Towards an Evaluation of Regional Integration in Latin America in the 1990s

Robert Devlin and Ricardo Ffrench-Davis

1. INTRODUCTION

THE decade of the 1990s has witnessed a wave of regional integration initiatives in Latin America: more than 15 agreements — free trade areas or customs unions — since 1990 with a handful more in varying degrees of negotiation (see Table 1). However, this was not just a Latin American phenomenon as regionalism has more than ever become a global trend (Mistry, 1996). Indeed, now Japan, South Korea and Hong Kong are the only World Trade Organisation (WTO) members which are not signatories of at least one preferential trade agreement (WTO, 1995).[1]

Regional integration is not new to Latin America. Economic integration played an important role in the region's early post-war economic history. The 1960s and 1970s saw a number of very ambitious initiatives inspired by the successful Western European experience (Ffrench-Davis, Muñoz and Palma, 1994). Indeed, at its peak in the late 1960s and early 1970s, the topic of integration was hard to avoid in the discussion of Latin American development. However, disillusionment with integration processes had clearly set in by the late 1970s and the discussion of regional integration was all but silenced by the external crisis of the early 1980s.

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[1] Of course Hong Kong has just been transferred to China, which has yet to become a member of the WTO.

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TABLE 1
Recent Regional Trade Agreements in Latin America[a]

Agreement	*Year*
Andean Pact (Bolivia, Colombia, Ecuador, Peru & Venezuela)	1990[b]
Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras & Nicaragua)	1991[b]
G3 (Colombia, Mexico & Venezuela)	1994
Mercosur (Argentina, Brazil, Paraguay & Uruguay)	1991
Chile – Mexico	1991
Chile – Colombia	1993
Chile – Venezuela	1993
Chile – Costa Rica	1994
Chile – Ecuador	1994
Chile – Mercosur	1996
Chile – Canada	1997
Mexico – Bolivia	1994
Mexico – Costa Rica	1994
Mexico – Nicaragua	1998
NAFTA (Mexico, Canada & USA)	1993
Bolivia – Mercosur	1997
Dominican Republic – Central America	1998
Dominican Republic – Caricom	1998
Some Agreements in Discussion[c]	
Mercosur – Andean Community	
Mercosur – European Union	
Chile – European Union	
Mexico – El Salvador, Guatemala, Honduras	
Mexico – Belize	
Mexico – European Union	
Mexico – Ecuador	
Mexico – Peru	
Mexico – Panama	
Caricom – Central America	
Free Trade of the Americas	

Notes:
IDB, Department of Integration and Regional Programs, Division of Integration, Trade and Hemispheric Issues.
[a] Excludes partial agreements of the Latin American Integration Association (LAIA or ALADI in Spanish).
[b] Date of reactivation of the free trade zone.
[c] In different stages of development.

The renaissance of regional integration has not been uncontroversial. Some, including the authors, view regional integration as a potentially valuable tool for modernisation and development in a second best world. Others, however, interpret regional integration as an inferior, costly policy option, which is harmful to the countries involved, and the multilateral system more generally. The purpose of this article is to review the strategic dimensions and rationale of regional integration, place potential costs and benefits in their proper perspective

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and outline directions for future research and economic policy. Section 2 is a brief review of trends in intra- and extra-regional trade and some of the factors driving it. This is followed by a discussion, in Section 3, which places regional integration in the broader Latin American policy context that is conditioning its effects. Section 4 outlines what countries expect to achieve from regional integration and the costs that can be confronted. Section 5 attempts to put the costs and benefits into perspective and offers directions that might help us better evaluate the full effects of integration and thereby soften some of the rougher edges of the policy debate. Section 6 concludes with policy suggestions that should contribute to amplifying the benefits and minimising the costs for the participants in regional integration agreements and the world community at large.

2. THE GROWTH IN TRADE

The 1990s have witnessed a rebound in the region's trade after the crisis of the previous decade. Between 1990 and 1996, the region's exports expanded by 73 per cent (95 per cent for 1990–1997); imports grew even faster, at 127 per cent. Imports as a percentage of the region's GDP now equals more than 20 per cent, up from 10 per cent in 1990.[2] Moreover, the region's growth of imports has consistently exceeded that recorded at the world level: according to WTO estimates, the value of world imports grew by an average seven per cent a year between 1990 and 1996, compared to 15 per cent for Latin America.

A closer look at the region's trade performance in the 1990s highlights the following trends:

- Intra-regional trade has grown more rapidly than trade with countries outside the region. This trend is particularly pronounced in the case of *exports* (Table 2). Since 1990, the value of intra-regional exports has grown by 18 per cent a year on average, compared to nine per cent for extra-regional exports. Intra-regional exports now account for 18 per cent of total Latin American and Caribbean exports, up from 12 per cent in 1990. Without Mexico, the figure reaches 27 per cent, from 15 per cent at the beginning of the decade.
- It is interesting to compare real (constant prices) changes in exports to GDP growth. Overall, the GDP of the region grew 29 per cent between 1990 and 1997. The quantum of total exports rose 72 per cent, thus increasing by more than one-third the export ratio of Latin America. The leading destinations by far were intra-regional markets, which expanded by 215 per cent. However, extra-regional exports also increased much faster than GDP, more than doubling the latter's rate of growth.

