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**PROCEEDINGS OF THE SEMINAR "TRADE POLICY IN EAST ASIA AND
LATIN AMERICA UNDER THE NEW TRADING SYSTEM */**

Santiago, Chile, 11 - 12 August 1998

*/ The Seminar was organized by the International Trade Unit of the International Trade, Finance and Transport Division of the Economic Commission for Latin America and the Caribbean (ECLAC), under the framework of the project "Comparative study of development strategies of selected East Asian and Latin American countries, with special reference to trade and industrial policies under the new international trading system", financed by the Government of Japan. This report was prepared by Mikio Kuwayama, staff member of the International Trade Unit. It has not been subjected to editorial revision. The opinion expressed herein are those of the author and do not necessarily reflects the views of the Organization.

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ABSTRACT

During the course of 1997 and 1998, the Economic Commission for Latin America and the Caribbean (ECLAC) carried out the project "Comparative study of development strategies of selected East Asian and Latin American countries, with special reference to trade and industrial policies under the new international trading system", funded by the Government of Japan. The project was designed to extract from the experience of both regions the essence of the appropriate public policy in industrial and trading development and to identify its new role and available instruments, in conformity with the post-Uruguay Round trading system. For this purpose, six comparative case studies (Indonesia, the Republic of Korea, Malaysia, Argentina, Brazil and Chile) were undertaken. In order to discuss and diffuse the findings of these papers, ECLAC held a seminar "Trade policy in East Asia and Latin America under the New Trading System", August 11-12, 1998, at its headquarters in Santiago. In addition to the topics strictly on post-Uruguay Round trade and industrial policies, the seminar also dealt with the issue of the Asian Crisis which would have a strong impact on future policy formulation for both regions (consult the program attached, Annex I).

The event was attended by a large number of participants, including not only the six consultants responsible for the commissioned papers but also experts, government representatives and ECLAC officials specializing on trade and industrial policies of the countries in East Asia and Latin America (the list of participants attached, Annex II). This report summarizes the presentations and discussions that took place at the Seminar. The report highlights what is learned from the past experiences of both regions regarding trade and industrial policy, elements of an appropriate policy framework for individual countries as well as a positive trade agenda for developing countries in future regional and multilateral negotiations.

OPENING STATEMENTS

Mr. José Antonio Ocampo, Executive Secretary of ECLAC, opened the Seminar by thanking the Government of Japan and its Embassy in Santiago for the financial support to the project. He affirmed that the project contributed to closer co-operation between ECLAC and Japan, and that similar projects in the future could serve both ECLAC and Japan to play a more protagonistic role in enhancing reciprocal learning and exchange of views on economic and social development processes between East Asia and Latin America and the Caribbean.

He called attention to the programs that Latin American countries have pursued over the past two decades of macroeconomic stabilization through fiscal discipline, trade liberalization, financial deregulation, the improved functioning of market mechanisms and greater reliance on private investment. However, these reforms have resulted in moderate growth rates that are inferior to historical trends and unsatisfactory with regard to technological progress, job creation and social equity. He maintained that in order to make progress in these areas, there is a need for the countries in Latin America to apply a set of meso- and micro-economic policies, besides adequate macroeconomic environment.

Referring to East Asia, he stated that the governments of this region were believed to have successfully intervened to enhance externalities and to tackle a series of market failures. Latin America looked to East Asia for lessons on its know-how. More recently, however, such phenomena as globalization that calls for market contestability in many economic spheres, the new disciplines accepted at multilateral and regional levels and the envisaged launching of a new "millennium round" tend to reduce the government's autonomy in steering the course of development via trade policy. In his view, the deregulation of financial markets prior to trade liberalization, as has been the case in East Asia, tends to reduce the maneuverability. The Executive Secretary emphasized that the case studies and discussion in this seminar could serve to identify new public policy and available instruments, under these new circumstances and in conformity with the post-Uruguay Round trade regime.

Representing the Government of Japan, Mr. Hideki Kusakabe also referred to Japan's increasing relationship with ECLAC and reiterated the government's wish to strengthen it even further in the future. After thanking for the invitation to the Seminar, he provided to the participants a briefing on the prolonged economic stagnation of Japan since 1991 and the relation between the present economic situation of the country and the Asian economic crisis. He attributed the present difficulty of the country to the weakened banking sector, the resulting "credit-crunch", the fall of asset prices, the less-than-expected impacts of expansionary fiscal and monetary policies, reduced household spending, worsening employment conditions, and the ongoing Asian crisis. All these factors have led to the erosion of confidence of consumers and the business sector. He described some of the measures recently taken to stabilize the financial system and structural and tax reforms in progress. He sustained that a proper set of policy

measures already taken could overcome the economic and financial difficulties. Commenting on the recent trade and investment figures with the neighboring Asian countries, he suggested that the slowdown of the Japanese economy and Japanese policies have not been the causes of economic and currency turmoil of the Asian countries. On the other hand, the Japanese economy has faced three main impacts of the crisis, through reduced exports to and imports from the region, diminished earning prospects of the Japanese firms operating there and bad loans by Japanese enterprises tied up in Asia. A long-awaited recovery of the Japanese economy should put in place the recovery process of the other Asian countries as well.

I. THE ASIAN CRISIS: DETERMINANTS AND LESSONS

1. Overview on causes and effects on Latin America

Ms. Barbara Stallings, Director of Economic Development Division, and Mr. Alfredo Calcagno, Economic Affairs Officer, both of ECLAC, presented the organization's views on the Asian Crisis. They stressed that the crisis was the result of the interaction of various internal and external factors, mainly in the three areas: finance, deterioration of competitiveness, and over-investment. With respect to the first, accelerated expansion of short-term external credit, which was facilitated by capital account opening, and the absence of prudential and banking supervision, led to excessive indebtedness, deficient resource of allocation and appearance of speculative bubbles. The factors that led to deterioration of competitiveness included the appreciation of exchange rates, slower growth of exports against rapid growth of imports, and increasing current account deficits. Over-investment was observed principally in non-tradable sectors, especially real estate, and certain industrial sectors such as memory chips and automobiles.

They went on to say that the effects of the crisis have been transmitted to Latin America via three mechanisms: i) financial channels (reductions in stock market prices, reduced amounts of bond issues, devaluations, and run-down on foreign reserves); ii) trade channels (lower demand in Asia, depressed prices of primary products, increased imports from Asia, greater competition in third markets as in the USA or Europe, intra-regional spillover effects though the reduced demand of Brazil on other Mercosur countries); and iii) policy response to the crisis (fiscal adjustment, monetary contraction or trade measures, or combination of the three, depending on the country in question). To lessen these effects, they suggested that it would be necessary to act on three fronts. With respect to macroeconomic management, the monetary and fiscal policies adopted in periods of bonanza tend to exacerbate economic cycles; it may be desirable to introduce such measures as stabilization funds or transitory taxes or anti-cyclical public spending. Second, it may be also desirable to implement measures to discourage short-term capital flows and increase prudential control and raise capital/asset ratio above the Basle Committee standard. And third, as measures to enhance competitiveness, countries are encouraged to diversify exports by products and by markets, even for non-traditional products.

Mr. Carlos Moneta, Permanent Secretary of SELA, began his presentation, by mentioning that the findings in the SELA's document, "Impacto de la crisis asiática en América Latina" (SP/DRE/Di No. 21 - 98/Rev.1) shared the views expressed by the ECLAC experts. He stated that in the financial sphere Latin America is on a better footing today than at the break of the crisis, because their dependence on volatile, short-term capital has been reduced in recent months while direct investment is on the rise. The banking system reformed in recent years has equipped

the countries in the region to better cope with the crisis, by way of high indices of liquidity and solvency and sound management. Nonetheless, he cautioned that portfolio investments towards emerging market countries are on the downward trend, and that foreign capital financing available to Latin America might also decrease. There is a problem of gaining access to the international Eurobond market, since the Asian crisis has delayed various bond issues planned by Latin American countries at the end of 1997, and when the issue was possible, with larger spreads.

In his view, adverse effects of the crisis on Latin America had to do not only with the lack of information on real economic conditions of the countries of the region and but also with credit rating agencies, whose perceptions of country-risk have had strong destabilizing consequences. Also, the changes occurring in the developed countries tended to distort perspectives and perceptions on the developing countries. He argued that the Asian Crisis was not purely regional, but that it was a manifestation of the crisis of the present international economic system. Therefore, he stated that there was a clear need to create a mechanism to stop the contagion process at the international level.

