

# CEPAL Review

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# Meeting on a new Latin America in a changing world economy

## INTRODUCTION

The essays reproduced below were presented at a small, informal and high-level conference on the theme of "A New Latin America in a Changing World Economy" held at the Belmont Conference Center near Washington D.C. on 25-26 June 1979.

The purpose of the conference—organized jointly by the Economic Commission for Latin America (CEPAL) and the Latin American Program of the Woodrow Wilson International Center for Scholars—was to facilitate a full and frank exchange of views among key scholars and officials interested, from a variety of different perspectives, in Latin America's evolving international economic and political roles. All participants were invited in their personal capacities, and not in representation of their respective organizations.

The discussion was informal and free of official statements, in order to stimulate an open and constructive dialogue. The focus of the discussion was provided by a series of short papers on specific issues; namely, exports of manufactures, exports of primary products, international monetary reform, capital flows and debt, transnational corporations and technological transfers, and the distributional impact of international economic reforms. Each of the corresponding papers is printed below in this issue of the *Review*.

A key concern of all the papers and of the ensuing dialogue was to identify, in the most specific terms possible, areas of actual or prospective mutual interests between the countries of Latin America and the more industrialized countries, including but not limited to the United States. A separate though related objective was to help sketch out those kinds of policies, both within Latin America and *vis-à-vis* the industrialized countries, which might serve to reinforce those shared interests.

An underlying purpose of the conference was to determine to what extent the future role of Latin America in the world economy depends on changes in the external environment, including in particular those affected by policies in the industrialized countries. However, although the main focus of the discussion was on external forces and relations, consideration was also given to certain key internal trends and policies. A report on the conference, prepared by the rapporteur in his own name, synthesizes and analyses the central elements of the conference dialogue and outlines some of the more organic relationships linking those various elements.

The conference was chaired by Mr. Enrique Iglesias (Executive Secretary of CEPAL) and by Dr. Abraham F. Lowenthal (of the Wilson Center). The rapporteur was Professor Colin Bradford (Assistant Director, Concilium on International and Area Studies, Yale University). The conference was organized jointly by Professor Lowenthal and Mr. David H. Pollock (Director, CEPAL Washington Office). Grateful acknowledgement is made to Mr. Marco Pollner, Mrs. Ana Ormerod and Mrs. Patricia Pilvin of the CEPAL Washington Office, Miss Sallie Mitchell of the Woodrow Wilson Center, and the staff at the Belmont Center, for all they did to make this meeting so successful. Special thanks are due to the World Bank and the US Agency for International Development for their financial contributions which made the meeting possible.

The Woodrow Wilson Center and CEPAL are very pleased to have had this opportunity to co-operate so closely in such a fruitful exchange of views.

Abraham F. Lowenthal  
(Woodrow Wilson Center)

David H. Pollock  
(CEPAL)

# The Export of Manufactures

*Pedro I. Mendive\**

## Introduction

The development of the manufacturing sector has an important role to play in Latin America in relation to a long list of economic variables, all of which aim at changing the economic characteristics of the region in aspects such as the diversification of production, structure of employment and production, growth of income and the average wage, and attenuation of the fluctuations in prices and export earnings, as will be seen in the following pages. Hence all measures tending to develop and consolidate this sector, whether through import substitution or exports of manufactures, merit special attention in the economic policy of the Latin American countries and the developing countries in general.

This study comprises four parts: (i) the first

shows the important effect of exports of manufactures by the developing world on those and other related economic variables; (ii) the second considers the supply conditions—relative availability of factors, technological level and goals—and their international comparative advantages in certain sectors, export promotion policies and production incentives, etc.; (iii) from an analytical point of view, a study is made of the conditions of access to the industrialized countries' markets (demand), considering the existing protectionism, generalized systems of preferences (GSP) and the multilateral trade negotiations (Tokyo Round) which have just ended, together with an evaluation and quantification of their results as far as conditions of access to the developed countries' markets are concerned; and (iv) the lines of action to adopt in accordance with the results of the analysis under points (i) to (iii) above.