[2] When Mexico is excluded, the figures are 17 and seven per cent, respectively.

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TABLE 2
Western Hemisphere: Total and Intra-regional Exports[a]
(Million US$ and percentages)

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1990–1997 Average*
Western Hemisphere[b]									
Total exports	658,234	684,995	727,241	765,511	859,185	996,045	1,052,001	1,158,617	
Per cent growth	7.9	4.1	6.2	5.3	12.2	15.9	5.6	10.1	8.4
Extra-hemispheric exports	341,515	357,391	364,017	365,905	394,303	472,187	487,847	513,761	
Per cent growth	5.4	4.6	1.9	0.5	7.8	19.8	3.3	5.3	6.0
Intra-hemispheric exports	316,719	327,605	363,224	399,606	464,881	523,858	564,154	644,856	
Per cent growth	10.7	3.4	10.9	10.0	16.3	12.7	7.7	14.3	10.7
Intra/Total	*48.1*	*47.8*	*49.9*	*52.2*	*34.1*	*52.6*	*53.6*	*55.7*	
Latin America[c]									
Total exports	137,781	136,242	140,234	150,691	176,018	212,325	239,646	268,294	
Per cent growth	10.5	–1.1	2.9	7.5	16.8	20.6	12.9	12.0	10.0
Extra-Latin America exports	121,412	116,249	115,291	121,058	141,020	170,431	195,867	216,766	
Per cent growth	10.9	–4.3	–0.8	5.0	16.5	20.9	14.9	10.7	8.6
Intra-Latin America exports	16,369	19,993	24,943	29,633	34,998	41,894	43,779	51,528	
Per cent growth	7.3	22.1	24.3	19.3	18.1	19.4	4.5	17.7	17.8
Intra/Total	*11.9*	*14.7*	*11.1*	*19.0*	*19.3*	*19.1*	*18.3*	*19.2*	
Andean Community									
Total exports	31,605	28,630	28,390	29,654	34,256	38,843	45,479	49,568	
Per cent growth	26.1	–9.4	–0.9	4.5	13.5	13.4	17.1	9.0	6.6
Extra-Andean exports	30,310	26,912	26,224	26,858	30,952	34,268	40,817	43,959	
Per cent growth	26.2	–11.2	–2.6	2.4	14.9	11.1	19.1	7.7	5.5
Intra-Andean exports	1,295	1,719	2,156	2,796	3,404	4,575	4,662	5,609	
Per cent growth	23.5	32.7	25.4	29.7	21.7	34.4	1.9	20.3	23.3
Intra/Total	*4.1*	*6.0*	*7.6*	*9.4*	*9.9*	*11.8*	*10.3*	*11.3*	
Caricom									
Total exports	4,762	4,771	4,875	4,837	5,933	6,211	–	–	
Per cent growth	6.3	0.2	2.2	–0.8	22.7	4.7	–	–	
Extra-Caricom exports	4,224	4,308	4,408	4,286	5,346	5,407	–	–	
Per cent growth	4.9	2.0	2.3	–2.8	24.7	1.1	–	–	
Intra-Caricom exports	555	463	467	551	587	815	–	–	
Per cent growth	23.3	–13.9	0.8	19.1	6.5	38.9	–	–	
Intra/Total	*11.7*	*9.7*	*9.6*	*11.4*	*9.9*	*13.1*	–	–	