Mr. Moneta also called for a more multi-dimensional approach, to include cultural and political sides of the crisis, which were lacking in analyses by experts and entities of the West. He maintained that the view of Western press, particularly that of the United States, singles out the following as root causes: the close relationship between government and business and market distortions that insulated business from competitive forces and market discipline. On the other hand, there is in Asia a different perception: the behavior of the financial actors and the diagnosis made by the IMF and the World Bank and the measures that they require the countries to adopt in order to overcome the crisis and to be eligible for financial aid, form a part of a "dual" strategy. He explained that first, the financial operators are geared to making unprecedented profits in a very short term and to depreciating the values of Asian companies to make their subsequent acquisition by US and European companies and banks easier. And second, the multilateral financial institutions, particularly the IMF, force the opening up and liberalization of Asian markets and introduce profound reforms in the political, economic, labor and real estate systems. In particular, he emphasized that prevailing views on solutions to the crisis reflect internal discordance existing within the US Congress.¹

2. Specific Country Cases presented by the consultants

According to the three Asian consultants, the causes of the crisis were both external and internal. Among the internal factors, the consultant from Indonesia stated that the most important factor

¹ For instance, on the issue of the role of IMF and the replenishment of its funding, the most conservative wing of the Republican Party seeks the organization as a threat to US sovereignty and along with other legislators wish to introduce reforms in the IMF procedures. On the other hand, the liberal Democrats sustain that any financing to Asia must be contingent upon improving labor rights in the region. Other Democrats perceive the crisis as an excellent opportunity to introduce significant reforms in Asian economies, including reductions in trade barriers and in government support to the industry.

for the country was the increasing private-sector debt: at the breakout of the crisis, 61% of foreign debt of the country belonged to the private sector and nearly 90% of the debt to the non-bank private sector. And most of the private sector external debt was short-term and unhedged. A number of government policies had also contributed to the fast build-up of the external debt and the banking crisis; a rapid financial deregulation without commensurate strengthening of regulation and supervision. Indonesia also adopted a reverse sequence of economic reforms: liberalization of the capital account was completed in 1971, long before the liberalization of the current account in the second half of the 1980s. Another factor was the exchange rate pegged to the dollar, affecting negatively the country's international competitiveness. Sterilization operations of capital inflows also entailed high domestic interest rates, driving a large wedge between domestic and international interest rates, and creating additional incentives for companies to borrow from overseas. In addition, the government mishandled the crisis by reviving infrastructure projects owned by the First family. Among the external economic factors, the Indonesian consultant pointed to the deteriorating terms of trade, especially in oil prices, and abnormal weather conditions that have seriously affected food output and agricultural incomes.

Similarly, the Malaysian consultant explained that increasing current account deficits in the 1990s were covered by large inflows of cheap (low interest rates) and secure (the *de facto* peg to the dollar) short-term capital. She put emphasis on the rising current account deficit of the private sector where investment outstripped savings, in contrast to the surplus of the public sector. She described the link between the foreign short-term capital inflow, stock market, and the banking sector: when the stock market became bullish, the corporate sector went to the stock market to raise capital while they sought necessary funds to buy the shares from the banks. Since the credit was backed by collateral of shares, there was a vicious circle: the more capital flows, the higher the stock market, and more exposed the banks became to the stock market. In reverse, when there were capital outflows, the banks got in trouble because most of their collateral was in shares. As in Indonesia, the 'over-stretched' banking system was reflected in high loan-to-deposit ratios and the widening between loan growth rates and GDP growth rates. In Malaysia, an additional factor was the loss of competitiveness of the external sector, originating in part from the tightening of labor markets and rising wage levels.

For Malaysia, the most important external element, in the consultant's view, has been the "contagion effect". Foreign analysts, especially the international credit rating agencies, would see the whole region as a homogeneous entity, not differentiating from one country from the other. The perception of the international community has become a more decisive factor than economic fundamentals of the country in investment decision making. She sustained that it is necessary to address not only the architecture of new international financial system but also the issue of the role of the international credit rating agencies on national sovereignty. She went on to explain that after a period of adjustment along the usual IMF prescriptions, the country came to adopt a "turn around" policy, refusing a high interest rate regime, with the conviction that high interest rates could not stabilize the currency and restructure the economy quickly enough. The recovery of the country will be based on internal demand, rational levels of interest rates, and stabilization and recapitalization of the banking sector.

Viewing the crisis as of a systemic nature, the consultant from Korea stated that the country has also suffered a "contagion effect". The international economic environment was rapidly changing after mid 1997, but the Korean government did not prepare itself properly for these changes. Furthermore, he thought that the present world economy was facing a clash among different capitalist systems. Not only that the economic crisis has posed new problems, but also that the basic modes of the industry and economic system has been challenged. Interestingly he said, in the 1980s, the United States looked to Japan and Korea with admiration for their ways of organizing industry, labor and private-sector relations. These countries have had a high debt-equity ratio, which was regarded as an advantage rather than disadvantage. It meant a high reliance on the banking system, which allowed the companies to work on a long-term perspective. The policy making process in Korea is highly concentrated in the Presidential Office and since on average 80% of capital of private firms comes in the form of bank loans, the power of bureaucracy is enormous.

He maintained that though an economy based on a high debt-equity regime is a fragile one, until recently the government scrutinized and controlled the flow of capital. But the liberalization of the financial system, together with a political vacuum created by the presidential election in December 1997, allowed much easier entry of foreign capital to the domestic market. He sustained that large capital inflows were absorbed in internal financial markets via intermediation by banks and were put in investment. Korea had never before gone into a cyclical downturn with external short-term debts amounting to one-third of GDP. There were perhaps overly ambitious investment decisions by business leaders and an evident moral hazard among the large conglomerates. In concordance with the opinion of the ECLAC experts, he said that some sectors, such as automobiles and computer chips, suffered the problem of over-investment and as a result, productive capacity became increasingly underutilized, raising costs when sales were already weakening. Enterprises' profit positions deteriorated. When new bank loans were no longer forthcoming, some of these companies went bankrupt, including large conglomerates (Hambo Steel, Kia motors, etc.). In his view, the reforms put in place by IMF would tend to worsen the situation, at least in the short term, by way of high interests, lack of liquidity, bankruptcies, higher unemployment and lower growth rates.

3. Major points of discussion

Several participants agreed that it is important to incorporate intercultural elements into the analysis of the Asian Crisis, and that the stereotype analysis solely based on economic fundamentals has to be modified, to fully understand the crisis. A Chilean expert, for instance, stated that the way through which the recent Asian experience is looked at has gone from one extreme of fascination to the other of depression, and these stereotypes are often imposed from outside. By analyzing such issues as security and geopolitics, and different civilizations, the sensitivity level of "intercultural competitiveness" between Latin America and East Asia, which is today far from adequate, can be substantially raised. He added that East Asia and Latin America have had distinct views on the issue of market vs. the State. Nonetheless, the ongoing process of globalization is transforming the role of the State and the nature of its intervention in

both regions. The State, though small in size, should discipline the market, prevent crises from reoccurring and prepare for their remedies. There was a consensus that the issue of the role of State offers enormous opportunities to both regions for mutual learning, to be able to look into long term economic and social process. All agreed that the question of regulation is a very important issue that has been not well analyzed in Latin America in East Asia, calling for the need of new institutions for prudential control and regulation of the international financial system at the world level.

Some participants expressed that the issue of “over-investment” has to be studied with care. It was asked whether the phenomenon of over-investment may be analyzed from micro-economic points of view, while it can be interpreted simply as a question of misallocation of resources across the economy. If the problem is of micro-economic nature, a question may be asked why there had been so many unprofitable investments for so long. Another question was raised if recent investments were less profitable than the old ones. It was cautioned that high investment coefficients, as observed in East Asia before, might not necessarily have led to high economic growth. Some investments may have had low returns on capital.

A question frequently raised was if the crisis was systemic in nature, or a simply a phenomenon that requires short-term macroeconomic adjustments, as in the case of Mexico’s “tequila” phenomenon. An expert from Peru suggested that the behavior of the banks in the development of the Asian crisis is similar to the situation of the 1970s in Latin America, and that analysis on this issue would provide the countries in both regions important lessons in the area of public policy. The Moderator of the Session asked whether the crisis may have been even severer if the world economy would not have become so integrated through trade and investment. Related to this, there was a comment that the crisis was a manifestation of a new post-industrial society, similar to the beginning of the century when the world economy entered into a “Fordist” paradigm. The appearance of new sectors with new corporate logic may be the cause of this type of systemic crisis; the Asian crisis may be interpreted as a manifestation of problems in adjusting from the late industrialization process to global markets.

Regarding the impacts of the crisis on Latin America, an expert from Indonesia expressed that that despite negative effects on the region, the crisis should be looked at in a more proactive manner. Citing the example of increasing salmon exports of Chile to Indonesia, as a result of idle ship capacities, crises also create opportunities and that efforts should be made to foment economic relations between Latin America and East Asia.

II. EVALUATION OF PAST POLICIES AND FUTURE PROSPECTS

1. “Growth-led exports” vs. “Export-led growth”

The session began with a brief introductory remark by the Coordinator of the Project on the issue of “Growth-led Exports” or “Export-led Growth”. He sustained that the debate on the causality between growth and exports has important policy implications: if the first fits better the world experience, emphasis should be given to physical and human capital accumulation and technical change, the two keys to growth. If the latter explains better the growth process, successful growth performance would require policies that stimulate the increase and diversification of exports. In briefly outlining the two seemingly opposing models, he explained that in the “Growth-led export” or “Investment-led export” model, the usual causality is that first, investment increases the rate of structural change and productivity improvement, and later this dynamism leads to a supply-driven process of export expansion. In this model, eventual decreasing return on capital will not necessarily set in with high rates of investment, because capital stock is assumed to be a composite good, the knowledge component and the physical capital stock. The knowledge component has increasing returns to scale which outweigh the decreasing returns of the physical capital stock. As a result, the incentive to accumulate capital may persist for a long time. In this model, technological change and knowledge are endogenously determined.

