per cent.

Net foreign direct investment in Latin America dropped from US\$ 7.5 bn in 1981 to US\$ 2.8 bn in 1986. The FDI to the region has been traditionally concentrated in Brazil, Mexico, Argentina and Colombia [UNIDO 1989]. Apparently in 1988 the inflow of FDI to the region recovered substantially, approaching the levels of 1981. However, its concentration persists: Argentina, Brazil and Mexico accounted for an increase of US\$ 5.9 bn [IDB 1989].

Apart from the increasing trade relations and capital flows between the three poles mentioned above, there is also an increasing concentration of the flows of intangibles, particularly of science and technology and services between them.

Free Trade Areas: Liberalisation or Protectionism?

In theory, free trade areas, customs unions and common markets are supposed to favour the process of liberalisation by trade creation. However, also by definition, a free trade area or a common market is discriminatory against those countries that are not members of it. Nevertheless, under GATT rules, free trade areas and customs unions are permitted to the extent that they are trade-creating and not trade-diverting. In relation to this conflict, the experience of the EEC can be divided into two periods. Until the Tokyo Round, there was trade creation in relation to manufactures, and trade diversion in relation to agricultural products, a sector in which the EEC benefitted from the waiver granted to the USA. However, after the Tokyo Round the trade diverting effects predominated. The EEC has also increasingly resorted to protectionist measures in manufactures, and has established a system of preferential arrangements with developing countries that clearly violates the principle of non discrimination. A similar situation can be observed with the United States.

In this context the Latin American position appears to have deteriorated, and indeed the level of protection against imports from developing countries is higher than the level of protection against the same imports from developed countries [Sampson 1986]. Latin American exports have been particularly affected by the protectionism of the industrialised countries. Between 1980 and 1985 the United States initiated 252 countervailing duties, actions of which 51 were against Brazil and Mexico. The opening of Eastern Europe and the more active participation of China in the world economic system will, most probably, also act against Latin American and Caribbean interests.

Besides Japanese concern about potential difficulties of access to the European and North American markets will define a structure of priorities in which Latin America is likely to rank very low.

The current trend seems to assign to the region a limited role of supplier of raw materials, mainly to one of the poles of the tripolar structure, the United States, which also provides the region with manufactures.

The Violation and Declining Credibility of GATT Principles

Latin America's insertion in international trade is impaired by the gradual abandonment of multilateralism and the growing bilateralism outside GATT rules, and supported by trade policies adopted unilaterally that reduce market transparency. The creation of free trade areas and their granting of preferential treatment directly or indirectly transgress the GATT basic principles of non discrimination, unconditional most favoured nation and accelerate the move towards bilateralism and reciprocity. Besides selective liberalisation and trade restrictions infringe the principle of special and differential treatment for developing countries, undermining the efficiency of GSP. In fact, the latter has become a negotiating tool in the hands of developed countries to support increasing bilateralism and reciprocity. The EEC's pyramidal scheme of preferences discriminate against Latin America that is at the end of a list headed by countries of the Lomé Convention, and followed by the EFTA, Maghreb, Mediterranean and Asian countries.

Certainly there is the Global System of Preferences (GSP). However, the results of its implementation have been rather frustrating: first, by 1983 those exports of developing countries protected by the system show a rather small increase: only two per cent [see Karsenty and Laird 1987]. On the other hand, the US Trade Act authorises the US President to withdraw the benefits of GSP from those countries which have achieved higher levels of development and international competitiveness, implicitly including conditionality in granting the benefits of the GSP — a new element of bilateral negotiations. The problem of conditionality and reciprocity is likely to become a major obstacle to the expansion of trade of developing countries. Bilateral reciprocity ignores the multilateral character of contemporary trade, and the fact that a trade surplus does not necessarily indicate equal or similar levels of development.

3. The Marginalisation of Latin America

During the 1980s, Latin America faced a process of increasing marginalisation in the world economy. Indicative of this is the declining participation of the

region in international trade, which fell from 5.5 per cent in 1980 to 4.2 per cent in 1986. Other indicators are the diminishing inflows of FDI and the declining share of the region in the total manufacturing value added. Marginalisation is also noted at the sectoral level, and revealed by the increasing concentration of the region's external trade with only one partner, the United States, which renders the region vulnerable to the fluctuations of the US economy and its macro-economic policies. Finally, the region is also marginalised because of its inability to keep abreast of new scientific understanding and technological progress [see Bifani (forthcoming)].