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CACM									
Total exports	4,058	4,138	4,697	5,065	5,509	6,864	7,786	8,243	
Per cent growth	12.7	2.0	13.5	7.9	9.9	24.6	13.4	5.9	10.7
Extra-CACM exports	3,402	3,356	3,697	3,961	4,290	5,408	6,200	6,417	
Per cent growth	12.4	−1.3	10.1	7.1	8.1	26.4	14.6	3.5	9.5
Intra-CACM exports	656	782	1,000	1,105	1,229	1,456	1,586	1,826	
Per cent growth	14.6	19.1	27.9	10.4	11.3	18.4	8.9	15.1	15.7
Intra/Total	*16.2*	*18.9*	*21.3*	*21.8*	*22.3*	*21.2*	*20.4*	*22.2*	
Mercosur									
Total exports	46,425	45,911	50,561	54,162	62,112	70,401	74,998	82,369	
Per cent growth	−0.3	−1.1	10.1	7.1	14.7	13.3	6.5	9.8	8.5
Extra-Mercosur exports	42,302	40,808	43,341	44,132	50,157	56,018	57,960	62,215	
Per cent growth	−1.2	−3.5	6.2	1.9	13.7	11.7	3.5	7.3	5.7
Intra-Mercosur exports	4,123	5,102	7,220	10,031	11,955	14,394	17,038	20,154	
Per cent growth	10.8	23.8	41.5	38.9	19.2	20.3	18.4	18.3	25.4
Intra/Total	*8.9*	*11.1*	*14.3*	*18.5*	*19.2*	*20.4*	*22.7*	*24.5*	
Group of Three									
Total exports	65,162	65,117	67,451	74,367	86,020	107,625	128,914	146,719	
Per cent growth	22.2	0.9	36.1	10.3	17.1	23.8	19.8	13.8	12.3
Extra-Group of Three exports	64,127	63,937	65,675	72,023	83,456	104,319	125,749	142,553	
Per cent growth	15.5	−0.3	2.7	9.7	15.9	25.0	20.5	13.4	12.1
Intra-Group of Three exports	1,035	1,180	1,776	2,344	2,565	3,306	3,165	4,166	
Per cent growth	47.0	14.0	50.4	32.0	9.4	29.9	−4.3	31.6	22.0
Intra/Total	*1.6*	*1.8*	*2.6*	*3.2*	*3.0*	*3.1*	*2.5*	*2.8*	
NAFTA									
Total exports	561,164	591,440	627,933	661,752	738,494	856,598	907,809	1,000,755	
Per cent growth	7.8	5.4	6.2	5.4	11.6	16.0	6.0	10.2	8.6
Extra-NAFTA exports	320,667	341,997	354,468	360,444	396,434	461,079	480,978	514,926	
Per cent growth	5.2	6.7	3.6	1.7	7.2	19.3	4.3	7.1	7.0
Intra-NAFTA exports	240,497	249,443	273,465	301,308	352,060	395,520	426,831	485,829	
Per cent growth	11.5	3.7	9.6	10.2	16.9	12.3	7.9	13.8	10.6
Intra/Total	*42.9*	*42.2*	*43.6*	*45.5*	*47.7*	*46.2*	*47.0*	*48.5*	

Notes:
[a] The exports of Mexico include maquila in all years.
[b] The Western Hemisphere includes Latin America (see note c), the United States and Canada.
[c] Latin America includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela.

Source: IDB, Statistics and Quantitative Analysis Unit of the Integration and Regional Programs Department based on DATAINTAL.

- Growth rates for intra- and extra-regional *imports* have been more homogeneous (Appendix: Table A.2). While intra-regional imports expanded by an average 18 per cent a year between 1990 and 1996, extra-regional imports also grew very fast, by 14 per cent a year, reflecting a generalised import boom in the region. This, coupled with the aforementioned important growth of extra-regional exports, confirms that regional integration has been consistent with open regionalism.
- The marked difference in the growth rates of the region's overall exports and imports reflects a large imbalance in the growth of trade with *extra-regional markets*, as imports from these sources expanded nearly twice as fast as exports.

Some factors influencing these trends were:

Geography. Areas dense in capital and population often tend to naturally interact and trade relatively more intensively with increasing specialisation (Ballestero, 1996). Among the economic factors behind this are the positive externalities of location and agglomeration. The tendency can be further enhanced when income levels, cultures, tastes and languages are similar, as they are in Latin America, and when differentials exist in transport costs between contiguous and non-contiguous countries. On these criteria, large natural geographic areas of economic integration would appear to exist in Latin America in its Southern Cone, Venezuela-Colombia-Ecuador, Central America and North America for Mexico. Indeed, the gravity of geography seems to matter. If intra-regional trade is disaggregated into border and non-border trade, it is seen that border trade (i.e., that with neighbouring countries) represents the bulk of intra-regional commerce (see Figure 1).

Relaxation of the external restriction. The decline of world interest rates, debt relief and a return of external capital flows in the early 1990s (Devlin, Ffrench-Davis and Griffith-Jones, 1995) dramatically increased import capacity in the region with consequent reactivation of economic activity. Since intra-regional imports equal intra-regional exports, the generalised import boom was reflected in the marked growth of intra-regional exports during the 1990s.

Real exchange rate appreciation. The region's external trade performance was influenced by the exchange-rate behaviour of Latin American and Caribbean countries. The simultaneous liberalisation of the capital account in many countries, coupled with a surge in supply of foreign capital and the use of exchange-rate anchors in support of stabilisation programmes, contributed to real currency appreciations in an important number of countries (just when the opposite, a real depreciation, was needed to facilitate export-led growth). An exchange rate index, weighted by GDP, gives an average revaluation of 25 per cent between the late 1980s and 1994. This situation tended to encourage imports

