LATIN AMERICAN TRADE REGIME REFORMS AND PERCEPTIONS

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Abstract

We examine the effects of recent reforms in trade in Latin American countries. In general, these countries have changed from the inward oriented economic attitude sponsored by the United Nations Economic Commission for Latin America (ECLAC), towards an outward looking perspective that is part of the “Washington Consensus". The paper details the changes in the level of tariffs and in quantitative restrictions, showing that there is a clear divide between the 80s and the 90s, with recent tariff structures that are flatter and lower. There has been an explosion in Free Trade Agreements (FTAs) within Latin America. Even if these agreements are not always effective and are riddled with excluded goods and services, they represent a change in perception and a willingness to trade with neighbours that did not exist previously. The effect has been a doubling in the rate of growth of exports in the last decade, coupled with an especially high growth rate in intra-LA trade. Cross-border investments have also become common. Nevertheless, the amounts exported by these countries are small. Even a country with low, uniform tariffs and few other forms of protection, such as Chile, did not get to export one thousand dollars of exports per capita, a quarter of the corresponding value for OECD countries.

A worrying trend for the area is the growth in the new forms of protection as traditional trade barriers are lowered. A survey of the major Latin American countries and their trade partners shows an increase in the use of sophisticated methods such as the use of standards, certification procedures and antidumping and anti-subsidy measures against other countries in Latin America. Moreover, there is a willingness to fall back on administrative protection with measures that are cumbersome and protectionist. Even countries that are members of a customs union, such as MERCOSUR, can indulge in costly trade wars using these instruments. Developed countries have also stepped up their use of these measures and they appear less enthusiastic in their support of free trade. It would be ironic if, when LA countries finally start to believe in the benefits of free trade, the developed countries were to close the door on their imports.

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INTRODUCTION

The so called “Washington Consensus” has led most countries in the region to adopt broadly similar outward oriented policies which have replaced the previous Economic Commission for Latin America (ECLA) consensus that stressed import substitution. In this chapter we review the extent of these trade reforms and their effects on the growth of trade in the various countries. Even though they have liberalised their external sector, we will show that Latin American countries use the new instruments of protection vis-à-vis each other and other countries. These barriers have become one of the main causes of frictions between countries in South America. This descriptive analysis is supplemented by an examination of the new forms of protection used by developed countries and their effects on developing country trade. We conclude with a short description of the perception of GATT/WTO issues in Latin America and the problems posed by the increasing intervention of multilateral trade organisations on what have been previously considered domestic policy issues.

I. SHORT REVIEW OF LATIN AMERICAN POLICY REFORMS

Latin American (LA) countries have implemented profound economic policy reforms during the 80s which provide a greater role to the market mechanism and to the private sector; moreover, the old import-substitution strategy (i.e., "inwards development") has been replaced by an export oriented strategy (i.e., "outwards development"). There are differences among LA countries with respect to the degree and procedure on the implementation of these economic reforms, but there is great coincidence in the overall approach.

Williamson (1990) has synthesised this recent economic reform scheme as the Washington Consensus. The so called Washington Consensus stresses the following policy reforms: (1) State reforms which include: (a) Fiscal discipline, i.e., fiscal deficit should not surpass the 1% - 2% (GDP) range. To achieve this goal in the short run, the reduction of government expenditures (in real and relative terms) is the most efficient way. On the other hand, a tax reform should be oriented towards increasing its efficiency in providing revenues to the government; for this purpose it is required a broad tax base with low marginal tax rates. (b) Privatisation of state enterprises; the private sector is considered to be much more efficient as a producer than the public sector. Moreover, the existence of less public firms will make easier to achieve the objective of fiscal discipline. (2) Liberalisation and deregulation reforms which would promote domestic competition; these include: (a) Domestic capital market liberalisation which would imply free interest rates; real interest rates should be positive but moderate. In this context supervision of financial institutions is recommended. (b) Trade liberalisation where quantitative restrictions and discretionary measures should be replaced by tariffs; furthermore, tariffs should be reduced. (c) National treatment to foreign investment which provides required capital, skills, and know how. (3) High and stable real exchange rate to increase international competitiveness for export promotion.

In this section will be reviewed very schematically the results observed in the trade reforms and exchange rate policies.