## I

### Importance of exports of manufactures for the Latin American economy

Simultaneous and parallel policies of exports of manufactures versus the production of manufactured goods to substitute for imports, i.e., production for domestic consumption, tend to be regarded as conflicting or at least incompatible. It is further argued along the same lines that one dollar of export receipts is exactly the same as a dollar not spent abroad on imports. In actual fact, according to this sector's evolution in the developing countries, the majority began with import substitution and advanced subsequently along the road to exports of manufactures. The difference between the

policies followed in the various countries lies in the fact that some countries, after substituting imports of the "easier" goods—produced with high labour intensity, little capital, simple technology and a wide supply of cheap inputs—immediately went on to the export stage, while other countries continued with import substitution covering more complex goods—produced with higher capital intensity and advanced technology. This difference in industrialization policies often depended on the compressible margin offered by the respective import structures: when the wide substitutable margin of some countries had been covered, they went on to exports, while

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those with a small easily substitutable margin continued to substitute more complex goods for imports. In the first case, the relative abandonment of any further progress in import substitution seems to have been due to the taking of a decision concerning the option raised by the availability or otherwise of basic inputs, the attitude being that although their purchase abroad might subject the supply of these inputs to the fluctuations of the international market and to the purchasing power of the country concerned, domestic production of such inputs would have made them more expensive, with adverse repercussions on the cost of the finished goods. In contrast, the second case seems to have been guided by the decision to reach more advanced levels of technology and to economize on relatively scarce external purchasing power.

This brings to mind a number of differences between exports and import substitution which may be summed up as follows: (i) exports require a comparative or competitive advantage (better resource allocation and bigger scales of production, and often promotional measures as well); (ii) the substitution of imports by domestic production of more difficult procurement requires, at least initially, a variable degree of protection; (iii) exports, however, also require a higher level of entrepreneurial and manpower training, more suitable techniques and a different and more complex infrastructure.

Turning once again to exports of manufactures, it will be seen that they produce amplified positive effects on the sector in two different ways: through inter-industry relations—input-output—which disseminate them throughout the manufacturing sector itself and to other sectors of the economy, and through the increase in demand represented by the addition of external demand to domestic demand.

If exports are initially confined to labour-intensive goods, there is a saving in the use of capital—a relatively scarce factor in the developing economies which will thus be free for expanding the sector or for use in other sectors of the economy.

As the manufactured goods exported become more complex, however, requirements

in terms of capital and the use of advanced technologies become greater, all of which increasingly reduces the absorption of manpower and tends towards the production of capital-intensive goods. This represents an apparent dilemma. If the introduction of improved production techniques and the consequent use of capital in the primary sectors—agriculture and mining—save labour and the same situation arises in the complex industry, the conclusion would seem to be contrary to the economic and social interests of the developing countries. It should be remembered that the relative supply of factors in these countries is characterized by plentiful manpower and a shortage of capital.

This criterion should, however, be modified in the light of other factors such as the expansion—through new branches of productive industry—and growth of the whole sector (including of course that of capital-intensive industries), to which should be added the employment promoted or induced in other independent but related activities, such as marketing, financing, export and other services and in particular, the rise in personal income determined by this process, which should lead to considerable growth of tertiary sector activities which do not represent disguised unemployment but are of a really productive nature. This process is characteristic of sustained development and is the employment structure displayed—not only at the present time—by the industrialized countries.

In other words, a general rise in wages (in real terms) takes place in the sector and in the economy in general, and this process may even induce or promote a less regressive distribution of domestic income, and even of world income on the basis of exports which, though still competitive, have a larger content of *increasing wage rates vis-à-vis* those prevailing in the developed countries. At the start of the process there would probably be—as there were in Japan—two parallel labour markets, one with depressed wages—for labour-intensive industries using simple technology—and another with high wages for the great dynamic industries. As the process advances, however, the wage rates would gradually converge at increasingly high levels.

It is now necessary to take into account the fact that the prices of manufactured goods are subject in the world economy, and particularly in international trade, to a certain generally upward stable trend in keeping with the course of world inflation: a situation which does not occur over the long term in commodity trade, characterized as the latter is by big fluctuations. The assumed development of the manufacturing sector and exports of manufactures by developing countries would thus have the virtue of reducing the fluctuations in world commodity prices and, therefore, in earnings from total exports.