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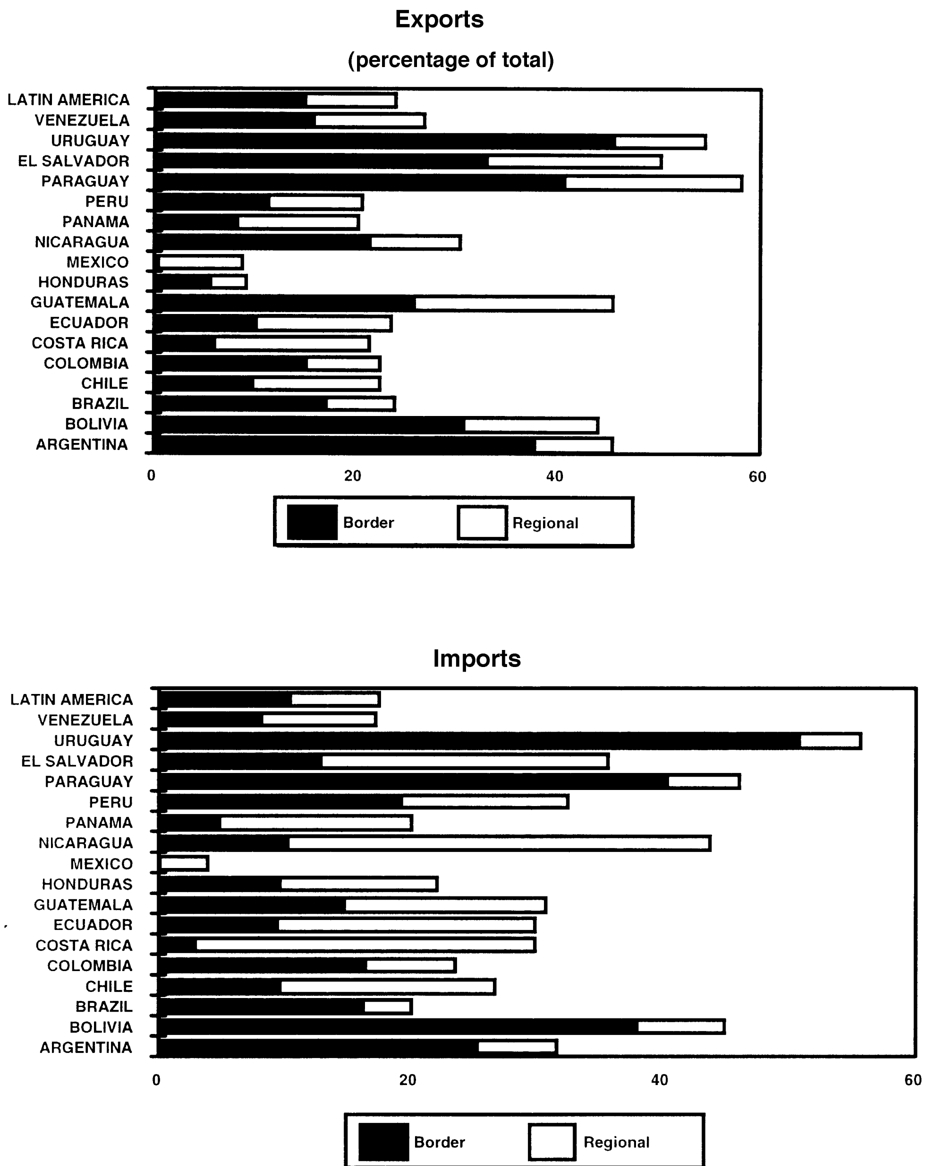
FIGURE 1
Intra-regional and Border Trade, 1994



Note:
The countries included are those that share borders and have available information. Mexican border trade does not include trade with the United States.

Source: IDB, Department of Integration and Regional Programs, Division of Integration, Trade and Hemispheric Issues.

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while, at the same time, discouraging the region's exports.[3] Moreover, since real appreciation of exchange rates with respect to the rest of the world has been simultaneous among a significant number of neighbouring countries in Latin America in the 1990s, the dampening effects on exports have been relatively stronger in the extra-regional market.

Economic reforms. The structural reforms undertaken in the late 1980s and 1990s have energised private market activity, facilitated the emergence of new investors and trade. Unilateral trade liberalisation in particular has been a key in exposing natural market opportunities for exports to neighbouring countries that heretofore were hidden behind the wall of national protection (IDB, 1996a).

Subregional trade agreements. The aforementioned explosion of subregional and bilateral trade agreements in the 1990s has stimulated intra-regional trade through many mutually reinforcing effects; for example:

- an increased flow of information and public attention on opportunities in an adjacent market ('agreement-led' growth in trade);
- preferences are an integral part of the regional integration agreements and provide incentives for intra-regional trade. The absolute level of the preference over time will depend on the evolution of external tariff rates. Nevertheless, it is important to point out that many of the preferences of the older trade agreements in the region have been progressively eroded by the unilateral liberalisation of trade in the late 1980s and early 1990s;
- in contrast to unilateral opening, the free trade arrangements have given the private sector reciprocal and legally binding market access which has reduced the risks of trade and investment barriers emerging in the affected market. This in turn increases private sector confidence.