1.1. Trade Reforms

Prior to 1980, the ISI (import substitution industrialisation) strategy prevailed in LA; industrial policy was mainly commercial policy, i.e. high tariffs and non-tariff barriers. Many horror stories have been written about the inefficiencies created by the ISI strategy; one of the principal problems has been related to the anti-export bias generated by the domestic incentive price structure.[1] In this respect it could be observed that at the overall level, LA exports had an annual average export growth rate of 3.2% during the 1960-80 period; this LA export rate was much lower than the 6.1% world export growth rate during the same period. There is wide consensus in LA that by the end of the 70s the ISI strategy had (in general) exhausted; the external debt shock accelerated this fact.

During the 80s there has been a profound change of focus in most LA countries; the ISI strategy (inwards development) is being replaced by an export-oriented strategy (outwards development). The highly successful Asian export countries example has become the pattern to follow; exports are destined to become the engine of growth. The new predominant rationale states that given their small relative size, LA economies should be open outwards; the pursuit and increase of efficiency will be obtained by an integration of the domestic economy to the world.

The LA trade regime which prevailed during the ISI strategy had a highly complex and messy structure; there were different types of non-tariff barriers like import licensing, import prohibition, quotas, together with a high level and large dispersion of tariff schedule, surcharges, etc.; moreover, there were special regimes and special exemptions, some related to geographic areas and some related to type of firms (public firms).

There are two sequential features characterising the changes observed in Latin American (LA) trade regimes during the 1990s. First, most LA countries have implemented a unilateral trade liberalisation process, i.e., each LA country has decided to reduce its tariff and non-tariff barriers independently of what the rest of the world has done.

During the 90s there has been a clear trend towards a rationalisation of the trade regime; several features are included here like simplification and reduction of bureaucratic procedures related to external trade

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1 In some Latin American countries, the political economy rationale for an anti-export bias was related to the fact that traditional commodity (natural resources) exports were controlled by foreign firms or by landed oligarchs.

operations (exports and imports), elimination of most non-tariff restrictions, diminution of the number of special regimes and special exemptions. With respect to tariffs, in many countries there has been a tendency towards the use of only a few tariff categories, Chile and Bolivia have a flat structure, Argentina and Peru have three tariff categories, Mexico and Brazil have six and seven respectively.

In short, there have been deep changes in the LA trade regime. The sharp unilateral external liberalisation process that most LA countries have implemented could be observed by a comparison of tariffs and quantitative restrictions (QR) figures for the 90s with the 80s (second half) shown in the following (Table Nº 1.1).

(a) Maximum nominal tariffs have been reduced from a three digit level to around 20%. There has been a clear change of perception in LA; during the 60s through the 80s, tariffs lower that 20% were considered to be too low, while now, tariffs higher than 20% are considered to be too high. On 1997, most LA countries had weighted mean tariffs in the 10% to 15% range.

(b) Most LA countries had surcharges prior to 1990; these surcharges have been significatively reduced or eliminated during the 90s.

(c) A large percentage of LA imports were subjected to QR prior to 1990; QR play now a null or minor role in most LA countries.

In short, LA is now a more open region and has become export-oriented. Comparing years 1980 and 1997, the export/GDP share has increased in most LA countries; moreover, in several LA countries this share increase has been larger than 50%.

***Table Nº 1.1a.* Present Decade (1990s) Tariffs and Quantitative Restrictions in Latin American Countries**

Country	Tariffs & Surcharges (%)		Mean Tariff	Quantitative Restrictions (QR)
	Tariffs	Surcharges	Weighted (%) 1997	(import % affected by QR)
Argentina	0 ÷ 20	10	11.3	4 [a]
Bolivia	5 ÷ 10	1 ÷ 2	9.7	2
Brazil	0 ÷ 20	-	14.8	1 [a]
Chile	11	-	10.9	0
Colombia	0 ÷ 20	0 ÷ 16	12.1	14 [a]
Ecuador	5 ÷ 35	-	11.8	15 [a]
Mexico	0 ÷ 20	-	13.2	2
Peru	0 ÷ 15	-	13.8	5
Uruguay	0 ÷ 20	0 ÷ 5	9.8	0
Venezuela	0 ÷ 20	-	12.4	10

Source: GATT, IMF, World Bank.

[a] This percentage corresponds to all tariff categories.