The coordinator described the Export-led Growth model, on the other hand, that using trade liberalization to align domestic prices with world market prices would achieve efficiency in internal resource allocation by reducing costs of imports, thus releasing resources and income to produce and purchase domestic products and to generate exportables. Under a supportive macroeconomic stability, exports are expected to lead the economy to specialize according to comparative advantage. The reforms might include the liberalization of the import regime, the unification of exchange rates accompanied by devaluations and other measures to stimulate exports such as drawbacks to offset the anti-export bias. He cast two questions regarding the two models: i) if human capital accumulation and technological change—the two keys to the investment-led export model—take place precisely in the export sector, the distinction between the two models might become less clear; and ii) the recent Asian crisis indicates that not only quantity but also quality of investment is important, because a large proportion of investment has been directed to the non-tradable sectors of low returns.

Recalling empirical evidence of other researchers, the consultant from Chile argued that growth in Asia was in fact led by exports but in a context of late liberalization, and that in order for investment to increase, it is also necessary for exports to expand. He indicated that regardless of the validity of these two models, import substitution policy has failed in general to lead to a later export expansion stage. Referring specifically to his country’s experience, he argued that the hypothesis of export-led growth better fits the Chilean case, particularly so since the mid-1980s.

Since then, non-traditional exports have been the most dynamic component of the economy. There was a clear process of diversification not only in terms of products but in export markets. Export success can be also attributed to substantial devaluations of the local currency. In this sense, he stated that trade liberalization has a clear relation with long-term investment, when it is mainly directed to the tradable sectors. He emphasized that export expansion efforts have been accompanied by industrial policy of horizontal nature to correct market failures by facilitating R&D and training as well as by applying export promotion measures. At times, however, the authority implemented selective measures in such sectors as paper and pulp, and salmon fishery.

In the opinion of the consultant from Argentina, his country's experience can be characterized as neither export-led nor investment-led: it is not possible to identify a single or predominant development strategy in any given period of more than three or four years. The main macroeconomic incentives in place during the last three decades were biased not only against exports (e.g., export taxes and negative relative prices for exports) but also against investment (e.g., high prices for capital goods, restrictions on foreign investment and repressed capital markets). Entering the 1990s, major emphasis began to be given to increase the overall competitiveness of the economy through the improvement of the general economic environment in which private firms operate, by reducing excessive regulations and distorting taxes and improving run-down physical infrastructure.

The consultant from Brazil, on the other hand, stated that the country is a clear case of growth-led exports: domestic variables are the major determinants of economic growth, and exports have been necessary to generate the foreign exchange required to import capital goods and essential services and technology. He cautioned, however, that a poor performance of the external sector can indirectly affect domestic growth by way of difficulties in managing current account deficits. A country with a large domestic market, like Brazil, inherently follows a growth-led export model. In contrast, the consultant from Malaysia reviewed that the country's economic growth has been led by either exports or investment, depending on the phase of development. In the early phase, exports provided the source of growth. Since 1980, the role has been taken over by investment, first through public sector investment and later by the private sector, with large FDI inflow and privatization. Therefore, the question of causality on growth depends on the specificity of the country and the period in question.

There was a comment that in the post World War II period, world exports have expanded more rapidly than the world product, phenomenon, which seemingly supports the case for export-led growth. On the other hand, it becomes increasingly clear that there is a strong relationship between trade and foreign direct investment as well. Under these circumstances, where a large proportion of foreign investment takes place precisely in the export sector, the distinction between the two models can be less clear. An expert from Colombia also added that in different regions of the world, including East Asia and Latin America, the most dynamic has been intra-regional trade, rather than extra-regional trade, and that intra-regional trade has been principally promoted by manufactures exports. Therefore, effects of export-led growth show up with different intensities across sectors, among distinct trade partners.

An ECLAC expert noted that it would not be surprising for a small country to have a higher export/GDP coefficient. By referring to the concept of “export-adequate growth”, she argued that not only the quantity but the content of exports which determines the future course of development process. Expansion and diversification of exports should generate backward and forward linkages within the country and produce externalities within and outside the export sectors. She went on to say that though the usual “export-led growth” describes the growth pattern based on manufactures exports, contrary to what is generally thought, exports of primary commodities can also generate high value-added by applying new production technologies and innovative marketing techniques. She also mentioned that the distinction between a large and small country should be carefully dealt with, because some small countries have a dominant supply position in the world market, as in the case of Chile in copper, where there has been an overproduction. In agreement with the idea of “export-adequate growth”, the consultant from Chile stated that in order for non-renewable resources, such as copper, to contribute more effectively to the development process, it might be preferable to apply such measures as taxes on extraction.

In the same vein, several participants questioned the relevance of debate on the export-led growth vs. growth-led export models for countries heavily dependent on primary commodity exports, whose sectors are often capital-intensive, not employment creating, nor technology defusing. Spill-over effects and externalities stressed by the endogenous growth model is neither relevant to the case of the Andean Community countries whose export share reaches only 15% of GDP. They suggested that it would be more important to focus on export promotion of primary commodities through the development of “clusters” or services related to natural resources. In their view, emphasis should be also given to the pre-competitive measures to raise the systemic competitiveness of the country and reduce transaction costs.

An expert from Colombia questioned those economic analyses that try to pinpoint one factor of economic growth. Referring to a Swiss methodology, the competitiveness depends on many factors such as the degree of openness, strength of the economy, science and technology, level of training of human resources, capability of public and private administration, infrastructure, and finance system. Some are quantitative while others qualitative. He held that it would be wise to look at various factors, instead of a limited number of determinants.

2. Effectiveness of past policies and future policy orientation

Summarizing the general conclusions of the case studies, the coordinator pointed out that import substitution industrialization (ISI) policy served to establish the industrial base, at certain stages of development, but the countries faced severe internal and external constraints in executing ISI policies. In both regions, ISI policies, especially those of the second phase, did not produce the expected shift from natural resource-based or semi-skilled, labor-intensive industries to skilled, capital intensive industries with clear international competitiveness. Nor did they reduce dependence on imported inputs. ISI attempts were often blocked by foreign exchange constraints, which in turn called for unilateral liberalization of the economies. ISI also created rent-seeking

activities for special interest groups. The experiences of these countries indicated that at the early stage, incentives should have been moderate and finite, and that the exceptions to neutrality should have been few and carefully chosen. At a later phase of development, it seemed more efficient to give incentives by major areas of activity, than to try to choose specific winners. In response to specific circumstances, all the countries examined had implemented a series of reforms well ahead of the Uruguay Round, and that the present policies are more liberal and less interventionist than those allowed by WTO.

Subsequently, the coordinator summarized the major recommendation of the case studies that the countries pursue a set of public policies that stimulate the systemic competitiveness of the economy as a whole. The new focus of industrial and trade policy should include first monetary and fiscal policy that would facilitate high savings and investments. A tax reform, for instance, has strong impacts on investment and saving behaviors: the structure, simplicity, progressivity, and the closing of loopholes for tax evasion, all increase revenues to finance pre-competitive measures, such as human capital formation and technological development. He also touched the point frequently raised in the country studies that trade and industrial policy instruments strongly influence and are influenced by exchange rate policy. A stable, realistic real exchange rate ensures that an adequate proportion of investment goes to the tradable sectors. Appropriate exchange rate policy also reduces the necessity of applying strong measures to compensate for the anti-export bias of other policies, such as special credit lines, insurance schemes and export subsidies.

3. Specific country cases presented by the consultants

Referring to the fiscal and exchange rate policies, the consultant from Indonesia emphasized that the country has implemented successfully tax reforms to augment fiscal revenues to finance human resource and technology development. The country was also successful in managing reasonable exchange rates to promote exports, even periods of large inflows of foreign capital coming from the petroleum sector. With respect to industrial policy, on the other hand, in the 1970s, the country opted for a development strategy based on subsidized credit, protection to local producers and export subsidies. These measures to promote national entities were abused by large local conglomerates, which were not necessarily competitive internally or internationally. At the late 1980s and early 1990s, the country again applied measures to cut domestic absorption to restore creditworthiness from detrimental effects of the external shocks arising from the falling terms of trade, rising interest rates and declining of net capital inflows. The coverage and the extension of protection this time were wider than those of the 1970s. Barriers to entry for FDI were also tightened. The criteria for picking the firms have been based on non-economic considerations, such as nationalism, political patronage and corruption. In some sectors of the economy, privatization has meant the transfer of monopoly rights from the State to politically connected groups. These conditions, together with the poor management of rules and regulations governing the financial sector, have expanded the role of inward-oriented domestic conglomerates of low productivity.