  An example of the especially strong nature of a reciprocal commitment is Mexico, which during the peso crisis exempted NAFTA partners from a temporary increase of tariffs on 500 items (five per cent of total tariff lines);
- a preferential agreement can signal the continuing commitment of public authorities to trade liberalisation, during a conjuncture in which unilateral or multilateral liberalisation is not possible or desirable. In other agreements such as Mercosur, subregional trade liberalisation is accompanied by an additional commitment involving a much broader political message, pursued at the highest official levels, to promote deep economic integration and political cooperation among member countries.

[3] Some countries like Colombia and Chile actively tried to slow down pressures for real appreciation, by avoiding anchors and resorting to, among other things, foreign exchange regulations and imaginative financial engineering (Devlin, Ffrench-Davis and Griffith-Jones, 1995).

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3. THE NEW FACE OF REGIONAL INTEGRATION IN LATIN AMERICA AND THE CARIBBEAN

Regional integration must be evaluated in the broader context of the overall contemporary economic policy which is conditioning its effects. The regional integration initiatives immediately following World War II inserted themselves into the prevailing development strategy of import substitution. Indeed, the integration schemes of that period were designed in part to enhance the efficiency of the import substitution model through a strategic expansion of the highly protected national market.[4] While the integration initiatives achieved some important results — for example, the significant liberalisation of reciprocal trade in Central America — outcomes fell far short of objectives. On the one hand, the strong national political commitments to domestic protection made opening up even among associate countries an extremely laborious negotiating process that rarely achieved more than very partial results. On the other, the costs of trade diversion were amplified due to the general presence of high average tariffs on third parties and extensive use of non-tariff restrictions.

The traditional model of development in Latin America changed in the 1980s and this, in turn, has dramatically changed the face of regional integration itself. In effect, the regional integration of today has inserted itself into the broader overall strategy of opening up to the world economy. Countries have entered into multiple arrangements that are eliminating tariffs among partners across substantially all trade within a relatively short period of time, and which often involve other commitments that even go beyond the WTO's trade-related disciplines. In any event, Figure 2 and Table 3 respectively show, for a sample of regional agreements in Latin America, that the reciprocal liberalisation process is typically completed for the bulk of trade within a period of ten years and negotiated exceptions have rarely exceeded six per cent of total tariff lines.

In the initial stages of their development, regional integration arrangements link up with the overall economic reform process most obviously through its trade liberalisation component. In effect, regional integration is a third tier of a three-tier liberalisation process.

Unilateral liberalisation. The first and most dramatic level of liberalisation has been through unilateral measures to open up economies. Profound trade reforms have been undertaken in Latin America as part of a broad-ranging process of change, in which international competitiveness and exports play a leading role. Most countries are in search of export-led development. In contrast with the experience of East Asian nations, the main instrument of trade reform has been a

[4] In some cases, as in the Andean Pact, there was the deliberate effort to reduce drastically the level and dispersion of effective tariffs.

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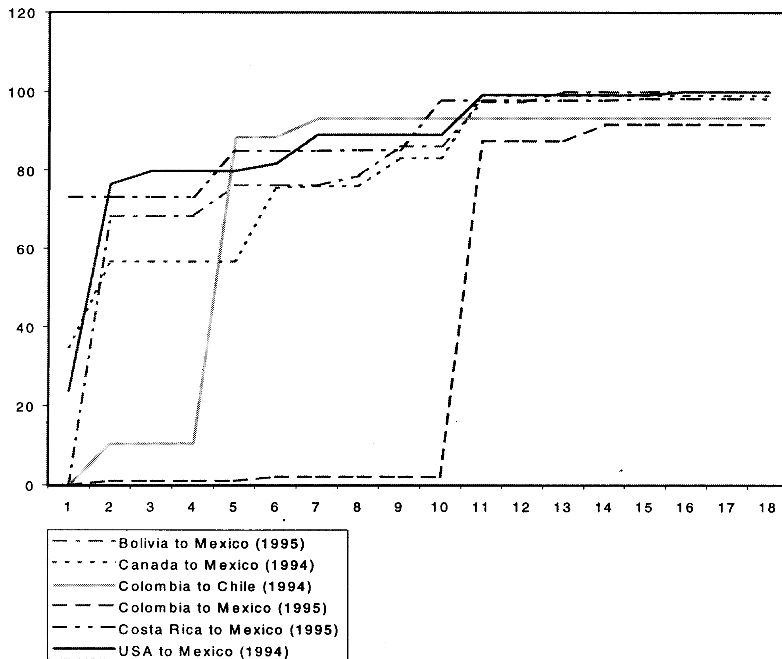
FIGURE 2
Selected FTAs in Latin America. Years to Liberalisation
(Percentage of tariff items liberalised)



Source: Estevadeordal (forthcoming).

relatively indiscriminate and rapid liberalisation of imports (see Agosin and Ffrench-Davis, 1995; and ECLAC, 1995, ch. V). The aim is to expose producers of importables, which had often been receiving a high level of protection, to outside competition, while also encouraging the output of exportables. It is expected that this will result in higher productivity, with the absorption of new technologies and increased specialisation.