However, it should be noted that the regional averages hide the individual performance of each country, which can have a different evolution. Thus in the case of exports, Mexico and Brazil increased their share in the global totals from 0.6 per cent and 0.8 per cent respectively to 1.2 per cent each, while the share of Venezuela and Ecuador (both oil exporters) declined by more than 50 per cent.

Brazil, Mexico, Argentina and Chile are the only countries of the region that between 1982 and 1988 had a trade surplus. In 1988 the region as a whole had a trade surplus of US\$ 24.4 bn which Brazil contributed with 78 per cent.

The Region's Exports of Manufactures

It is a well demonstrated fact that the driving force of international trade expansion has been world trade in manufactures. However, increased Latin American participation in world trade has not been accompanied by greater participation in manufacturing production.

The share of Latin American manufacture value added (MVA) in world MVA declined from 6.4 per cent in 1980 to 6.1 per cent in 1987 as a consequence of a low rate of growth. Between 1961 and 1970 the MVA increased at an average annual rate of 6.7 per cent. In the following decade it was 6.4 per cent but from 1981 to 1988 it was a mere 0.5 per cent, and in 1988 particularly, it was negative: -1.5 per cent. Nevertheless, during the same period Latin American exports of manufactures increased from 9.5 per cent of total exports in 1970, to 24 per cent in 1986, and from 0.96 per cent to 1.6 per cent of world exports of manufactures. This increase deserves two comments: first, it was insufficient to compensate for the deteriorating position of Latin America in world trade. Secondly, the regional averages hide important differences between countries. Manufacturing is concentrated in Brazil, Mexico, Argentina, Colombia and Venezuela, which represent 86 per cent of the total manufacture value added of the region.

The concentration is even higher when referring to exports. Brazil alone accounted for 50 per cent of total Latin American exports of manufactures in 1986,

while Brazil with Mexico and Argentina accounted for 98 per cent of the regional total. It should be noted that Mexican exports of manufactures are dominated by two features: the role of the 'maquiladores' (1,132 plants in 1987), and concentration on a single market, the United States, that absorbs nearly 70 per cent of Mexican exports.

Disaggregation of the regional indicators unveils one of the most dramatic facts of the region, the decline of its industrial sector. By the middle of the decade, industrialisation levels had shrunk to those of 1966, with extreme cases, like Argentina and Peru, regressing to the levels of 1960. In Chile and Uruguay, the de-industrialisation process brought them back to 1950 levels [Bitar and Ominami 1987].

This regressive process affected all branches of industry, although in different degrees, demonstrating the shortcomings of an industrial policy limited to a narrow concept of import substitution conditioned by the dynamics of domestic demand without any export aspirations. The policy was characterised by high protection that in the long term proved to be detrimental to the achievement of international competitiveness, hence blocking the possibility of reorienting industrial activity towards international markets. The industry expanded with protection levels that can not be justified by the traditional 'infant industry' argument.

Protectionism in the context of the infant industry argument is based on the distinction between static and dynamic comparative advantage. Under the infant industry strategy, protection is temporary, in order to permit domestic activities to mature. Unfortunately this has not been the case for Latin American industry, which enjoyed excessive protection, inhibiting efforts to improve efficiency and competitiveness.

In addition, only Brazil and Mexico, and, to a lesser extent, Argentina, have domestic markets large enough to achieve an efficient scale of production.

Latin American industrial policy was characterised by an anti-trade protection bias [Teitel and Thoumy 1986; Balassa 1975, 1984 and 1985]. The negative effects of excessive protection were aggravated by inflationary processes and exchange rates policies, particularly the over-valuation of the rate of exchange.

Excessive protection also marginalised industry from global levels of technological progress and quality.

The policy neglected the complementarities between import substitution and export oriented policies. The former can be considered as a phase that precedes export promotion. Apparently this has been the case for Brazil and Argentina. As Teitel and Thoumy noted, industrialisation through substitution could result in export capability to the extent that the protected domestic industry develops without losing

sight of international competitive standards, and that protection is based on incentives for the achievement of international competitiveness and is not considered as a permanent concession.

To sum up, when the driving force of the expansion of the international economy is the growing exchange of manufactures, the marginalisation of those countries that are unable to build up internationally competitive manufacturing activities is unavoidable, and their position deteriorates even more if they encounter a regressive industrialisation process.