Assessing the recent growth pattern, the consultant from Malaysia argued that despite a massive structural transformation taken place since the mid 1980s, with the manufacturing and exports leading its process, its manufacturing sector today faces a number of structural rigidities that could impede future growth. The manufacturing sector is still heavily dependent on a limited number of labor-intensive activities, while it keeps facing problems of high import content, minimal linkages with other sectors, low value-added, an inadequate technological base and low correlation of wages increases to labor and productivity. Dependence on foreign-owned export companies is too strong, and these companies have not produced strong linkages with local firms. The recognition of these bottlenecks on the export sector motivated the country's policy shift towards to human capital and technology development. She sustained that though time necessary for these policies to take hold would be longer, the country is determined to promote measures to strengthen its international competitiveness for long-term growth.

In view of the Korean consultant, his country experienced three distinguishable stages of industrialization. During the first period (1961-1973), the State combined aggressive export promotion with ISI, which led to increased exports of labor-intensive manufactures. The second phase of 1973-1978 was characterized by the heavy and chemical industry (HCI) drive. Therefore, in Korea, political considerations have been very important in creating new industries and export sectors, such as automotive, shipping, arms and semiconductors. The country's export success in recent years has been grounded precisely in these sectors. He argued that when trade expansion is viewed from this angle, the distinction between ISI and export promotion is not so clear. The third stage began in 1979, when the Government withdrew from selective intervention in strategic industries and instead began to apply more neutral incentives. Production inefficiencies, the lack of demand in these industries, the excessive concentration of economic power in the hands of *chaebols*, the ineffectiveness of government intervention and strong mandates for economic liberalization in the world market, all urged the country to reshape its economic structure. Nonetheless, despite that liberalization picks up its pace and the economy becomes increasingly market-oriented under the general thrust toward neutrality, the Government will continue to play an active role in several policy domains, namely the restructuring of distressed industries, support for the development of technology and the promotion of competition. He maintained that even though economic reforms are urgent, in the case of Korea they will still likely be undertaken with a culture-laden mechanism, acceptable to the society in general ("new institutionalism").

4. Major points of discussion

An expert from Argentina argued that industrial policies to target industries or sectors have failed not only in Latin America but also Asia. Besides, selective policies foment corruption. In her view, given the problems associated with selective policies, the horizontal ones, especially technological and human resource development, are adequate. Through these measures the government invests in labor force, thereby giving more flexibility and mobility to the labor market. Subsidies to amplify export finance, establish better access to market information, and assist regional development are also justifiable and consistent with the WTO. In this sense, more

funds should be directed towards the upgrading of these capacities, at the provincial and national levels. Policy articulation with the private sector was pointed out as crucial for future action. As an example of a bad industrial policy in Argentina, she stated that the changes introduced in 1995 in the list of exceptions to the common external tariffs of Mercosur have led a greater protection to the input-producers (steel, aluminum, paper, petrochemicals, etc.) than to the final good producers of higher value-added. As a consequence, the food industry, one of the most dynamic sectors in terms of investment and exports, faces a high negative effective protection on their value-added.

Some participants maintained that the distinction between selective and neutral policies is not always clear. For instance, although the enhancement of education is broadly unselective, the question of whether priority should be given to primary, secondary or tertiary education contains selectivity, with respect to public policy. It was pointed out that certain forms of vocational training, university programs, technical and scientific education and specialized industrial training can be highly selective. When a selective policy is applied to a group of economic activities rather than to a specific enterprise or by sector, the distinction begins to blur. Horizontal policies to promote industrial complexes, technology parks or certain natural resource clusters are a case point. Economic incentives to create broad backward and forward linkages can be very selective, but they might encompass a range of economic activities. An expert from Brazil argued on the one hand that selectivity should be practiced with transparency, so that the burden arising from such selectivity can be acceptable politically to the public. On the other, selectivity also calls for new instruments; for instance, promotion of biotechnology that may constitute potential areas for new comparative advantage, involving participation of distinct sectors of the economy, including universities. She emphasized that this is different from the old mode of selectivity solely based on subsidies.

The consultant from Argentina stated that in his country where the Convertibility Law discards the role of monetary and exchange rate policies almost completely, in order to counter external shocks, fiscal policies are effectively used to reduce the so-called "Argentine Cost". For instance, tax reductions on labor that reduce the cost of labor in relation to capital, to counteract the problem of employment, especially in the tradable sectors, has been very effective. He argued that though these are horizontal policies, they are used selectively towards the poor and the disadvantaged. An expert, also from Argentina, cautioned that subsidies have to be prudent in order that the fiscal discipline is maintained. Otherwise, subsidies, when they are not modest, can be a limiting factor on growth via high interest rates.

The consultant from Argentina raised the point that the distinction between the tradables and non-tradables is problematic, because today exports contain a large portion of services incorporated, most of which are non-tradables. The deregulation of some services sectors such as transport, which are linked directly with exports, to reduce costs, is a case in point. Though in the early 1990s, there was a concern that too much of investment was concentrated in non-tradable sectors, investment in such areas as telecommunications and transport is playing an important role in export expansion. An expert from Chile also stressed that in Latin America in the 1990s

there has been a strong growth of imports destined to new activities in non-tradable sectors that are heavily linked with investment, rather than to the tradables. This type of trade dynamism can have a profound implication on the long-term development process.

There was a broad recognition of benefits and usefulness of pre-competitive measures to support systemic competitiveness, including development and promotion of human resources, technology, infrastructure, market information and perfectioning of capital market especially for small and medium-size enterprises (SMEs). These areas are the ones where market failures are conspicuous. In this sense, what is permitted by the WTO and what is desirable practically coincide. In addition, there was a mention of business facilitation to improve customs rules and procedures (e.g., simplification and harmonization of customs procedures and the standardization of norms), incentives on FDI to attract foreign investment to new sectors offering potential comparative advantage. Agreements to eliminate double taxation on international income and investment guarantee agreements to maintain foreign investors' confidence were also mentioned to be important. Besides, governments can play an important role in widening and improving trade facilities to supplement fiscal incentives, particularly those related to export financing, export credit and guarantees. Policies to enhance these measures can be applied, either horizontally, to favor any sector that qualifies for support, or selectively, to encourage specific sectors. In this sense, it was felt that the degree of selectivity would depend more on economic rationale and administrative capacity than on WTO disciplines.

Some participants raised the point that any policy to solve the problems of market failures must take into account the real needs of the economy. For instance, solutions for insufficient education and labor training have to be demand-driven, in the sense that the new training is truly in line with present and future labor-market demands. It was cautioned that despite the wide acceptability of the list of the pre-competitive measures above, there still remains the question of the mix of policies and the intensity of each measure. It was emphasized that these two aspects depend largely on the following matrix: i) the stage of economic development in which the country finds itself; and ii) the state of the world economy in which the developing countries are immersed. The scope and modality of the policy mix and the degree of success depend on whether the policies take into account these two aspects.

III. TRADE AND INDUSTRIAL POLICIES AFTER THE URUGUAY ROUND: NEW CONSTRAINTS AND ROOM FOR MANEUVER

1. Overview

The coordinator stated that the WTO commitments are said to reduce developing countries' freedom in many areas of trade and industrial policy-making, the most obvious being: i) pressures to bind and reduce tariffs; ii) the practical elimination of export subsidies and other subsidies which affect export prices; iii) the curtailment of quantitative restrictions for balance-of-payments purposes; iv) the ban on domestic-content and trade balancing requirements for foreign investors by the Agreement on Trade-Related Investment Measures (TRIMs); and v) a more stringent application of intellectual property rights (TRIPs). Special and differential treatment for developing countries has largely been limited to longer periods of implementing obligations. These WTO restrictions would constrain developing countries' ability to resort to selective industrial and trade policies of such scope and intensity as practiced in East Asia.

In fact, a question was raised how the new obligations and commitments made in the framework of WTO would affect the validity of the so-called "Asian development model". On this question, the consultant from Korea replied that his country has been lucky to be part of the WTO to bring its industrial and trade practices to the international standards and to enforce the elimination of old export-support policies. The WTO mechanism would also allow the country to file charges against the countries who adopt unfair measures against the country. Referring to the Asian development model, the consultant from Malaysia stressed that the model has served to liberalize the Asian economies, and that the model still applies and is resorted to by the countries, because it is mostly consistent.

The coordinator commented that in response to specific economic circumstances and/or in anticipation of the commitments of the Uruguay Round, all the countries examined had implemented a series of reforms ahead of the Round. Furthermore, the consultant from Indonesia stated that the conditionalities accorded by the government with the international financial organizations since the beginning of 1998 have accelerated the pace of trade liberalization, far beyond the WTO commitments. He provided the audience with the exhaustive list of liberalization measures already implemented or forthcoming.

2. Export subsidies

Regarding the absolute export subsidy exemptions for developing country with a per capita income of less than US\$ 1000, it was clarified that to enjoy this privilege, the country in question must be included in the authorized list of WTO. Therefore, Indonesia, for instance, whose per capita income has reduced to a level far below the threshold recently, is not automatically

qualified for the export subsidy exemption. Related to this issue, it was pointed out that the WTO presumes certain degree of stability and normality in the exchange rate regimes among distinct countries. When an economic turbulence, such as the Asian crisis of today, affects the exchange rates of a series of countries in a formidable manner, it will become more difficult for the importing countries to refrain from resorting to antidumping and other counter practices. It was suggested that these difficulties might postpone the envisaged new rounds of negotiations until certain normality returns to the world economy.