Within the context of these general aspects and considerations with respect to the advisability of exporting (and therefore producing) manufactured goods, there remains to be considered the correlation that may exist between the growth of such exports and the growth of the gross product. It may be noted that there are two different positions in this respect.

The first denies the validity of such a correlation, holding that manufactures—whether or not exported—are included

among the data on the gross product considered in this correlation, thus invalidating the results from the start.

The second position, based on empirical observations on the evolution of exports of manufactures by various developing countries which considerably expanded their manufacturing sector and exports, concludes that such a correlation is clearly and conceptually valid.

If the general formula for the gross product is:

$$\text{GNP} = \text{C} + \text{I} + \text{X} - \text{M}$$

where C = consumption,  
I = investment,  
X = exports and  
M = imports,

there is no reason why any growth which occurs in X owing to an increase in exports of manufactures (or of any other kind of goods) should affect C and I directly, and it would affect M only to a minor extent on account of imports of certain inputs and capital goods, so it is not difficult to conclude arithmetically that the gross product must inevitably increase.<sup>1</sup>

## II

### Supply conditions

As noted earlier, the relative availability of factors in the Latin American countries, and in all developing countries in general, is characterized by a relatively greater supply of labour than of capital. At the same time, their present production structure reveals a predominance of primary commodities, whether of agricultural, livestock or mining origin. This means that, still in relative terms, wages and many inputs are cheap and capital is expensive. Accordingly, in the secondary sectors (manufacturing and others) goods produced with the use of the more abundant factor are in an excellent competitive position, in both the domestic and the international economy. It should be noted that this is so, notwithstanding the fact that the *physical* productivity of manpower in the industrialized economies is

greater than in the developing countries, because such greater physical productivity fails to compensate for the low wages paid in the developing countries.

The proportion accounted for by raw materials in the final price of manufactures where Latin America has a clear competitive advantage is also lower in the region. This is due to two circumstances. On the one hand, the inputs in these exported products have a high nationally-produced content, and on the other, these nationally-produced inputs also

<sup>1</sup>The growth of the GNP will give rise to an increase in imports through the well-known mechanism of the external trade multiplier (*k*), but this is merely a consequence of the increase occurring first in the GNP owing to the growth of exports.

have a high labour content, the cost of which is between 20% and 30% of the total price of the raw material used. Likewise, the low wage costs included in these inputs are not neutralized by the greater physical productivity of labour in the developed countries.

A study carried out by the author of this document<sup>2</sup> shows that for the same goods exported by the United States, Argentina, Brazil and Chile, the number of times the unit of wages produces value added is a good deal lower in the United States. Thus while in Argentina one unit of wages produces 3.77 units of value added, in the United States it produces only 2.18. Compared with Brazil, these figures are 3.33 and 2.02, and in the comparison with Chile the contrast is between 3.9 and 2 units of value added.

Furthermore, technology today—subject to certain conditions and limits—is within the reach of every country, thus providing optimum conditions for the production and export of such goods.

As regards the more complex manufactures produced with more advanced and sophisticated technology, some favourable factors still persist, but the competitiveness gap tends to narrow. Frequently this narrowing of the competitive margin is due to the fact that the development of such lines of production requires, in addition to considerable scales of production, certain special basic and intermediate inputs which can be obtained in Latin America and other developing countries only at a not very favourable cost. Thus, in order to overcome this obstacle or stumbling-block, two opposing policies may be followed, leading to different results. One policy is to produce these inputs locally, which means a varying degree of protectionism and domestic production subsidies that obviously make the cost of the input produced in the country higher than the similar imported input without the protection obstacle (i.e., unless the subsidy cancels

out the difference in costs). If this is the case, the well-known action of the formula of the effective rate of protection for production factors will mean that such a policy, in the absence of special internal defences, will act as a tax on the location of the activity producing the final good in the economy of the developing country concerned. The defence measures against this implicit tax will lead to drastic changes in certain internal variables, whose nature and effects are easy to foresee.