Commodities and Latin America's External Trade

The problem of missing manufacture capabilities is compounded by the lack of dynamism in the entire external trade sector. Two countries, Brazil and Mexico, have emerged as the dominant exporters of the region contributing with 53 per cent of the total. The potential offered by the increasing global demand for manufactured goods has been exploited mainly by Brazil [IDB 1989].

The historical trends of the external sector of the region indicate a strict adherence to a static core and periphery model that defines the region as a supplier of primary products and an importer of manufactures; 80 per cent of the region's exports are primary products, including oil, while imports are dominated by manufactures.

The international commodity market is characterised by a slow rate of expansion due to several well-known factors, including low income elasticity and changing patterns of consumption and declining terms of trade. Nevertheless, primary commodities are still the main sources of foreign income for the majority of the countries in the region [Bifani Forthcoming].

The fall in demand for commodities also originates from national strategies to achieve self-sufficiency in agriculture and food production. Thus domestic agricultural production is increasingly replacing imports. This strategy is implemented both in developed and developing countries. However, it is particularly evident in the EEC which, from being a net importer of food products is today the largest exporter of cereals, meat, milk, sugar, etc. Moreover, the explosion of the EEC's agricultural production, sheltered by strong protectionism, resulted in growing surpluses which are dumped in the international market, depressing prices, displacing traditional producers and creating uncertainty and instability.

It is interesting to note that while in developed countries technological progress permeates all sectors, allowing the expansion of the agricultural products, in most Latin American countries agriculture is characterised by serious technological backwardness. This is particularly noticeable in the sugar cane industry where levels of technology have not advanced

since the 1930s [Bifani Forthcoming]. This technological dimension is but one aspect of developing countries' bias against agriculture and is particularly serious when agriculture provide the most important export products.

Thus regional specialisation concerns products for which demand on international markets tends to slow down and/or those where technological trajectories are limited. Dynamic products in the international economy are those linked with high technology, electronic materials, computers, telecommunications, spare parts for the automobile industry, and aerospace. Products that are facing falling demand are textiles, food and beverages, raw materials for industrial transformation, tropical products, cereals and so on. It is not necessary to do a detailed revision of the structure of Latin American exports to realise that almost all its exports are in the second group, the exception being some Brazilian exports.

4. The New Issues of the Uruguay Round

Information and knowledge are strategic factors of production that determine the characteristics of international trade and are in themselves elements of international exchange. Information and knowledge are part of a set of intangible assets that are permitted to reach international competitiveness. Among them the property of knowledge and technology is one of the most important. Technological innovation brings together specialised services; thus flows of technology are always accompanied by flows of services. The more complex the new technologies, the more frequent will be the supply of technology as a package that also incorporates technical assistance, know-how, training and maintaining services.

The relationship between transfer of technology and FDI tends to be more evident in advanced technologies. Since technical change plays a fundamental role in the expansion of the firm, it follows that movements of capital and technology go together. The links between the three new issues of the Uruguay Round are particularly evident in the case of information technology, and have been examined elsewhere [Bifani 1989].

The importance of technological innovation for the creation of comparative advantage and competitiveness, the growing commercial value of the intangible component of technology and its easier diffusion, associated with the globalisation of the world economy have given rise to concern for the protection of intellectual property which, indeed, has become a leading issue in the trade policy of developed countries, particularly in the United States. Moreover, trade related aspects of intellectual property rights is one of the top priorities of the US government and, the Omnibus Act authorises the use of the IPR argument

to threaten countries with commercial retaliation if they do not conform to US requirements on IPR [Bifani 1988 and 1990]. For all these reasons the problem of intellectual property rights has acquired a major role in bilateral and multilateral negotiations. [For a discussion of the economic issues involved, see the paper by John Curtis in this *Bulletin* (editors).]

Negotiations on the trade related aspects of intellectual property rights are basically a conflict between the producers of technology, the technological leaders, and the followers, who need it to speed up their development process. The former emphasise competitiveness on the assumption that competition promotes economic growth; the latter emphasise development. Thus technological leaders want to reinforce at international level the existing appropriability regime, making it tighter and more suitable to the characteristics of new technologies. Their purpose is to keep appropriated technological innovations in larger geopolitical spaces and for longer, in order to capture the maximum quasi-rent of the investment on technological creation and development, and, at the same time, to preserve their advantageous economic situation in the world market. The technological followers, particularly Brazil and India, will try to enhance the diffusion mechanisms of existing IPR, considering that a more strict international appropriability regime may slow down technological diffusion and reinforce the oligopolistic character of the world economy. Thus they are of the opinion that a strict international IPR system will make their insertion in the international system more difficult, thus hampering the development process [Bifani 1990].