Most of the countries' trade reforms could be described as sudden and drastic. The experience is reflected in the fact that the average tariff in Latin America and the Caribbean has declined from 45 per cent in the second half of the 1980s to 13 per cent in 1995, accompanied by a sharp reduction of tariff dispersion as well (Figure 3). Furthermore, over the same period the share of the region's imports subject to non-tariff barriers declined from 31 per cent to 11 per cent. Specific tariffs have virtually disappeared even while they are still common in the industrialised economies (ECLAC, 1995; and IDB, 1996).

Multilateral liberalisation. The second level of external opening is multilateral. The region has assumed the new disciplines that emerged from the Uruguay Round. Indeed, it was the only developing region to bind 100 per cent of its tariffs (although the binding was at a level more than double that of

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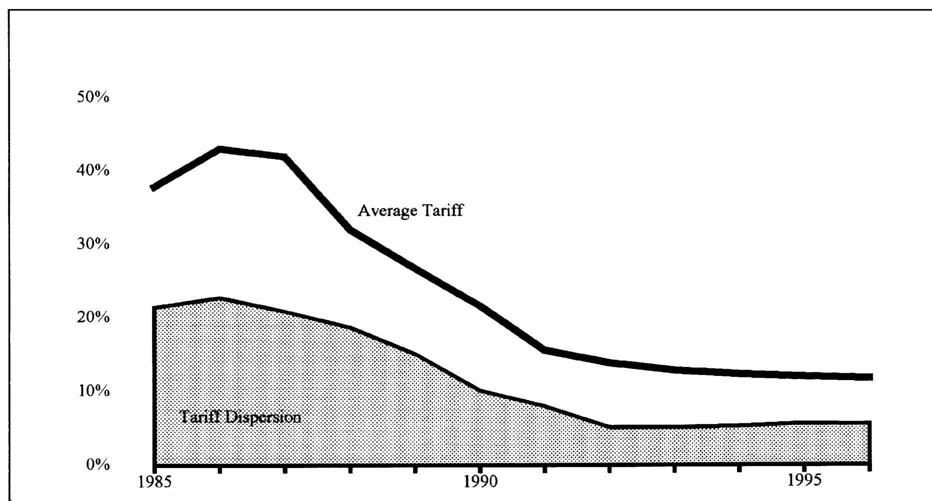
TABLE 3
Selected Latin America Free Trade Agreements: Excepted Products
(Number of tariff lines)

Sectors (SITC Rev. 2)	*Canada to Mexico*	*Chile to Colombia*	*Colombia to Chile*	*Chile to Ecuador*	*Chile to Venezuela*	*Colombia to Mexico*	*Mexico to Colombia*	*Costa Rica to Mexico*	*Mexico to Costa Rica*	*Mexico to Chile*	*Chile to Mexico*	*Mexico to Venezuela*
Food and live animals chiefly for food	72	128	128	114	46	203	115	85	51	35	38	114
Beverages and tobacco		6	7		6	14	3	15	3	6	6	3
Crude materials, inedible, except fuels		15	14	17	24	39	136	4	7	1	13	177
Minerals fuels, lubricants and related materials		15	24	16	15					17	18	
Animal and vegetable oils, fats and waxes	1	38	46	56	25	46	7	1	1	30	25	7
Chemicals and related products, N.E.S.	4	43	52	17	32	56	83	7	3			51
Manufactured goods classified chiefly by material		215	161	4	43	31	103					605
Machinery and transport equipment		172	9	3	153	26	65					15
Miscellaneous manufactured articles		40	37	2	6	180	146					145
Commodities and transactions not classified elsewhere in the SITC				5			4					4
Other (N.E.S.)		1	12			10	7					7
Total	**77**	**673**	**490**	**234**	**350**	**605**	**669**	**112**	**65**	**89**	**100**	**1128**

Source: Estevadeordal (forthcoming).

FIGURE 3
Tariff Liberalisation in Latin America



Source: IDB, Department of Integration and Regional Programs, Division of Trade, Integration and Hemispheric Issues (weighted on imports).

average applied tariffs). With Panama joining the WTO in 1995, all of the region is now subject to the rights and obligations of this world organisation.

Regional integration. The third tier of opening has been through regional integration. It is often overlooked that in the new context of policy change in Latin America, regional integration is an additional instrument to open economies to competition and complements levels one and two of the trade liberalisation process. Indeed, the insertion of regional integration initiatives into the overall liberalisation strategy of the 1990s gives the process the character of 'open regionalism'. Moreover, the fact that tariffs are different from zero, but generally at relatively moderate levels, leaves space for reciprocal tariff preferences with more limited trade diversion than in earlier trade agreements.

4. WHY DO THE COUNTRIES PURSUE REGIONAL INTEGRATION?

Regional integration has various dimensions. The simplest form of integration is a free trade area in goods only, in which there is a progressive elimination of tariffs on most trade among partner countries. The next level of commitment would be a more comprehensive free trade area that includes services and even WTO 'plus' disciplines in other trade-related areas. Even deeper commitments would involve ceding sovereignty over commercial policy, by creating a customs

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union with a common external tariff protecting the liberalised subregional market. Deeper still is a common market with free movement of factors of production. All these schemes are currently reflected in the objectives of Latin American integration.