The other policy—aimed at overcoming the obstacle represented by the high cost of the input concerned—lies in importing such inputs under very low customs tariffs, while levying high customs tariffs on the final goods produced from them. The result will be that the effective rate of protection for domestic factors of production of the final good will be much higher than the nominal rate and will act as a subsidy for the location of such activity in the developing country. If there is no possibility of this domestic production being carried out in the future in an economic manner, an inefficient production enclave would be created which would lead to higher prices for the final goods produced there. On the other hand, if such production could eventually be carried out economically, the final goods produced with such inputs would be competitive both domestically (with respect to other activities) and on the world market.

The export of manufactures, as may be inferred from these observations, constitutes something in the nature of the last link in the chain which starts with production for import substitution. For the full development of this process it has become imperative for the developing countries to adopt policies such as—to mention only a few— incentives for the production of final goods, special treatment for certain inputs, the establishment of credit, insurance and other instruments: in short, everything that makes up a complete and well-structured export promotion policy.

If the various measures composing these policies are classified by subject or area of competence, two clearly defined groups of measures or instruments may be established: incentives for the production of export goods, and incentives for export activity itself.

<sup>2</sup>Pedro I. Mendive, document on the identification of non-tariff barriers for the Tokyo Round negotiations presented at the seminar on the Multilateral Trade Negotiations held in Guatemala in October 1976 under the auspices of SIECA and the CEPAL/UNCTAD/UNDP Interregional Project.

In the first group, special mention may be made of the following instruments:

- elimination or reduction of import tariffs on inputs and capital goods;
- elimination of taxes on production financing;
- elimination or reduction of taxes on energy used in the production of export goods;
- extension of credit in respect of income tax on the export part of production;
- use of the "draw-back" system for capital goods and inputs;
- financing and reduction of the interest rates applicable to export production;
- differential treatment for the transport of export goods;
- direct subsidies for the production of export items.

In the second group of measures, i.e., those aimed at promoting export activity, the following may be mentioned:

- total or partial refunds or exemptions in respect of domestic taxes on exported products;
- export credit financing;
- export credit insurance;
- refund or reimbursement of foreign exchange, operating like a differential exchange rate;
- special export programmes;
- direct export subsidies.

It is not necessary to analyse these measures since, besides the fact that the machinery for their implementation is well known, their economic effects on the domestic economy and exports are also common knowledge. It is, however, important to offer some comments on the developed countries' opposition to their implementation by the developing countries.

A number of non-tariff measures have gradually been included in the long-established protectionist structure with the aim of impeding the access of developing countries' goods to the developed countries' markets. Two of these measures which are covered by articles VI, XII and XIX of GATT have particular relevance to this rejection, however. Although these two measures —safeguard clauses and countervailing duties— are regulated in those articles, the truth is that —besides being more numerous than before— their current implementation by the developed

countries does not conform to the provisions of those articles, either in procedure or as regards their justification. In the case of safeguard clauses, no proof is provided of the serious damage referred to in article XIX, while in the case of countervailing duties, not only are these imposed arbitrarily and without such proof, but the threat of imposing them is used to discourage existing and planned exports of goods to those markets.

The present situation of the world economy differs substantially from that existing during most of the past century and the first decade of the present one, in that at that time the basic characteristics of the international division of labour were in force and restrictions on trade practically consisted only of tariff barriers. This was merely the result of the fact that the world economy was composed, on the one hand, of a few developed countries requiring raw materials and consumer markets, which not only produced a wide range of manufactured goods but, in their capacity of exporters of capital, facilitated the exploitation of the natural resources they needed from the other group of countries, which were far more numerous and were barely in the incipient stages of development. Of course, while the small group of industrialized countries achieved rapid development on the basis of diversified production through progress in manufacturing, the other more numerous group was developing on the basis of the exploitation of a few primary commodities. The balance-of-payments capital account of these countries —fed by increasing external investment— permitted not only the development of these resources but also payment for the necessary goods they imported from the more developed countries, as well as the remittance of returns on such investment. This international division of labour was partly based —rightly or wrongly— on a certain comparative advantage which some countries possessed in the production of certain goods in relation to other countries, but for some years past, a radical change has been taking place in the pattern of international comparative advantages. Formerly, only one or two countries were little by little attaining a higher level of development based on progress in manufacturing, not only supplying the

domestic market but also gradually gaining external markets too. In an expanding world economy, where many developing countries were in need of those types of products, this did not lead in practice to any disturbance in the world economy and trade.