***Table Nº 1.1b.* Past Decade (1980s) Tariffs and Quantitative Restrictions in Latin American Countries**

Country	Year	Tariffs & Surcharges (%) Tariffs	Surcharges	Quantitative Restrictions (QR) (import % affected by QR)
Argentina	1986	0 ÷ 100	0 ÷ 14	60
Bolivia	1984	0 ÷ 60	0 ÷ 2	90
Brazil	1985	81	-	34 [c]
Chile	1984	0 ÷ 35	5 ÷ 15	0
Colombia	1984	61	0 ÷ 18	93 [d]
Ecuador	1984	0 ÷ 290	1 ÷ 30	38 [c]
Mexico	1984	0 ÷ 100	3 ÷ 19	38
Peru	1989	0 ÷ 117	3 ÷ 147	100 [d]
Uruguay	1982	0 ÷ 75	0 ÷ 74	0
Venezuela	1988	0 ÷ 80	2 ÷ 5	65 [e]

Source: IMF, *Issues and Development in International Trade Policy*, 1992.

[a] QR include import restrictions through exchange control. In general, QR correspond to non-automatic requirements to import permits.

[b] Average value of all tariff categories.

[c] This percentage corresponds to all tariff categories.

[d] In this case QR corresponds to prohibitions.

[e] QR through allocation of foreign exchange.

The second LA feature is related to the surprising proliferation of (bilateral) free trade agreements (FTA) during the 1990s: in the 1990-94 period no fewer than twenty six bilateral have been signed (Table Nº 1.2). In addition, the decade has seen the creation of important subregional preferential trading areas like NAFTA and MERCOSUR. The 1990s could therefore be called the decade of the FTA in Latin America. An important outcome has been the significative increase of intra-Latin American export growth.

***Table Nº 1.2.* Free Trade Agreements in Latin America. 1990-94**

1.	Argentina - Brazil	1990	14.	NAFTA	1993
2.	Bolivia - Uruguay	1991	15.	Brazil - Peru	1993
3.	Argentina - Colombia	1991	16.	Mexico - Caricom	1993
4.	MERCOSUR	1991	17.	Mexico - Costa Rica	1994

5.	Chile - Mexico	1991	18.	Bolivia - Brazil	1994
6.	Chile - Argentina	1991	19.	Mexico - Bolivia	1994
7.	Argentina - Bolivia	1992	20.	Chile - Bolivia	1994
8.	Bolivia - Peru	1992	21.	Chile - Ecuador	1994
9.	Argentina - Venezuela	1992	22.	Colombia - Venezuela - Mexico	1994
10.	Argentina - Ecuador	1993	23.	Venezuela - Caricom	1994
11.	Bolivia - Chile	1993	24.	Colombia - Caricom	1994
12.	Chile - Venezuela	1993	25.	Brazil - Venezuela	1994
13.	Chile - Colombia	1993	26.	Bolivia - Paraguay	1994

Source: BID, División de Integración, Comercio y Asuntos Hemisféricos y CEPAL.

Changes in the LA trade regime have had an important effect upon LA export growth rates. Prior to 1990, LA exports had annual growth rates below 5% (4.6% in the 70s, 4.8% in the 80s). In the 90s, LA exports are growing on average at 8% per year, which is higher than the 6.9% world export expansion (Table Nº 1.3a). There are several LA countries which show export growth rate higher than 11% (Mexico, El Salvador, Paraguay) (Table Nº 1.3b).

However, Latin America is still a region with a relatively low export level. Using the export per capita indicator for comparison purposes, LA (including the Caribbean countries) had US$ 516 of export/capita on 1995 compared with a world figure of US$ 951 (World Bank). OECD countries had an average higher than US$ 4,000 of exports per capita, while several East-Asian countries were in the US$ 2,000 to US$ 4,000 range. The LA countries that had the highest export/capita in 1995 were Chile (US$ 988), Uruguay (US$ 886) and Venezuela (US$ 779) (Table Nº 1.4).

***Table 1.3a*. Export Growth by Regions**
(annual average; %)

	1970-80	1980-90	1990-95
East Asia & Pacific	9.64	9.31	13.24
OECD	6.61	4.64	6.10
Latin America & Caribbean	4.63	4.84	7.95
World	6.38	4.97	6.91

Source: World Bank.

***Table Nº 1.3b*. Latin American Export Growth**
(annual average; %)

	1970-80	1980-90	1990-95

Argentina	4.45		4.04		9.00	
Bolivia		- 1.31		1.29		7.03
Brazil		9.58		8.40		4.58
Colombia	5.30		6.00		8.13	
Chile		9.47		6.93		9.59
Costa Rica		6.73		5.46		9.27
Dominican Republic	8.73		5.55		9.15	
Ecuador		13.22		4.50		7.98
El Salvador		2.90		- 4.85		12.80
Guatemala		5.70		- 1.44		5.96
Mexico		6.98		7.65		11.88
Nicaragua	- 1.66		- 4.75		8.18	
Panama		n.a.		n.a.		6.01
Paraguay	6.80		5.49		11.95	
Peru		2.60		- 2.63		4.35
Puerto Rico		n.a.		n.a.		n.a.
Uruguay		6.77		4.61		6.70
Venezuela	n.a.		0.63		6.46	

Source: World Bank.