The consultants from Argentina, Chile, and Malaysia stated that the countries have little to adjust to conform to the WTO rules, as far as export subsidies are concerned. Argentina has already abolished a number of subsidies based on export performance. A liberal stance of the Chilean trade regime requires little modification in order to be in conformity with the WTO rules. Exceptions are: the so-called "simplified drawback" which allows exporters of relatively small amounts to receive a cash subsidy on their export value, in lieu of a regular drawback. Despite its simplicity and the benefits to exporters, this scheme has to be eliminated. Also, the program, that allows importers of capital goods pay duties on a deferred schedule up to 7 years and exporters to exempt themselves from those payments, is to be eliminated by the end of 2002. Third, the incentives given by the Automotive Statute, which allows assemblers duty free imports of CKD or SKD kits to the extent that imports are compensated with exports of nationally produced components of an equal value, have to be eliminated. Similarly, given its already liberal trade regime, Malaysia does not foresee difficulties in implementing the WTO regulations.

It was noted that an important exclusion among the export subsidies was the exemption of remission of indirect taxes that are normally payable on the production and distribution (e.g., sales taxes or value-added taxes, but not direct taxes, for instance, on wages and profits). It was also explained that that export credit and export-credit guarantees or insurance programs are prohibited if they are offered below cost, but not if the loans are made above cost but below market rates. Export credits and insurance schemes practiced by Brazil that take place below market rates but above costs are not considered subsidies. Besides, it was stated that there are non-actionable subsidies, on training and retraining, R&D (including product-quality improvements, local adaptation of foreign technology and studies on consumer tastes), assistance to underdeveloped regions, support for complying with new environmental standards and certain types of privatization programs when applied by developing countries.

A question was raised regarding whether the fiscal incentives given to industries located in export processing zones are contrary to WTO rules. A reply from an Argentinean expert was that as long as subsidy exemptions are confined to indirect taxes, such fiscal incentives given at these zones are consistent, while direct tax exemptions, through, for instance, subsidies on labor costs or income taxes, should be in violation of these rules. Therefore, depending on the nature of the fiscal exemptions given at export processing zones, developing countries may have to bring their legislation in line with WTO provisions during the stipulated time. Similarly, it was remarked that while a double deduction on export income would not be allowed, a double

deduction on R&D, or other things that are permitted or within the limits specified by the agreement, is allowed. An ECLAC official added that this type of preferential financial treatment is legal, as long as it is practiced on a national treatment basis to all parties, not discriminating among the sectors or enterprises.

3. Counter measures

On the counter measures on imports such as anti-dumping, safeguards and compensatory measures, it was pointed out that in the first 20 years of the GATT, the anti-dumping mechanism was rarely used because of high tariffs and the extensive use of quantitative import restrictions. Today, it has become the prime instrument in trade defense. In addition to the developed countries that are champions of anti-dumping charges, today there has been a wave of developing countries that resort to that measure. Though developing countries have introduced new laws and regulations to enable them to instigate such actions against export countries, there is still a lot of ground to cover to fully comply with the WTO provision on anti-dumping. The process of liberalization, often abrupt and hastened, often leaves national firms too exposed and vulnerable to foreign competition, calling for application of anti-dumping, compensatory measures, rules of origin, etc. In view of his country's experience in the 1990s, a Peruvian expert held that trade liberalization has stimulated imports of consumer goods, not necessarily of capital goods and that this has led a wider use of counter-measures such as anti-dumping and safeguards. In this sense, the velocity of liberalization determines, to some extent, the modality of protection that follows.

A prevalent view expressed was, however, that producers and exporters do not have adequate resources to probe or appeal anti-dumping charges. Most of these entities are small companies without the legal expertise or financial resources to prepare a case to present their point of views. It was felt that the local institutional capacity including legal expertise must be strengthened in order to provide more effective support. In this context, Argentina created the National Commission on Foreign Trade, which is in charge of conducting the injury test on local production. Nonetheless, it was pointed out that while the proof of an anti-dumping case can take a long time, provisional tariffs which exporters are required to pay meantime are costly and punitive because the loss in market shares during the instigation may not be fully recoverable afterwards. So by default, the exporter loses his case because of the punitive tariff levied during the period of investigation. In the view of the Argentinean consultant, given the difficulty in probing that there is in fact a predatory pricing and the limited capacity of the government to implement a compensatory measure, the safeguards clauses are more transparent and appropriate than the anti-dumping. The safeguards are more exigent in that they require a proof of a loss of market, a reconversion program on the part of firms, and a clearly established phase-out timetable.

On the other hand, some participants stated that the best policy is to have no antidumping laws at all, because the proliferation of antidumping charges could introduce a great deal of uncertainty with regard to future relative prices, which would send confusing signals to private investors. Rather, it would be preferable to protect national interests by way of a reasonable

exchange rate policy and tariffs. Though agreeing with the desirability to diminish its use in the long run, an expert from Brazil stated that anti-dumping measures should not be abandoned at least for now when the resort by the USA to these measures has increased. It would be difficult for a country like Brazil to replace this instrument with other measures such as competition policy, a defense instrument more difficult to implement and practice.

4. Trade-Related Investment Measures (TRIMs)

It was stated that this agreement has far-reaching implications for many industries of interest to developing countries, such as automobile sector, where local-content schemes and export-balancing requirements are widespread. Nonetheless, a common view was that TRIMs restrictions do not necessarily prevent developing countries from using tax incentives to attract multinational firms which would have strong impacts on local competitiveness, technological enhancement and human capital training and retraining. For instance, the financial and tax incentives can be provided to foreign investors who are introducing high-tech businesses in the country. It may be argued, however, why these preferential treatments should be applied only to foreign firms but not to national firms. A question was asked if it is consistent with the WTO provisions for the recipient country of FDI to impose certain conditions on foreign firms to be linked to SMEs as their subcontractors when foreign firms come to invest. Since this type of special treatment helps SMEs to break into the export market or to meet the international standards, it would be useful if considered WTO consistent.

Besides, the last decade has seen a clear tendency toward FDI liberalization. Many countries in East Asia and Latin America raised maximum foreign ownership to 100% in the majority of sectors, except for sectors of public interest. At the same time, the conditions for receiving national treatment have been further relaxed. The consultant from Malaysia pointed out that since the breakout of the crisis, the export requirement conditional on equity ownership in the manufacturing sector has been dropped. In order to encourage foreign investment, now wholly-owned subsidiaries are allowed in the sector without restrictions. It will be applicable only till the year 2000, and will revert back to the old system afterwards.

According to some participants, a more relevant question with respect to foreign firms, in today's context, is what kinds of competition policy are to be implemented and how national authorities can develop their capacities to administer and enforce this policy instrument. Formulating this type of policy, though very necessary, would require not only more lawyers and expertise on the part of companies, but also capable bureaucrats and efficient institutions.

Regarding the automotive regimes, according to the consultants and experts, the Mercosur and Andean Community countries have to modify them to make them compatible with WTO before 1999. The already mentioned the incentives under the so-called Automotive Statue in Chile are also incompatible with the TRIMs agreement. For Malaysia the only measure currently in practice that contravenes the TRIMs Agreement is in the automotive industry, to be eliminated in the stipulated time. The special tax, customs or credit privileges granted to the

controversial National Car program of Indonesia, which were suspected of violating several WTO principles, were discontinued starting January 1998.

A specific question was raised regarding the local content of the automotive regime of the Andean Community, which does offer exemption of certain taxes for imports or other incentives such as foreign exchange compensation or direct subsidies. The only incentive is being the local or regional content. On this point, it was mentioned that in the case of Mercosur, certain tariffs on imported inputs are exempt when the local content requirement is met. In view of an Argentinean expert, the automotive regime of the Mercosur countries suffers an inconsistency: lower effective protections for parts producers while high effective protection rates for final car producers discourage value-added in the industry as a whole. It would be more preferable to promote value-added in the automotive sector, promote training or employment creation and technology development, by indirect ways, rather than imposing a restriction (local content) on the one hand, and exempting tariffs on the other.

5. Trade-Related Intellectual Property Rights (TRIPs)

A general view was that despite the fairly strong limitations, developing countries still have some room for maneuver. They can still use to their advantage the transitory nature of the agreement, which has a maximum of 10-year grace period for implementation. Furthermore, royalties on imported technology will not necessarily inhibit technology transfer to developing countries. Also, the information embedded in each patent or even in each imported good is public knowledge; nothing prohibits businesses from using it as a starting point for other innovations.

6. General Agreement on Trade in Services (GATS)

There was a general recognition that from the viewpoint of developing countries, the agreement is a relatively balanced one whose principal merit is to establish a flexible basis for future negotiations. The GATS agreement contains a series of exceptions and positive lists to which countries can resort. In fact, developing countries in both East Asia and Latin America practice a high degree of selectivity in the GATS commitments. More specifically, almost complete foreign participation is allowed for the cross-border transactions and consumption abroad. However, strong restrictions are imposed on commercial presence and the movement of natural persons. In many sectors, approval will still be required for asset acquisition, mergers or take-over of a national entity by foreigners. In most service activities, a commercial presence is allowed through a joint venture with a ceiling on foreign shareholding. Also, GATS allows developing countries to negotiate specific commitments from foreign firms to strengthen the efficiency and competitiveness of their domestic services, including access to technology, distribution channels and information networks. In the areas of services, The consultant from Malaysia stated that the country has been very cautious, given the nature of the present crisis. While local banks now need to recapitalize, an abrupt and total liberalization might give an edge to the foreign banks to get into the banking sector.