In the last few years, however, this process has spread at a rapid and increasing rate to a large number of developing countries which have suddenly appeared on the world scene as exporters of a wide range of manufactured goods, produced advantageously on the basis of high labour-intensity, manpower being their most abundant factor.

This latter fact, coupled with the false argument concerning the alleged starvation wages which, according to the developed countries, are paid in the developing economies, is used to justify the adoption of protectionist measures, when the real grounds are the policies aimed at promoting exports of manufactures adopted by the developing countries.<sup>3</sup>

In reality, when the competitive lines of production achieved by the developing countries run into barriers like those described above and the whole protectionist system which will be referred to later, the only way to surmount this obstacle to trade created by the developed world is to adopt subsidies and other incentives for the production and export of such goods. This is very far from being an unacceptable attitude, since all that the developing countries are trying to achieve in this way is to neutralize the unfair treatment meted out to their products by the developed countries. There is also the principle of infant industries, which is an argument or policy already applied in the past by the developed countries themselves, notably the United States.

Mention may now be made of another difficulty in addition to those alluded to above, which in its own way prevents the goods of

<sup>3</sup>The wages and interest paid in developing economies derive from the marginal productivity of labour and capital, which is determined (in the Marshallian sense) by the relative supply of those factors of production. Thus in Latin America wages are low and capital is expensive, which is the precise opposite of what occurs in the developed world.

certain complex capital-intensive industries from increasing their competitiveness on the external market. This is the existence of transnational corporations in certain manufacturing sectors using advanced technologies which, however, are often outmoded in the centres and are transferred in the form of plant which is technically obsolete in the country of origin.

A first difficulty lies in the fact that these industries use inputs produced by the parent companies, which are usually imported at higher than market prices. Another difficulty arises out of the imposition of bans on competing with the parent company, either because of the geographical distribution of the market established by the centres or for other easily imaginable reasons.

These sectors are therefore restricted to the domestic market of the developing countries in which they are established, or at best to exporting to the developing markets of neighbouring countries.

Furthermore, the trade links established between imports and exports of inputs and final goods usually obscure the real prices, profits, taxes, etc., thus hindering the harmonious development of a series of activities relating to the sector and preventing normal tax collection.

Even so, Latin America is exporting considerable quantities of goods to the world market, as may be seen from table 1.

Table 1

EXPORTS OF MANUFACTURES (EXCLUDING OIL AND NON-FERROUS METALS) BY SOME LATIN AMERICAN COUNTRIES

Country	Exports (millions of US\$)	Per capita exports (US\$)
Mexico	2 105	34
Brazil	1 916	18
Chile	110	11
Argentina	550	21
Peru	27	2
Uruguay	118	38
El Salvador	79	19
Ecuador	48	7
Colombia	180	7

Source: UNCTAD.

## III

## Conditions of access in the developed world

While a long series of manufactures from developing already have a definitive competitive advantage in international circles, e.g., textiles and clothing, footwear, leather articles and leatherwear, processed foods, some chemicals, and some electronic parts, components and products, a whole list of other goods produced by light industries, and even some produced by heavier industries, justify the policies applied by these countries to promote the development of industry and the export of their products.

In a supply situation with these characteristics, however, manufactures do not have the same advantages as regards the conditions of access offered by the markets of the developed countries. Indeed, such access is meagre, and recent trends unfortunately confirm that it is becoming increasingly precarious, in other words, markets are increasingly hermetic.

First of all, the tariffs of the developed countries have an average weighted rate of less than 10%. This is due to two main facts which explain why it is deceptive to limit oneself to this one simple average in analysing the tariff system. Nearly 40% of their imports enter these countries duty-free, a situation which was brought about during the various rounds of negotiations within GATT. These duty-free imports, however, are in their immense majority imports of products which it is in the interest of the developed countries to trade on an international scale, but which are of little interest to the developing countries. Moreover, there are extraordinarily large deviations from this rate which affect products of export interest to the developing countries.