Table Nº 1.4. **Latin American Per Capita Exports**
(1987 US$)

		1970	1980	1990	1995
Argentina	210	286	402	531	
Bolivia		144	121	147	175
Brazil		64	131	212	272
Chile		193	436	679	988
Colombia	115	158	236	293	
Ecuador		98	272	350	451
Mexico		135	228	385	654
Paraguay	138	187	417	599	
Peru		168	166	114	157
Uruguay		242	466	696	886
Venezuela	n.a.	699	685	779	

Source: World Bank.

1.2. New Protectionism In Selected Latin American Countries And Its Trade Partners

Despite the impressive trend towards trade liberalisation in Latin American countries and the massive increase in intraregional trade documented in the previous sections, new forms of protection have become important in restricting IntraLA trade. The larger countries in the region have begun using contingent protection mechanisms such as antidumping, countervailing subsidies and safeguard provisions in efforts to protect individual sectors.[2] Table 1 shows some protective mechanisms used in Latin America.[3]

Table 1.5: Protection in LA

Measure	Countries

2 From the WTO Trade Policy Reviews for Argentina, Brazil and Mexico.

3 Sources for this section are: latest Trade policy Reviews of the WTO for the various countries and the 1999 annual report of the US Trade Representative.

Import procedures • Import and custom encumbrances • Import licenses • Other taxes and charges • Advanced payment of VAT and other taxes	Salvador, Paraguay, Argentina, Brazil, Uruguay
Unexpected tariff increases	Mercosur, esp. Brazil
Antidumping and countervailing	Mexico, Argentina
Safeguards	Brazil
Tariff escalation	Salvador, Mercosur, Mexico
Tariff quotas	Salvador, Mexico
Labelling requirements	Mexico, Chile
Sanitary and Phitosanitary restrictions	Chile, Mexico, Brazil
Special agricultural protection	All

The data shown in Table 1.5 warrants the examination of individual countries to examine the extent to which they attempt to evade the spirit, and often the letter, of their obligations under the WTO. In particular, we concentrate in measures which affect other LA countries and omit the issues relevant to developed countries, such as intellectual property issues, investment and others.

1.2.1. Brazil

Among Latin American countries the larger countries are most prone to the use of non-tariff, non-quota forms of protection. Brazil, which is the largest Latin American economy, is the country that uses the new forms of protection most effectively. Brazil uses a large variety of instruments, such as unexpected tariff increases, changes in import procedures and the more classical antidumping, safeguards and countervailing subsidy procedures. Many of these measures are introduced with suddenness and often violating basic commitments. According to the Report of the Trade Policy Review of the OMC of 1996, "...frequent tariff adjustments give an appearance of uncertainty to Brazil's trade and investment regime."

Until as recently as 1996, the Brazilian antidumping (AD) and countervailing subsidy regulations did not follow the Antidumping and Countervailing Subsidy code of GATT. During the period from 1992 to 1995

Brazil introduced 66 AD and 13 countervailing subsidy cases. Given the complex levels of protection in its economy, Brazil tries to compensate for the various distortions created by the complex system of State and federal taxes with subsidies that in some cases become net export subsidies. These subsidies include tax and tariff exemptions for equipment and material used for exports and excise and sales tax exemptions and subsidised export credits.

Within MERCOSUR itself, the behaviour of Brazil has caused serious strains, as for example, when in March 1999 it started unilateral negotiations with the Andean community countries (Venezuela, Colombia, Perú and Ecuador) with the object of achieving trade and customs agreements or the imposition of the obligation of cash payment of imports from other MERCOSUR members (El Mercurio 17/4/99). The reduction in tariffs that have been negotiated appear to be illegal under MERCOSUR, according to Argentine officials. The Associated members of MERCOSUR (Bolivia and Chile) labour under worse conditions. For example, before Chilean textiles can be exported to Brazil, the importer must obtain an import license, which, though theoretically automatic, takes about three weeks to process. These licenses can only be obtained in one office in the whole of Brazil. In January 1997, Brazil introduced legislation that regulates wine imports, introducing bureaucratic measures such as certificates, Portuguese labels, registration with the Agriculture ministry, etc., that, even though they are not overtly discriminatory, are aimed at imports (*Estrategia*, 21/1/97). In general, Brazil's trade partners even within MERCOSUR, complain of the great ingenuity in the slowing administrative procedures employed by Brazil as a trade barrier.