A report prepared by the United States Trade Representative considers that Argentina, Brazil, Colombia, Mexico, Chile and Venezuela are adopting restrictive practices in relation to North American trade, notably Brazil, Colombia and Mexico, where export subsidies are seen as a major obstacle to free trade. The problem of property rights has been seen as a major obstacle for trade relationships between the United States and Argentina, Brazil, Colombia and Venezuela [Bifani 1990].

5. Prospects for the Coming Decade

Previous discussion has highlighted some of the issues that have dominated international economic relations during the last decade and Latin America's response. From this analysis several reflections emerge.

One of the most important characteristics of the new international economic relationships is the emergence of a tripolar structure from which the region tends to be marginalised. This structure exhibits on the one hand the strengthening of the links between the developed countries, particularly those associated in

supranational economic blocks, with the NICs of Asia and Japan.

On the other hand there is the growing diversification of developing countries' interests, a phenomenon particularly important in Latin America. The insertion of the region into the world economy is largely conditioned by the capability of each particular country to incorporate technological change, to achieve competitiveness in traditional sectors as well as in new ones, and to create comparative advantages that permit the diversification of exports. In the past only a few Latin American countries, namely Brazil and Mexico, have been able to achieve this. Both have large potential markets, a rather diversified economy, and have been able to build up a significant scientific and technological infrastructure. This explains why, in spite of their indebtedness, they are still the largest receivers of FDI. This situation also gives them some bargaining power in relation to TNCs, which are attracted by the potential of their markets.

The region's critical situation, its inability to embark on a process of sustainable development, has broken its common position in relation to developed countries. Each country is now trying to define its own strategies in order to get maximum benefits from international trade. For example, the collapse of the sugar market created a dramatic situation for the Dominican Republic, now considering joining the Lomé Convention, and thus gaining access to the preferential treatment that the EEC grants to the ACP group. The sugar protocol of the Lomé Convention established price levels and preferential quotas which guarantee some stabilisation of export revenues. Argentina would clearly benefit from the North American position in GATT concerning the elimination of agricultural subsidies, whilst Chile has recently modified its intellectual property law following pressure from the United States Government.

Mexico is a special case. Its close links with the United States, the complementarities that can be developed between the two economies, and with Canada, and some recent agreements with the United States (concerning countervailing duties), the modification of the Mexican intellectual property laws, the rapid elimination of non tariff barriers, suggest a trend towards increasing integration with the United States and Canada.

Brazil has been able to insert itself more favourably than the rest of the region in the international economic system. It is a country which offers enormous possibilities for the expansion of economic activities of transnational corporations because of its large market. Yet, during the 1980s the expansion of the Brazilian economy and its penetration in international markets slowed down. Apparently the country is at an important turning point characterised

by the achievement of international competitiveness in conventional industries which nevertheless face growing barriers in developed countries (e.g. steel, leather). On the other hand, it has developed new high technology sectors relatively slowly. This is why for Brazil the issue of property rights is so important in the Uruguay Round, and this is a major cause of conflict with the United States.

During the 1980s Latin America's policies were conditioned by short term considerations due to the pressing debt problem. This has affected the insertion of the region into the international system by limiting its capacity to import goods and equipment for domestic development. On the other hand, it promoted an export policy which attempted to maximise short term foreign revenues in an effort to generate resources for debt servicing. Thus the countries reversed to their previous inward-development strategy, closing their economies. Simultaneously, a sort of new neo-mercantilism was adopted in order to maximise trade surpluses.

The combination of the above two strategies prevents them from diversification and the achievement of international competitiveness. Today these policies are proving detrimental not only to their insertion in the world economy but also to economic development. There is no doubt that the most dynamic factor for development is provided by the expansion of the world economy. The short term problems associated with macroeconomic policies designed in the context of structural adjustment prevented Latin American countries from looking to the long term.

The coming decade confronts the region with a doubly awkward task: to recover from the lost decade of the 1980s and to do so in the context of a more difficult international economic environment which is characterised by the slowing down of global growth, increasing competitiveness, and growing protectionism. In an increasingly interdependent world, sustainable development can be attained only through the effective incorporation of technological change in the productive process that allows creation of comparative advantages and competitiveness, to allow effective insertion in the international economic system. For this, explicit scientific and technological policy links with trade policies are required. This is, no doubt, a serious challenge, but one which the region has to face.

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