The structure of the tariff systems of the developed countries shows definite scaling of tariffs as a line of production advances in its degree or stage of processing. This means that the factors of production of the developed countries have an effective rate of protection which is in many cases over two or three times higher than that afforded by the nominal rate.

In an earlier work by the author<sup>4</sup> these effective rates were determined for the United States, the European Economic Community and Japan as regards the following groups of products: processed foods, textiles and clothing, light industries, and industries of greater complexity, including products of particular interest to Latin America. Table 2 gives an idea of the size of the effective average weighted rates. There are many individual examples, such as butter in the Community (1,322.7%), refined cottonseed oil in the United States (465.9%) or cigarettes and cigars in Japan (405%), which show the incredible spread of these effective rates compared with the weighted average rate.

Table 2

EFFECTIVE RATE OF PROTECTION  
(Percentages)

Group of products	USA	Japan	EEC
Processed foods	28	68	63
Textiles and clothing	43	45	60
Light industries	24	26	15
Complex industries	16	22	22

These high effective rates of protection warrant some comments. The first is that they act as a subsidy for locating the activities producing final goods in the protecting country. A second comment is that in the developed countries these rates cover up production activities which are clearly inefficient both in comparison with similar activities abroad and with other local economic activities. They are protected from the former by tariff scaling,

<sup>4</sup>Pedro I. Mendive, "Protectionism and development", *CEPAL Review*, No. 6, second half of 1978.

while as for the latter, the remuneration of the factors of production employed in the activity protected may be said to tend to be equal to that of the factors employed in the efficient industries. The cost-structure inflation which may be observed nowadays in the developed world is partly the result of the effective rate of protection of inefficient industries and other non-tariff barriers which protect such industries from foreign competition and which will be analysed below.

Thus, in addition to this tariff structure, and even more important, are the non-tariff barriers. As well as the recent increase in the variety of types of these barriers, there has been tremendous growth in the number applied. This is due to the fact already mentioned that trade in many products of importance to the developed countries themselves is conducted duty-free or on the basis of low rates. As these are generally consolidated in GATT the developed countries are not free to change them. In cases like the present, with unemployment sweeping the developed countries, resort has been had to the false solution of renewed protectionism through non-tariff barriers or measures.

All this superstructure which has now been created around protectionism has come to be known as "new protectionism", but it is actually nothing more than the introduction of new forms and modes of protectionism into an earlier structure. Among these new forms mention may be made of the "voluntary" restrictions, the regular marketing agreements, the restrictions imposed by means of multilateral agreements which become operational once bilateral agreements are reached under them (e.g., the multifibre agreements), trigger prices in the United States and minimum prices in the Community—both currently applied to the iron and steel sector—and the American Selling Price System in the United States. All of these tend euphemistically to be called organized free trade or, more correctly, conditioned free trade. If what was said at the beginning about the arbitrary application of safeguards and countervailing duties is added to this, it will give an idea of the instruments which restrict access to the markets of the industrialized countries.

Table 3 gives a quantitative picture of these barriers for the United States, the European Economic Community and Japan, in respect of a sample of products which in 1976 had a commercial value of 8,196, 8,961 and 3,117 million dollars respectively.

Table 3

**NON-TARIFF BARRIERS IDENTIFIED  
FOR PRODUCTS OF EXPORTS  
INTEREST TO LATIN AMERICA IN 1976<sup>a</sup>**

Type of restriction	Number of items or positions		
	USA	Japan	EEC
Total number of items analysed	165	126	172
Total number of positions with barriers	76	43	156
Quantitative restrictions	65	33	117
Sanitary restrictions	10	7	17
Variable duties and components	—	—	18
Other restrictions	1	3	4

Source: Pedro I. Mendive, *op. cit.*

<sup>a</sup>Not including measures which, although authorized by GATT, are at present applied without being subject to its rules (such as safeguards and countervailing duties).

In view of the precarious conditions of access which the developed economies offer to exports by the developing countries, the latter have placed great expectations, first in the operation of the generalized systems of preferences maintained by the developed countries outside the principles of non-discrimination and global reciprocity laid down in article I of GATT—an exception arising out of a waiver granted under the terms of article XXV, paragraph 5 of the General Agreement—and secondly, in the multilateral trade negotiations (Tokyo Round) which were held in Geneva for almost six years.