While the benefits and costs on integration depend on which type of scheme one is considering and the overall policy context, limits on space permit only some general appreciations in this regard.

a. Some Common Motivations for Regional Integration

Without being exhaustive and recognising that many goals can be interrelated, frequent objectives are outlined below.

(i) Politics

Many initiatives emerge under a political umbrella designed to bring nations closer in more than market economics. The degree of commitment varies but the motive is often present. Latin Americans share a common heritage, language and culture. There is a side of Latin Americans that makes them like to be more together; these sentiments indeed extend back to Bolívar and independence. The phenomenon is sometimes hard for non-Latinos to understand and could seem contradictory given the long history of serious political disputes among Latin American nations. But the fact remains that the centrifugal forces of disagreement have co-existed with, and often have been overcome by, the centripetal forces of a common heritage and culture. These opposing forces of course can be especially intense in the various geographic subregions of Latin America.

Today's integration in Latin America is often driven by powerful political objectives. This is most clearly manifest in Mercosur (including associates Chile and Bolivia), where countries with a history of conflictive relations are using economic integration to draw themselves more closely together into a common purpose of peace and prosperity. A similar phenomenon can be found with the reactivation of integration in other subregions such as the Andean Community and Central America.

(ii) Practising the art of the possible in trade liberalisation

Unilateral and multilateral liberalisations are always staged. Unilateral liberalisation has the benefits of creating trade and raising competition through importables and lowering input costs; but it also has immediate fiscal costs, real resource costs by creating obsolete capital and redundant labour, and political costs because of the real and imagined threats of globalisation. Thus, the process of adjustment must move in tandem with the political and economic capacity to digest those costs. The large and rapid liberalisation of recent years encountered initially considerable 'water' in national tariff schedules and the needed fiscal

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adjustments were quite straightforward. But now tariffs are presumably closer to actual differential margins of competitiveness between home and abroad, while fiscal options are narrower. Moreover, the liberalisation process is made more complicated by exchange rate appreciations that have taken place in the 1990s in a number of Latin American countries, which has further cut margins of protection, and the simultaneous action of stabilisation programmes which usually raise the cost and reduce the supply of domestic credit (ECLAC, 1995). Meanwhile, multilateral rounds come in spurts, the schedule of which is largely out of the control of developing countries. In the case of the Uruguay Round the region still is in the process of digesting existing commitments.

In this context, authorities can use regional integration as a window of opportunity for continued liberalisation, but in the more predictable and controlled environment of a reciprocal agreement of circumscribed scope. In fact, regional integration adds a compensatory ingredient to import liberalisation, by fostering reciprocal exports in tandem with reciprocal imports. Hence, the doses of positive and negative impulses to economic activity and investment are more balanced with regional integration, than is the case in pure unilateral import liberalisation. Moreover, the regional agreement does lower the average level of protection *vis-à-vis* the status quo, creating trade, raising competition and promoting specialisation in the subregional market. The arrangement for liberalisation can meet less political resistance (and indeed even be quite popular as in the case of Mercosur) because of a number of associated factors such as public sentiments about 'getting together' with a known neighbour, compensation through reciprocity with guaranteed market access, and more limited impacts on fiscal income (the starting point for most integration agreements has involved modest levels of trade and rather symmetric tariff structures).

A regional arrangement can additionally serve to signal authorities' commitments to investors and lock-in policy reforms that otherwise might be more easily reversible. North-South agreements, anchored by a credible developed country market, in particular are often cited for these 'non-traditional' confidence-building effects (Fernandez, 1997; and Ethier, 1998). A good example is the incorporation of Southern Europe into the EU, which was instrumental in the former's economic transformation and consolidation of democracy.

(iii) Strategic impulse to development

Regional integration also builds on strategic considerations arising from imperfect and incomplete markets at home and abroad, which handicap the spread of efficiency gains in certain sectors and the development of new productive patterns with progressively higher degrees of value added.

The conventional literature on the benefits and costs of economic integration focuses on tariff preferences in a framework of optimal competitive equilibrium. This equilibrium is assumed to be disturbed only by the existence of import

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restrictions. In this framework, integration is beneficial only if it implies a move toward free trade; that is, if the effects of trade creation (shift toward cheaper sources of supply) are larger than those of trade diversion (shift toward more costly sources of supply).[5] The crucial issue, however, is how costs are measured; in the standard approach it is at actual market prices net of tariffs, assuming away transitional costs and incomplete markets, as well as acquirable competitiveness. The assumptions lead to the obvious conclusion that overall unilateral liberalisation is always the optimal national policy and better than regional integration.