7. Agreement on Agriculture

It was pointed out that on the one hand, the agreement it provides exporters in developing countries with certain special, differential treatments through the *de minimis* provision, export subsidies, and exemptions from certain subsidies. These exceptions include, for example, the exemption from commitments to reduce export subsidies on marketing and on international and domestic transport costs. Moreover, the “Green Box” measures include government subsidies for R&D, fighting pests and diseases, infrastructure, food security, structural adjustment, environmental programs and regional assistance programs. It was expressed, on the other, that price-based and non-price-based factors such as quality and standards are emerging as the crucial determinants of comparative advantage in this sector. Therefore, developing countries should aim to improve productivity, to expand the scale of operations, and to conform to the sanitary and health standards of agricultural products. Since the government support for R&D activities and other service programs is exempt from reduction commitments, governments should seize these opportunities to divert resources released by subsidy reduction to programs that increase R&D capability.

For countries like Argentina, the Agreement does not imply major internal changes, whereas for others it means major adjustments. For countries such as Korea, as explained by the Korean consultant, it has been necessary to replace existing prohibited subsidies for export promotion and domestic product procurement with non-actionable subsidies. The Government of Korea recently announced that the five categories of subsidies that violate WTO regulations are to be replaced by export insurance, long-term export credit, drawback schemes and trade bill systems which are allowed under WTO. In this sense, WTO has been disciplining the Korean agriculture trade practices. The consultant from Argentina argued, however, that although the agreement has been a big step toward dismantling protectionism, principally in the United States and the European Union, the established norms still give member countries a large leeway to go against the interests of cost-efficient countries. WTO regulations should be strengthened with regard to tariff escalation, sanitary barriers, and export subsidies on agricultural products. In agreement with this, an Argentinean expert stated that principal subsidy reductions contemplated in the WTO apply to the traditional agricultural sector but not to the agro-industry where some Latin American countries have gained strong comparative advantage. Given the unsatisfactory results in agriculture as a whole, it might be desirable to condition the negotiation process in exchange for concessions to be made in other sectors.

8. Conclusions

It was felt that there is still a large room for maneuver under the present international trade regime. Consensus was that policy makers should be more careful and prudent on what are permitted and what are not under the WTO regulations. This complex issue of what is permitted and not permitted is very prevalent in the regional negotiations between Mercosur and the Andean Community as well. It was reminded that the “sacred” image of WTO is not correct and some WTO rules are lax and elastic in their interpretation. This requires in turn the developing

countries to acquire administrative capacities to apply, monitor and even manipulate such laxity and flexibility. Based on this observation, it was asked whether it is necessary to establish totally new institutions in the domestic economy to deal with the WTO matters, especially with the new ones like TRIPs, anti-dumping, and services, or the existing institutions are sufficient to handle these matters.

Similarly, some participants held the view that though the WTO disciplines impose new restrictions, they are not necessarily bad. The WTO disciplines are the results of long negotiations. While there are exceptions to certain rules, these exceptions are applied with the principle of no discrimination. GATT Article of XIX on Emergency Action on Imports of Particular Products only allows action on a non-discriminatory basis. There are also special and differentiated treatments for developing countries. Therefore, the WTO rules should be looked as rules of "good practice", though they are not necessarily sufficient to bring about a productive transformation of the economy. Other participants, on the other hand, maintained that the WTO regime does permit the countries to apply a range of policies to undertake structural transformation. The room to fully exercise the rights, quantitatively as well as qualitatively, is large. In their view, there is still too much room for maneuver under the present WTO regime. Even when a selective policy is applied in a finite manner, in many cases, the government's ability to "phase-out" incentives has been far from optimum, either because of pressures from certain sectors or non-transparent criteria used. It would be desirable to have a WTO that can discipline even more its trading partners who violate the rules, especially of non-discrimination.

IV. REGIONAL INTEGRATION AND INSTITUTIONS

1. Latin America

The session opened with introductory remarks on the issue of regional integration and development strategy. Three questions were posed to the floor: i) how regional integration schemes can be a vehicle for economic development; ii) how the different nature and scope of these different sub-regional, regional and hemispheric integration arrangements can be converged; and iii) in what way these agreements can strengthen the multilateral trading framework: Can they be the regional agreements are "building blocks" rather than "stumbling blocks" in the process of establishing a better multilateral trading system?

All participants agreed that in recent years the countries in Latin America have seen regional integration flourished, success of which can be attributed in part to unilateral economic and structural reforms. The Latin American experts stressed that intra-regional trade has been growing at a fast pace, but not at costs of extra-regional trade with the rest of the world. In fact, imports from the extra-regional sources have grown faster than from the intra-bloc countries. Traditional integration agreements have adjusted themselves to new realities: instead of serving as instruments for the limited expansion of protected markets, they have become a weapon for export expansion and a potential trampoline, or testing ground, for access to developed countries' markets for new manufactures from the region. The recent proliferation of trade agreements in the region has contributed to the development process, through the realignment of tariff and non-tariff measures, with static and dynamic effects, on trade and investment flows, the cost of structure of production, competition patterns, and diffusion of technology. In recent years intra-regional investment flows have increased rapidly.

Some participants pointed to the marked inter-bloc growth of manufactures exports not only in Mercosur but also in Andean Community. The automotive sector in both regional integration areas is the most impressive case of all. The export basket to the intra-regional market has a high component of manufactures with certain level of technological sophistication, distinct from that to the extra-regional markets that are principally importers of primary commodities. In their opinion, it is important to address how regional trade and investment agreements can deepen this type of trade flows that require economies of scale to be competitive.

It was asked whether regional integration is also serving economic development by way of establishing a more homogeneous system of trade in services, investment, intellectual property rights, factor mobility, rules of origin, anti-monopoly laws, anti-dumping and safeguards, sanitary, phyto-sanitary regulations, and others. Some participants expressed that regional integration schemes should go beyond the stage of "shallow" integration (increase in trade flows through elimination of trade barriers) to reach a stage of "deep" integration where factors of

production become increasingly intertwined. Integration should serve to reduce transaction costs. There was a consensus that ongoing negotiations and existing agreements in Latin America would likely and should play a crucial role in shaping the nature and modality of public policy acceptable at the multilateral levels.

It was recognized that the regional agreements at present are not, of course, perfect. They have faced difficulties in implementing the original liberalization targets. Mercosur should complete its process of becoming a customs union. In recent years, there has been an increase in non-tariff barriers, particularly in moments of tension. More specifically, the countries have not fully enforced what has been agreed upon. An expert from Argentina explained that a resolution of Mercosur establishes limits on incentives regarding the intra-bloc sales and exports in the areas of: i) financial incentives, except for long-term financing for capital goods; ii) fiscal incentives, except the devolution of indirect taxes; and iii) the drawback or temporary admission, except for those products exempted from the common external tariffs. But none of these has been complied. The use of temporary admission or drawback in intra-Mercosur trade affects the essence of the customs union, because in practice it is the same as not having common external tariffs: the intermediate inputs can be imported with zero tariff (without a common external tariff) and later, after being processed, they can be sold in the intra-zone market. In her view, this represents an unfair competition for local producers who are obliged to pay the common external tariff on the inputs used. She stated that NAFTA limits the use of the temporary admission and the drawback in its intra-bloc trade. Another example of non-compliance was that the unilateral decision by Brazil in 1995 to change the rule of the game on the automotive sector, without exempting Mercosur.

The participants from Latin America thought that institutional aspects of regional integration schemes should receive more attention. With respect to Mercosur, it is important to establish a formal mechanism of dialogues on macroeconomic policy co-ordination. It may be wise to create a committee, of a consultative nature, to facilitate the co-ordination of monetary and exchange rate policies. It may be desirable to formulate criteria for dealing with balance-of-payment difficulties and to establish certain macroeconomic convergence targets on inflation, fiscal deficits, and long-term interest rates, as done in the case of European Union.

It was generally agreed that given the diminishing importance of preferential tariffs as an integration instrument, Mercosur should make effort to deepen its scope by incorporating other commitments. Consideration should be given to the elimination of distorting incentives and the establishment of a level playing field for competition. It should include the harmonization of investment incentives among the member countries and among different regions within each country. Another important field for future work would be reciprocal opening of trade in services and of public procurement. Big bureaucracies should be avoided, while private sector participation should be encouraged. The participation of the private sector is crucial and the recommendation by and interests of the private sector should be reflected in the negotiation agenda from the beginning. Mercosur would need to introduce some new institutions to deal with trade conflicts, especially in the area of dispute settlement. Mercosur should intensify South-

South co-operation and integration with other developing regions. In the views of some participants, Mercosur is delaying deep integration, because it lacks technical capability in its administration.