1.2.2. Mexico

Under NAFTA, the trade policies of Mexico *vis-à-vis* its northern partners are regulated strictly according to the accords and it appears that this more formal approach seems to have spilled into the conduct of trade with other partners. Hence Mexico has substantially improved its trade relations with its LA partners, establishing free trade agreements with several Latin American countries and generally reducing the use of non-tariff barriers. There is still substantial use of contingency measures such as antidumping, with 90 measures in force at the end of 1997, and this has become an important impediment to trade.[4] Some areas continue to receive special protection: the automotive sector, textiles, clothing and footwear. Mexico appears to be increasing the use of technical and labelling requirements that do not conform to international standards. Moreover, there are complaints about the introduction of new procedures without sufficient advance notification to trade partners. Certain sensitive products require the presentation of original documents at the

4 In 1993, just a short time after signing a free trade agreement with Chile, Mexico imposed phitosanitary restrictions on the entry of Chilean fishmeal into Mexico,. After some negotiations this restriction was lifted, but immediately afterwards Mexico initiated AD actions against Chilean fishmeal. The investigations led to a rejection of the dumping accusation and at the end of 1994 Mexico introduced

central offices of the Health ministry, imposing a large burden on exporters. Mexico sometimes employs "emergency" phitosanitary standards (as in the fish meal case discussed in the introduction) which bypass the normal advance notice procedures.

Mexico has also started requiring certification by the national metrology center for products subject to technical regulations. The problem is that there are product areas without local capability or areas in which testing must be performed by the local competition, which adds cost and uncertainty to the certification process. Under new regulations, supposedly less stringent foreign producers can certify products under broader rulings, but this only applies to ISO 9000 certified plants, accredited by the Mexican quality system. Overall Mexico seems to have graduated from the primitive restrictions used in the past to "modern" methods such as contingent and phitosanitary measures.[5]

1.2.3. Argentina

Argentina has changed its economy from a substantially closed system to an open-oriented economy, with important increases in the stability of the trade regime. Nevertheless, some areas which are problematic remain, such as protection in some agricultural sectors, and special protection for some manufactures such as toys, textiles, clothing and footwear. Moreover Argentina has imposed "statistical" levies on imports, which introduce uncertainty among exporters. These levies seem to be related to a desire to increase fiscal revenues rather than having a protectionist intent, since they are applied across the board, but they still affect exports from other LA countries. There are sectors where it is difficult to evaluate the overall tariff equivalent rate, due to the fact that there are several different para-tariff measures that are applied. Argentina is also a frequent user of AD measures, but mainly against imports from Brazil within LA. Argentina still retains free trade zones whose exemption from all taxes can be construed as export subsidies, but these are scheduled for future removal. There is strong protection in the automotive sector and this has been one of the critical sectors in the negotiations within MERCOSUR.

Overall, Argentina is a country that has eliminated most of the important restrictions of trade and still has not begun to use more sophisticated trade measures (contingent protection or phitosanitary restrictions) in a coherent protective program, though they have been used in specific cases such as safeguard actions in the shoe industry and quarantines and fumigation procedures (which add cost and sometimes harm) on certain fruit.

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safeguards against imported fishmeal (Estrategia, 21/11/94).

5 A recent example is illuminating in this respect. A Chilean exporter of matches was informed by its distributors in Mexico that they would have to stop shipments because a new ruling requires that distribution from the central storage deposit be done in special trucks certified by the Departments of Transportation and Defence, under unknown regulations. Moreover, this delay implies that renewal of the quality certification would require certification to be performed by its domestic competitor (El Diario, 17 May, 1999).

1.2.4. Chile

Chile is generally regarded as an extreme case of a classical trade stance, though this is not altogether true. The country sets a uniform tariff of 10% on all goods and there are no quantitative restrictions. Moreover, this tariff is scheduled to decrease unilaterally to 6% in the next four years. There are no quotas and import licences are granted automatically. There is an exemption for three agricultural sectors : sugar, wheat (and wheat flour) and edible oil. In these sectors price bands operate, supposedly to buffer changes international prices but which in practice have a bias towards higher than international prices, sometimes going above WTO tariff bindings.