The generalized systems of preferences do

not seem to have resulted in any appreciable opening-up of markets, owing to the uncertainty over the permanent or non-permanent status of the products included in them, the safeguards they contain, their maximum limits, the complication, difficulty and cost of the proof of origin formalities, and the precariousness due to the short period of validity of these systems (10 years), even when there is some certainty that their expiry dates will be extended. At all events, relatively little use has been made of these systems in practice, and they have not constituted any form of escape from the protectionism described in the foregoing pages, one reason being the very nature of the products they cover.<sup>5</sup>

Thus, for example, in the multilateral negotiations referred to above the United States not only made no offer under the generalized system of preferences but in 1979 eliminated instead a series of products which no longer fulfilled the conditions of the competitive need clause and which, according to estimates, accounted for some US\$ 60 million in 1978. The European Economic Community (9 countries) made 33 offers, but these only lowered the average weighted rate from 18.7% before the offer to 18.6% after it, and they only referred to chapters 01-24 of the Customs Cooperation Council Nomenclature, no offers being made in respect of manufactures (chapters 25-99). Finally, Japan made only 4 offers, which likewise reduced the average rate by a very small amount.

The multilateral trade negotiations, for their part, have given very meagre results according to the preliminary data published.<sup>6</sup>

As regards tariffs, the reductions agreed upon by the United States, the EEC and Japan in the most-favoured-nation weighted average rates for industrial products of -4.5, -3.0 and -3.2 units respectively, at import demand price elasticities of -2.2, -1.3 and -1.9 and at the 1976 value of imports from Latin America

would have brought about a growth in such exports of US\$ 328 million for that year. As can easily be seen, this is only a minimal increase if it is compared with the US\$ 6 billion worth of imports subject to duties out of a sample of more than US\$ 10 billion.

This apparent growth in trade, moreover, does not take account of the network of non-tariff barriers now hindering international trade. When considering these barriers the quantitative restrictions can be said to have been practically excluded from the negotiations, and only five codes of conduct<sup>7</sup> were negotiated to make such trade more efficacious in fields where it is restricted by health and plant-health barriers, valuations, State purchases, licences and subsidies and countervailing duties. In reality, a summary analysis of these codes leads to the conclusion that they will merely legalize the practices already applied by the developed countries, thus giving apparent respectability to the rules of the game which such practices involve.

In addition, according to estimates made by the author, more than three-quarters of the increase in trade which would have been experienced in 1976 if all the barriers in question had been eliminated would have been due to the disappearance of non-tariff barriers, and only a quarter to the reduction to 5% of all the tariffs above that figure, which is considered not to be protectionist but only fiscal. In absolute terms, the removal of non-tariff barriers in 1976 would have promoted an increase in Latin America's exports of manufactures (chapters 25-99) to those countries of around US\$ 1,400 million, while the elimination of all tariffs over 5% would have led to an increase in Latin American exports of only US\$ 420 million. It should be noted that these figures include certain manufactures —processed foods— which appear in chapters 01-24 of the CCC Nomenclature.

If, therefore, the generalized systems of preferences, the tariff negotiations and those on non-tariff barriers do not lead to an opening-up of the markets, then the main obstacle to the

<sup>5</sup>According to UNCTAD, the utilization of these systems by the countries has been between 15% and 75%. In the particular case of Latin America the actual degree of utilization is generally nearer the lower figure.

<sup>6</sup>Although the MTN have now been declared closed, their final results have not yet been published.

<sup>7</sup>The safeguards code is still being negotiated.

export of manufactures by the developing countries takes the form of the demand for manufactures (conditions of access to the markets) and not the supply of such goods.

Once again, the conclusion that can be drawn from this is that it is perfectly legitimate for the developing countries to make use of export subsidies.

## IV

### Lines of action

It is clear from the foregoing pages where the main obstacle to exports of Latin American manufactures to the world market lies. It is also clearly established that the two institutional choices before the countries of the region—and all developing countries—for the removal of this obstacle were never more than empty hopes. The solution to the problem must therefore be sought along other lines. Various types of partial solutions are analysed below, with a view to measuring their effectiveness or alternatively their disadvantages or lack of effect.