Regarding its external relations, Mercosur has an intense and complex negotiation agenda ahead. The negotiations to form a free trade area with the rest of the LAIA countries, with similar terms and conditions as Chile and Bolivia, have to be successfully carried out. Mercosur countries are in process of negotiations to create a hemispheric free trade area (Free Trade Area of the Americas), to be completed by the year 2005. Also, the countries are now involved in technical consultations to create an eventual free trade area with the European Union. Therefore, the Mercosur countries have various fronts of negotiations that are not necessarily related to each other and can even be conflictive. Besides, several countries of Latin America that are participating in the FTAA negotiations are also members of APEC, which calls for many commitments in the area of economic and technical co-operation. There are always difficulties in coordinating a multiple of agreements simultaneously and uncoordinated negotiations on different fronts give confusing signals to the private sector.

There was a consensus that multilateralism is a better option to liberalize world trade. Several participants stressed that a regional agreement based on trade preference is not a free trade. The preferential trade area is only justified when it becomes a common market with integration of factors of production and harmonization of policies (case for deep integration), or when a multilateral, non-discriminatory reduction of trade barriers is not working. The latter could be a valid reason prior to 1995, but it is not after the creation of WTO that is now operating relatively well.

However, some participants suggested that developed countries tend to use negotiations in regional forums to advance WTO rules. Once new and stringent rules are negotiated and consensus is reached at the regional level, they are later introduced at the multilateral forum for international negotiations. The results of this new type of negotiation pattern may not necessarily coincide with the interests of developing countries. An expert from Brazil stated that the case of government procurement, services, intellectual property rights, etc. in NAFTA demonstrated that. The demands of the USA in NAFTA were much more exigent than the WTO commitments. Based on these observations, it would be better for a country like Brazil to go directly to the WTO, rather than going to a hemispheric forum such as the FTAA. Regional agreements such as the FTAA are "stumbling blocks", while WTO could be a "building block" organization as long as the WTO insures that the interests of developing countries are also taken into account. For this purpose, WTO should create institutional procedures and mechanisms that would assure developmental aspects of developing countries.

A representative from ECLAC added that through the FTAA and APEC processes, it is possible to identify a change in the US policy regarding how future multilateral negotiations might be carried out. Since the mid 1980s, the United States has opted for regional trade agreements or sector agreements (financial services, information technology,

telecommunications, and now, the negotiations on electronic trade), which were negotiated outside the traditional GATT framework of round negotiations and were later introduced in the multilateral forum. This change of negotiation focus reflects to large extent internal problems of the US administration's difficulties in getting the fast track authority and the limited negotiation power that this authority confers to the administration even when it is approved.

On the other hand, as pointed out by the consultant from Argentina, a regional negotiation can proceed much faster than a multilateral one. And in the case of FTAA, there are still substantial potential benefits can be obtained: though the tariff levels in the United States are usually low, there are still some sectors with high rates of protection. Another possible benefit of a hemispheric negotiation vs. a regional negotiation would be a simplification of negotiation processes. This is particularly important for Latin American and the Caribbean countries, whose administrative and negotiation capacities are limited. Negotiations taking place on a fewer fronts should give private investors a clearer signal and time horizon over investment. In any case, it would be preferable for developing countries to have a common negotiation stance against a country of such size and economic power as the United States..

Several participants made a distinction in regional integration between and among hegemonic and non- hegemonic countries. An expert from Argentina sustained that an integration of developing countries with a hegemonic country is good only when it aspires to be an "deep integration". Otherwise, there will be a transfer of fiscal resources from the developing countries, whose main trade instruments are tariffs, to developed countries whose main trade defense are non-tariff barriers. In addition, in the eventual creation of FTAA, Mercosur countries will discriminate against Europe and the Asian countries, though Asia will be a major future market for exports of Latin America. As a regional integration scheme, it would be better to use the APEC format of trade negotiations, where multilateralism tends to prevail. She asserted that Mercosur should go for a "deep integration" first, and then it should consider a Second multilateral round of negotiations, in which more WTO disciplines, for instance higher degree of commitments in the agriculture sector, can be implemented. Any agreement with a hegemonic country has to be consistent with the commitments coming out of the envisaged multilateral round.

It was also reminded that Latin America should not be looked at as a group of homogenous countries. Central America has much closer commercial and investment ties with the United States than with the South American countries in general. Southern Cone countries have stronger trade ties with Europe and among themselves. Andean Community countries fall in between. Given a rather reduced importance of the United States as trade and investment partner, Mercosur countries should apply the principle of "open regionalism" to strengthen their ties with other developing countries in other regions (Asia and Africa).

Reflecting on the point that the manufactures exports have been most dynamic segment of the intra-regional trade, in view of some experts, it would be wise to consider in what ways the FTAA can foment this type of trade flows which benefit from scale economies and other

externalities. How to maintain scale economies when the countries are liberalizing under a free trade area is a complex issue: there is a danger that the United States can take away the market based on their absolute advantage. In this sense, Mercosur will have an advantage over the Andean Community because its integration is much deeper and aspires to be a fully operating customs union that permits scale economies at the group level.

On the FTAA, several participants remarked that Latin America should take a realistic approach: the countries in the region must critically examine and evaluate the options available, which are not many, in a more balanced manner. Given the amplification and consolidation process of integration in Europe and Asia, a hemispheric approach to achieve a better multilateral system might be a practical way to go for Latin America. This region has long historical and political relations, while FTAA goes far beyond trade liberalization, involving a variety of issues on the negotiation table. In fact, the FTAA is only a part of wider commitments assumed at the Miami Summit and contemplates some forms of economic co-operation. The United States is the largest market and will be even larger when the still existing high tariffs on some products come down and many non-trade barriers are to be eliminated. Under these circumstances, FTAA can be also an effective "building block" process. This process has to be analyzed from historical and political perspectives. It was added that the FTAA is clearly a political commitment assumed by all the presidents. Though the major issue of FTAA is market access, the costs for developing countries associated with market access should be compensated for by benefits in such areas as finance, investment, services and others. This way, more equilibrated and equitable negotiations can take place.

2. East Asia

According to the Asian consultants, the existing regional agreements in East Asia as well have gone beyond the nature and scope of the WTO. APEC plans for tariff reduction over the several years in its negotiations indicate that the majority of the member countries have adopted an UR-Plus approach, attaching timetables for substantially reducing tariffs in certain areas ahead of the schedule. Based on voluntary, unilateral reductions of barriers on the part of the member countries, APEC has been instrumental in accelerating trade liberalization. The consultants from Indonesia and Malaysia stated that the obligations of ASEAN Free Trade Agreement (AFTA) are more widespread and more immediate than those of WTO. AFTA tariff rates are much lower than GATT rates and its product coverage is larger.

It was stated that in both ASEAN and APEC, trade liberalization efforts in goods have been also accompanied by a variety of agreements and programs in other areas, such as customs procedures, mechanisms for dispute settlements, finance and banking, intellectual property rights, investment, services, standards and conformance, tourism, transport and communication. Therefore, the new orientation of these agreements, which include not only the reduction of trade barriers but also commitments in other areas, should enhance the systemic competitiveness of the countries concerned. In fact, there has been a better articulation of transport, telecommunications, energy, water and other infrastructural capacities at the regional level. The countries are trying to

step forward in investment liberalization and are studying a common monetary system at the regional level.² The implementation of this type of monitoring machinery would require greater government's commitments. Both consultants from Indonesia and Malaysia said that though not legally binding, the APEC commitments are accepted because of the benefits that they provide to the countries. APEC's merits to the countries are more related to human resource development, transportation, energy and telecommunication. Especially joint infrastructure projects in ASEAN would help increase infrastructure.

In addition, backed by a strong secretariat, ASEAN keeps strengthening its role as a forum for co-operation in regional security. The consultant from Indonesia stressed that the major achievement of ASEAN has been regional security, contributing enormously to reducing regional conflicts. He maintained that fiscal resources freed from the earlier military confrontations with the neighbor countries allowed the governments to direct them to development projects.

The consultant from Malaysia mentioned that due to the economic structure of the ASEAN countries that has become increasingly competitive to one another, earlier, there was a concern that the ASEAN liberalization process might not be successful. In addition, the products committed for liberalization at the early stages were items that did not constitute a substantial share in the ASEAN regional trade because of their reduced value. Subsequently, the programs of ASEAN liberalization have been widened to cover a large number of products that are important in the regional trade basket. More importantly, she argued that liberalization has had a positive effect of bringing about industrial transformation within the ASEAN countries.

The consultants from Indonesia and Malaysia pointed out that in comparison with the earlier unsuccessful experiences in joint industrial projects among the ASEAN countries, new projects are based on comparative advantage and cost effectiveness of each member country. Trade liberalization has been deepening the process of industrial transformation and productive complementarities among its member countries. The industry of automobiles and its parts, for instance, reflects such comparative advantage in that Malaysia specializes more in autos, especially assembling processes, whereas Thailand is now a center for producing components and parts. With the envisaged reduction on tariffs on cars by the year 2003, there has been a pressure on the countries to prepare for further liberalization. Since the regional market is now integrated and is big enough to allow for economies of scale at the regional level, industrial transformation can be enhanced. To promote further productive complementarities among the countries, with the envisaged harmonization of investment rules in ASEAN, the countries can attract FDI better as a whole than individual countries having different regulations.