Despite appearances, the effective tariff is far from uniform, since Chile has signed FTA's with most LA countries. The effect is that the tariff schedule has become complex, as there are sometimes hundreds of exceptions and time schedules for the free trade agreements. Furthermore, Chile uses stringent phitosanitary restrictions that have, until recently, kept out US fruit and still bans imports of chickens from the US. As described in the introduction, Chile uses an idiosyncratic labelling system and classification for meat cuts that effectively exclude imports of meat from the US and are difficult to comply with for Argentina.

For several years, import competing sectors have asked for a change in the composition of the Distortions Committee which decides on dumping and subsidy allegations. Their lobbying has led to the introduction of legislation on Safeguards which, while complying with article XIX of the Uruguay Round, represents an increase in perceived protection.

1.2.5. European Union

Even though the European Union boasts fairly low tariff rates, these are much higher in the agricultural sector with extreme peaks for some products such as poultry, dairy products, meat, cereals, sugar and tobacco. The structure of tariffs shows some degree of escalation There exist tariff quotas for fruit and other agricultural products. The EU is a regular user of AD regulations, specially in the textile sector.

The zero risk approach in safety and environmental directives may also be considered a trade barrier. Moreover, the new ISO 9000 and 14000 standards increase the difficulties of exporting to the EU market for small companies in LA, and share many of the characteristics of technical barriers to trade.

Europe has also become involved in various trade disputes regarding products exported by Latin American countries. For example, the discrimination against bananas produced in Ecuador and Central America has led to a serious trade dispute between the US and the EU. Wine exports can also be vulnerable to trade disputes, since Europe requires that wine must be produced under wine making practices acceptable to the EU, violating basic principles of GATT.

1.2.6. The United States

While in many respects the US is an open market, there are several indications that there remains a substantial level of protection. The indiscriminate use of AD and countervailing subsidy allegations against steel, soy beans and oranges from Brazil, salmon and flowers from Chile, and other uses of contingent protection measures impose a degree of uncertainty on LA exporters. This is compounded by the application of marketing orders for fruit that are biased against foreign exporters and the introduction of phitosanitary restrictions with what appears to be randomness.[6]

There is concern with respect to the administrative features of the US contingent protection regulations, some of which do not seem to agree with the GATT codes. Some LA (apart from Mexico) countries were possible candidates for an FTA agreement with the US, but the lack of ``fast track" authority made the prospects unattractive. There is also some concern about the way in which the US certifies countries for anti-drug efforts and its influence on trade. Similarly, the US efforts to impose its own standards of intellectual property protection are viewed with concern in LA, specially because lack of compliance can lead to sanctions.

1.2.7. Japan

Japan used to be a country which imposed myriad administrative measures that impeded agricultural imports. These barriers have decreased, even though phitosanitary procedures remain complex. There remain some high tariff peaks in specific products. Japan imposes stringent conditions on fresh fruits, vegetables and other horticultural products, many of them without scientific evidence. Imported fruit and flowers are often subjected to fumigation which destroys their commercial potential. This increases the risks for exporters and acts as an efficient trade barrier. Certain derived food products such as snack foods, ice cream, fruit juices, confections and others are subject to tariff escalation. Sectors such as shoes enjoy the protection of tariff-quotas, while value-added wood products are protected by tariff escalation.

Administrative procedures are cumbersome and slow, while charging high fees. Japan also uses standards that are unique and outdated but successful in reducing foreign competition. In conclusion, though the changes in Japan's economic policies have reduced the extent of the new forms of protection, substantial barriers remain for Latin American exporters.

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6 Consider for example, the (subsequently lifted) restrictions on imports of Chilean lumber due to the possibility

1.3. Exchange Rate Policies

Multiple exchange rates had been used in may LA countries during the ISI period as a complement to the complex trade regime; a dual exchange rate regime, with a controlled official rate for the trade balance components and a free rate for the capital account, has been used by a few countries. Moreover, access to official foreign exchange market was in some countries a stricter barrier than that related to the trade regime. In short, both trade and exchange rate regimes were heavy and burdensome obstacles to LA import and export activities.

However, at the beginning of the 90s, a unified exchange rate system prevails in most countries of the region. Strict exchange controls, which were a normal feature in most LA countries prior to 1980, during the 90s have been considerably relaxed in many economies; foreign exchange transactions and dollar deposits are now legal operations to which most agents have an easy access. The foreign exchange market has almost become a market similar to the rest.