The first measure usually proposed is that the developing countries should continue with import substitution, firstly as a means of retaliation against the developed countries and secondly as a way of avoiding the accumulation of larger balance-of-payments deficits. This measure may prove relatively effective, for rather a limited period, in those countries which are at the commencement of their manufacturing development and still have a broad margin of easily substituted imports. But in more advanced developing countries where these circumstances do not apply, the process may be contrary to their economic and social interests. As already noted, in addition to creating a markedly inefficient industrial structure, it may lead to the creation of its own pitfalls for exports of manufactures by other sectors of industry.

A second measure would be to increase trade in manufactures among the countries of the developing world. There can be no doubt that this trade, which has been growing continually—at least for some countries—may alleviate the problem to some extent. For the

moment, however, it is limited to certain manufactures and almost completely excludes those produced by the heavy industries, such as capital goods, transport equipment, etc., which therefore continue to be supplied by the developed countries, creating trade imbalance not only in terms of the value of the trade but also as regards the structure of reciprocal demand between developed and developing countries.

A third line of action would consist of negotiating, both inside and outside GATT, to secure the elimination of tariff and non-tariff barriers. This argument meets with a major difficulty, however, in the difference between the bargaining power of the large countries *vis-à-vis* the small countries, taken individually. It may therefore be doubted whether, even if these negotiations prosper, they can achieve significant results for the developing countries. This was clearly demonstrated in the negotiations which have just ended in Geneva.

Another line of action lies in taking advantage of the kinds of products least protected by the developed countries. In addition to confining the developing countries to a limited range of goods in developing their industry and exports, however, this solution gives rise to great uncertainty as to whether even this relatively reduced protection can be maintained in the future. We saw in earlier pages all the superstructure of barriers which the developed countries started to put up against the exports of the developing countries when the latter began to flood their markets with competitive goods produced with definite comparative advantages.

There remains the possibility of modifying

trade flows by promoting and increasing trade with those developed countries with which extensive trade links have not yet been established. Here there would be room for an attempt at some kind of bargaining which could secure more liberal mutual trade.

As may be observed, all the measures which have been mentioned offer very little guarantee of being the most appropriate. The author believes that the solution lies in increasing the bargaining power of the developing countries, answering protectionism with restrictions on access to the vital materials which the developing countries possess, using the enormous import market constituted by the sum of the individual markets to counter the restrictions or obstacles created by the barriers of the developed countries, and even applying within this collective framework effective measures of retaliation<sup>8</sup> to counter the effects of the spread of new or old protectionist measures, etc.<sup>9</sup>

All this calls for the mounting of an ef-

ficient and rapid system of information and action among the developing countries, making use, in Latin America at least, of the assistance which can be provided by the Latin American groups in Brussels, Geneva, New York, and in CECON in Washington. Along with these groups of government representatives, mention may be made of the international organizations with competence in the interregional and the various regional contexts, which can provide the necessary elements of analysis to serve as a basis for measures and decisions by the developing countries and to be used as elements for negotiation.

In reality, a system can be envisaged with three operative mechanisms. The first of these would be an information and consultation mechanism, in which only the Latin American countries would participate. The second mechanism would be made up of both developed and developing countries: it would settle differences that might arise in the information, and consultation stage, and its decisions could be either legally or merely morally binding.<sup>10</sup> Finally, the third mechanism would form a kind of supervisory body which would watch over the implementation of the agreements reached in the dispute-solving mechanism.

<sup>8</sup>This is a measure proposed by important Latin American personages who attended a seminar on protectionism, held in Buenos Aires from 31 October to 3 November 1978, which was organized by CEPAL and UNDP under the auspices of the Government of Argentina. See the report of this meeting in document E/CEPAL/1057.

<sup>9</sup>Many of these measures are illegal within GATT, since they were not accepted by the organization when the country joined GATT or do not arise out of a waiver (see Article XXV).

<sup>10</sup>Perhaps the best thing would be to lay down or agree on "equivalent compensation measures" which would be taken whenever there was any transgression of the established rules: i.e., whenever there was any attempt to bring back protectionism.