² The consultant from Malaysia mentioned that since the outbreak of the crisis, due to the contagion effects, there has been an idea to monitor the financial policies among the ASEAN member countries. The idea is at a preliminary stage. The main problem is that the concept of ASEAN' is based on consensus, and that ASEAN would not want to interfere on other countries' domestic affairs.

On the matter of the regional integration schemes as a “building block” or “stumbling block”, it was stated that the ASEAN countries’ governments have political justifications to introduce and go forward with liberalization: while it is difficult for individual countries to embark on a liberalization program on their own, because of the regional commitments, it is easier for the governments to justify liberalization to their populace. Furthermore, several ASEAN countries have extended the privileges to other non-member countries unilaterally, so that ASEAN works as a building block.

A question was raised as to how the present economic crisis is affecting the liberalization commitments made by the Asian countries: whether it will seed up the process or put a break on liberalization. The responses from the Asian consultants were that ASEAN countries at this moment do not have problems of current account deficits because of the collapse of imports, and there would be no need for special measures. They insisted that liberalization is the only option available to the countries of ASEAN, because the developing countries like Indonesia, Korea and Malaysia need access to market, capital and technology.

3. Institutions

It was stressed that industrial and trade success at the national level depends on the interplay of three sets of factors: incentives, capabilities and institutions. Incentives guide the allocation of resources. Capabilities arise from physical investment, infrastructure, human capital development and technological efforts. Institutions facilitate capability building where purely market-based forces are deficient. A recurring message was that how well the private sector takes advantage of economic incentives given by the State depends, to a large extent, on institutional development and the level of capability.

It was noted that institutions that are conducive to coherent industrial and trade policies encompass not only various ministries and agencies, but also semi-public and private organizations in the area of industrial and trade promotion, human capital formation, trade finance, investment, technology, industry and trade associations and Chambers of Commerce. The consultant from Korea briefed on the recent administrative changes in the trade-related areas of his country: the present Kim Dae-Jung administration has implemented an organizational reform in which the jurisdiction of trade administration is concentrated under the new established Ministry of Foreign Affairs and Trade. Recently, as a result of the Uruguay Round, trade issues need an international and diplomatic approach. In addition, Korea has created a system for trade negotiation based on the United States Trade Representative (USTR) system. Similarly, the consultant from Brazil explained the recent administrative changes in the country. He said that the powerful Ministry of Economic Affairs, Finance and Planning was broken into three ministries: Planning and Budget; Finance; and Industry, Trade and Tourism. The latter two ministries share the responsibility for foreign trade policy. The Secretariat of Foreign Trade (SECEX) within the Ministry of Industry, Trade and Tourism is the main body to implement and review trade policies, while the Chamber of Foreign Trade set up in 1995 is in charge of its

formulation and co-ordination. He stated that there should be institutional improvements on such areas as trade in services and support for SMEs.

The consultants emphasized, however, that it is important to bring about a synergy among these distinct institutions in order that macro-, meso- and micro-economic policies are effectively coordinated and articulated. It is also of great importance that these institutions provide for networking and interaction between the private and public sectors, so that the private sector understands well and takes full advantage of government policies, and at the same time, interests of the private sector are clearly reflected in future policy implementation. An expert from Peru joined them by saying that the issue of institutions does not have to do with what kind(s) of institutions are being created or eliminated. What is more important is improvement of capacity building and the continuity of policies.

The consultant from Korea elaborated that President Kim Dae-Jung recently established a new committee, called the Conference on Economic Activities, to hold a series of almost monthly meetings, which include economic ministers bureaucrats as well as representatives of the *chaebols*. This resembles the export promotion council that existed in the 1970s during the Park administration. This sort of direct consultation by the president with the public and private sectors to solve the problem on the spot will be maintained in Korea for its effectiveness and practicality. With this observation, he concluded that the uniqueness of the Korean or Asian model is not the export promotion policy per se, but the mechanism of policy implementation, economic management and co-ordination and articulation between the public and private sectors. The major essence of this idiosyncratic way of managing the economy will be maintained.

A number of participants agreed that in today's context of liberalization and globalization, the country would need more efficient institutions to isolate itself from adverse effects of the world economy. Increased vulnerability requires a new role of the State in trade and industrial pursuits. It was generally recognized that what types of industrial policies are to be promoted depend largely on the institutional capacity of the government. When tariffs have tended to lose their importance as a trade and industrial policy measure, the government should create new institutions that are to be in charge of enhancement of international competitiveness. To this effect, the consultant from Indonesia stated that such measures as credit ceilings, credit allocation and interest control have been largely ineffective, because, unlike Japan or Korea, the country's government is not strong enough to steer the industrialization process. Neither, bureaucratic agencies have enough institutional capacity to monitor the use of government incentives. Participants from other countries agreed that the State does not have sufficient capability to administer well the incentives, neither they monitor the results, which would call for a systematic collection on and an efficient auditing of policy implementation.

V. CLOSING REMARKS

The Director of the International Trade, Finance and Transport Division and the Project Coordinator closed the Seminar by thanking the six consultants for their active participation throughout the project execution and other experts present in the Seminar for valuable comments. All participants expressed the desirability of continuing with this type of inter-regional comparative analysis in the future.

ANNEXES

ANNEX I

**SEMINAR "TRADE POLICY IN EAST ASIA AND LATIN AMERICA
UNDER NEW TRADING SYSTEM" ***

PRELIMINARY PROGRAM

Day 1 (August 11)

09:00-09:30 Registration of participants.
 09:30-10:00 Opening: Welcome by Dr. José Antonio Ocampo, Executive Secretary of ECLAC.
 Statement by a member of Japanese Embassy in Santiago, Chile.

SESSION I. THE ASIAN CRISIS: DETERMINANTS AND LESSONS

10:00-13:00 (Moderator: Executive Secretariat of ECLAC)
 10:00-10:45 1. The Asian Crisis and its Effects on and Lessons for Latin America.
 Ms. Barbara Stallings, Director of Economic Development Division, ECLAC.
 Mr. Alfredo Calcagno, Economic Affairs Officer, Division of Statistics and Projections, ECLAC.
 10:45-11:00 Coffee break.
 11:00-12:00 Continuation of Topic 1.
 Mr. Carlos Juan Moneta, Permanent Secretary, Latin American Economic System (SELA).
 2. The Determinants of the Crisis and its Impact on International Trade and Trade Policy.
 Comments by the consultants from Indonesia, Malaysia and Republic of Korea.
 12:00-13:00 3. Discussion.
 13:00-15:00 Lunch Break.

SESSION II. EVALUATION OF PAST POLICIES AND FUTURE PROSPECTS

15:00-18:30 (Moderator: Mr. Héctor Assael)
 15:00-15:45 1. "Growth-led" Export or "Export-led" Growth.
 Comments by the consultants from Brazil, Chile and Malaysia.
 Discussion.
 15:45-16:30 2. Evaluation of Past Trade and Industrial Policies.
 Comments by the consultants from Argentina, Indonesia and Republic of Korea.
 Discussion.
 16:30-16:45 Coffee break.
 16:45-18:30 3. New Focus on Trade and Industrial Policies.
 a. Fiscal, Monetary and Exchange Rate policies.
 Comments by the consultants from Chile, Indonesia and Malaysia.

- b. Horizontal "pre-competitive" measures or Selective "vertical" policies.
Comments by the consultants from Argentina, Brazil, Republic of Korea.
Discussion.

Day 2 (August 12)

SESSION III.

TRADE AND INDUSTRIAL POLICIES AFTER THE URUGUAY ROUND: NEW CONSTRAINTS AND ROOM FOR MANOEUVRE

9:30-13:00

(Moderator: Mr. Edgard Moncayo)

9:30-11:00

1. Limits to Trade and Industrial Policies Posed by Multilateral Agreements on Subsidies, Counter measures on imports and exports (anti-dumping, safeguards, compensatory measures) and Trade-Related Investment Measures (TRIMs).
Comments by the consultants from Chile, Indonesia and Malaysia.
Discussion.

11:00-11:15

Coffee break.

11:15-13:00

2. Limits to Trade and Industrial Policies Posed by Multilateral Agreements on Trade-Related Aspects of Intellectual Property Rights (TRIPs), Trade in Services, Agriculture and Competition Policy.
Comments by the consultants from Argentina, Brazil and Republic of Korea.
Discussion.

13:00-15:00

Lunch Break.

SESSION IV.

REGIONAL INTEGRATION AND INSTITUTIONS

15:00-18:00

(Moderator: Ms. Vivianne Ventura-Dias)

15:00-16:30

1. Are Regional Trade Agreements "WTO-Plus"?
Comments by the consultants from Argentina, Indonesia, Malaysia.
Discussion.

16:30-16:45

Coffee break.

16:45-18:00

2. Institutions for Effective Trade Policy Implementation.
Comments by the consultants from Brazil, Malaysia, Republic of Korea.
Discussion.

18:00-18:15

3. Closing remarks.

ANNEX II

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