Distinct exchange rate regimes have been used in LA countries; even the same country has changed the exchange rate regime many times. Prior to 1980, some countries like Mexico and Venezuela had a fix nominal exchange rate (peg to the dollar); in order to keep stable the level of the real exchange rate in an inflationary environment, Brazil and Colombia used a passive crawling peg for more than two decades; Argentina and Chile used an active crawling peg to guide inflationary expectations at the end of the 70s; a fixed nominal exchange rate has been used as the nominal anchor in the stabilisation programs of Chile (1979-82), Bolivia (1985-86), and Argentina during the 90s; free (or dirty) floating has been used by Venezuela (1989) and Peru (1990-91); a combination of a passive crawling peg with a (dirty) float within a band is being used by Chile during the 90s.

The change of the exchange rate regime is related to the policy role assigned to the exchange rate. There are several different issues connected to the use of the exchange rate as the mechanism to change relative prices (price of tradables/price of non-tradables) or as the nominal anchor of the general price level.

The use of the exchange rate for resource reallocation plays an important role in trade liberalisation and export expansion processes. High and sustained real exchange rates are a necessary condition for export growth. After the external debt shock, many LA countries implemented substantial real devaluations during the 80s. However, during the 90s, the increase of financial flows to LA has induced important pressures for exchange rate appreciation; this type of evolution of the real exchange rate is affecting negatively LA competitiveness.

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of pests, even though the wood had been previously treated against them.

In some LA countries, the exchange rate has been used as a mechanism to stop inflation. For ex. in Argentina, the use of the exchange rate as a nominal anchor is considered as the most fundamental part of the stabilisation program. The exchange rate has clear advantages over monetary targets as a nominal anchor; it is clearly easy for any agent to monitor (and to understand) a fix nominal exchange rate than changes in any of the monetary aggregates like M_1, M_2 or any M_i. At the end, the overall credibility of the stabilisation program becomes connected to the permanence of the nominal value of the exchange rate.

In short, there is a trade-off between both roles assigned to the exchange role. Export growth requires a depreciated domestic currency, while appreciation helps to fight inflation.. Moreover, relatively small economies like the Latin American countries having thin capital markets, the exchange rate becomes a key variable for economic stability; exchange rate volatility generates a highly unstable environment for business and investment.

Finally, in spite of this trade-off, it should be repeated that nowadays in Latin America, any economic agent, consumer or producer, has an easy access to the foreign exchange market.

II. LATIN AMERICAN PERSPECTIVE ON FOREIGN INVESTMENT AND GATT ISSUES DURING THE 90s

2.1. Latin American Foreign Investment Perceptions

Latin American trade and foreign investment regimes and the associated perceptions have experimented deep changes during the 90s. The region is now highly interested in becoming fully connected to the world economy. In LA, isolationism is a phenomenon of the past.

But while the region is becoming a supporter of multilateralism and free trade, world events like economic bloc formation (European Union, EU) and the increasing protectionist forces in DC (developed countries) seem to be moving in the opposite direction. Moreover, a highly integrated global trading system creates a new set of issues; since almost everything is related directly or indirectly to trade policy, avoiding distortions and non-economic advantages seems to imply a high level of harmonisation in other policy areas.

Furthermore, there has been a profound change in the perception of LA policy makers with respect to foreign investment. During the 1960s foreign investors were considered almost as "exploiters"; in brief, it was widely believed the costs of foreign investment were higher than the benefits and expropriation and nationalisation were considered to be desirable. During the 1990s, most LA countries hold the opposite view; foreign investors are now considered as "saviours". Foreign investment is considered a key link to world economy by bringing large amounts of capital, modern technology, and know how; all these is leading LA countries to a sort of competition to attract as much foreign investment as possible.

Meanwhile a new phenomenon has happened: LA firms are investing in other LA countries; i.e., LA firms have become foreign investors. In addition joint ventures between Latin American neighbours are beginning to appear. It was usually said in LA that each LA country has excellent relations with all the other LA countries with which it does not share a common border. Therefore, this new fact, joint ventures between LA neighbours will have important political and economic implications. Furthermore, the fact that among foreign investors there are now LA firms, it makes very difficult to revive the old LA antagonism against foreign investment.

FTA also have foreign investment clauses. NAFTA has been a special trade agreement which has attracted LA. Most LA countries have been interested in being admitted in NAFTA. Empirical studies generally suggest only small static trade gains (or losses) from entry to NAFTA, a result which is due to the low tariffs that LA exports already face in the U.S., given the combination of GSP and low tariffs for natural resources. Easily identifiable dynamic benefits are also of modest proportions, except for Mexico, where estimated benefits from NAFTA entry range between 1% GDP and 7% GDP, considering static and dynamic (including static) gains respectively (Brown, 1992); dynamic gains include the effect related to foreign investment expansion. However, LA countries, like Canada, see NAFTA membership as an insurance against potential future U.S. trade restrictions and as a possible seal of approval for attracting foreign investment. The seal of approval argument reflects the fact that dynamic effects are widely viewed as more important than static effects in the computation of trade gains. As in the case of trade, Mexico's present inclusion in NAFTA creates investment diversion away from the other LA countries.

Latin American foreign investment codes have been modified in order to apply "national treatment" to foreign investors. This implies that there is no discrimination between domestic and foreign investors in all relevant economic issues like taxation and access to the foreign exchange market. Moreover, in general there are no excluded sectors which forbid foreign ownership or participation.

2.2. Latin American Perception Of Gatt Issues

The range of trade issues dealt with by GATT has expanded over time[7]. Prior to the Uruguay Round, it included only policies directly affecting trade in goods, and focused on tariff and non-tariff barriers at the border. The main guiding principle was that foreign goods should be treated equally with domestic goods. Furthermore, DC accepted the existence of positive discrimination with respect to LDC (less developed countries, which includes LA); i.e., they allowed LDC to benefit from the MFN (most favoured nation) clause from reciprocal liberalisation agreements among themselves, without any reciprocity requirements by LDC.

In the more trade-integrated world providing the backdrop for the Uruguay Round, all domestic policies are considered to have trade effects, i.e., are thought of as "trade policies", and begin to come under international scrutiny; the focus of attention shifts from goods to policies. Furthermore, in order to avoid free riders DC tolerance for positive LDC discrimination disappeared. In fact, during the Uruguay Round debate the LDC "weren't trying to trade off their liberalisation against concessions elsewhere. The blockades came from the DC. The real problems of protectionism are increasingly to be found in the DC" (Sutherland, 1994, p. 29). However, it could be argued that LDC achievements included the delayed elimination of the MFA (Multifiber Arrangement, a system of textile protection which discriminated against LDC textile exports) and the eventual incorporation of the agriculture sector under the overall goods trade rules. On the other hand, DC obtained the agreement on intellectual property protection (TRIP, trade related intellectual property rights) which implies a constraint on domestic policies.

In recent decades many LA countries have been highly successful in expanding exports and diversifying their exports to DC markets. They are thus very interested in an adequately functioning of the world trade system; therefore, many LA countries now support multilateralism and free trade. But the growing "neoprotectionism" in DC, in some cases accompanied by discretionary regionalism (EU), threatens to thwart the goals of the LA countries.

Neoprotectionism in some cases has been a response to the successful increasing export performance of LDC which are displacing domestic DC production. LA perceives that DC criticism of low environment and labor standard (in LA) is related to DC producers difficulties to face external competition. More generally, DC pressure is transforming trade negotiation into policy and institution negotiation. Laws, institutions, and LA government regulations are being targeted as "distortions" to trade. To obtain increased access to DC markets, LA laws and regulations are being forced to be closer to those of the DC (Tussie, 1993; Agosin & Tussie, 1993).

In this new world economy, the pressure for policy harmonisation has become strong. LA will find it difficult to prevent DC "harmonisation standards" in areas like environment, health and technical quality from becoming non-tariff barriers. DC institutions will become the "harmonisation reference model" and LA

7 For good reviews on this subject see Low (1990), Tussie (1993), Paiva Abreu (1994).

countries not meeting the DC model will risk exclusion from DC markets. Trading blocs will become policy (and/or police?) blocs (Tussie, 1993). A good example of such policing is the U.S. government's questioning of the Chilean intellectual property (IP) law because it uses 15 instead of 20 years as the duration of the property right and hence "does not meet world standards". But, where in the Bible is it written that an IP law must have a 20 year period?; what type of empirical evidence supports the need for 20 years IP law? It would seem that the Washington pharmaceutical lobby has more powerful arguments than those related to economic rationality or empirical evidence.

Ironically, the logic of any specific DC harmonisation model is weakened by the many differences among the DC. In Europe and Japan, the public sector provides much direct support to the private sector in its production, export, and technology activities, while in the U.S. there is a different and highly regulated relationship between the two sectors. On trade issues, the EEC and Japan are more protectionist, considering it socially beneficial to provide heavy subsidies to farmers; the U.S. has up to now taken a more free-trade stance.

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