But the real world is more complicated. For many non-traditional products, access to markets is more limited and unstable, making economies of scale, the emergence of externalities of location and agglomeration and specialisation more difficult to achieve. It is for these types of products that regional integration becomes a potential platform for diversifying growth of exports, and to improve trade's contribution to development. In the face of distortions in world markets, guaranteed access to regional foreign markets can be a catalyst for exploiting potential externalities; indeed, this is a leading objective of policy-makers and a major force encouraging regional integration. Moreover, in face of economies of scale, what otherwise would be a costly trade diversion can eventually become a cost-reducing and welfare-enhancing effect (Corden, 1972; and Ffrench-Davis, 1980).

Meanwhile, local factor markets are incomplete or distorted. Labour training, technology and long-term capital are scarce, with non-existent or infant markets and foreign direct investment (FDI) — a potential bearer of some of these scarce factors — is frequently coquettish, playing one national suitor off against the other in a world of imperfect information.[6] These market failures are more significant for non-traditional exports of differentiated products, whether of natural resources, manufactures or exportable services. If access to external markets is improved for these exportables, it can be a catalyst for completing markets and diluting segmentation.

Infrastructure, trade financing and knowledge of markets (marketing channels, organised transportation, standards, etc.) have often been biased against intra-regional trade in LDCs. All these 'factors' of trade have been traditionally more developed for transactions with the great metropolitan centres (often linked to the cumulative effects of a colonial past) while they are non-existent or rudimentary for trade among LDCs' neighbours. This is a significant variable partly explaining why intra-regional trade has been lower among Latin American countries than what the gravity of geography would often suggest.

[5] There is also the effect, à la Lipsey, of an eventual reduction of price distortions on consumption.

[6] Additionally, it must be recalled that FDI represents only six to ten per cent of capital formation in the world.

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These are serious restrictions on the expansion of production and trade in goods and services with relatively more knowledge content and longer learning curves, elements which are now recognised as key components of the growth process. Regional integration can be a strategic tool to partially overcome these obstacles by:

- expanding market size to facilitate greater specialisation and industrialisation through economies of scale and possibilities to exploit economies associated with the agglomeration of production activity;
- enhancing the forces of competition, enlarging a market with guaranteed reciprocal access, and intensifying the specificity of information flows, all of which in turn should induce new domestic investment and permit better conditions to attract efficient foreign investment;
- creating the security of subregional market access, preferences, and exploiting the familiarity of neighbourhoods, which combine to accelerate the emergence of new exporters of manufactured goods. In effect, the learning curve associated with subregional export experience can serve as a platform for new international exports. This is an important consideration since history has shown that developing countries can achieve new dynamic comparative advantage on the road of their long-term convergence with industrialised countries.[7]

The expected enhanced international competitiveness brought about by regional integration should build confidence and prepare countries for globalisation and further advances in multilateral liberalisation. And as mentioned earlier, regional integration can also be viewed as a way to move ahead with liberalisation while the region awaits consensus on development of a new round of reciprocal multilateral disciplines.

To appreciate the strategic dimension of integration it is useful to examine the profile of intra-regional exports. Intra- and extra-regional exports from Latin America display marked differences in terms of their product structure and technological content, with manufactures accounting for a much larger share of intra-regional commerce. This pattern is evident even if Mexico — whose *maquila* trade with the United States accounts for a large share of Latin America's overall exports — is discounted from the regional average. Excluding Mexico, manufactures account for approximately 50 per cent of intra-regional exchanges, compared to around 23 per cent for extra-regional exports. The Appendix to this article discusses the composition of intraregional exports and their technological content in more detail (see Table A.1).

[7] For an example of intra-industry trade patterns set off by an important subregional agreement, see Echavarria (1997).

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(iv) Attracting foreign direct investment (FDI)

There is recognition that foreign direct investment can be a useful tool for preparing for globalisation as foreign firms bring technology, modern corporate practice, export networks (fully one-third of world trade is intra-firm), and long-term external finance. Ethier (1998) points out that developing country competition for FDI is sufficiently intense that significant distinguishing features in a country can be decisive in attracting investors, which tend to cluster and locate together. The literature recognises that regional integration schemes can create an impact which is attractive for FDI (Bloomstrom and Kokko, 1997). The bigger the subregional market, the greater the change in the economic environment on account of the agreement, and the greater the locational advantages, the more likely the initiative will stimulate foreign investment, including that which is intra-regional in character. Mercosur — the subregional agreement in Latin America with the highest international profile — has certainly attracted the attention of foreign investors.

All these aspects of regional integration are of course potential developments rather than guaranteed outcomes; what happens in practice depends on the nature of policy implementation, a point we will return to in the concluding section.

b. The Costs of Regional Integration

The potentially positive aspects of regional integration are accompanied by costs too. Some of these have received much attention in the literature of late. A brief summary of the most frequently cited costs would be:

(i) Preferences in regional trading arrangements can divert trade away from possibly more efficient firms which are located in non-member countries (Yeats, 1996; and Bhagwati and Panagariya, 1996). This has costs for domestic consumers and for the non-member countries that lose market share. The trade diversion risks locking the partner economies into patterns of inefficient production.

(ii) Regional integration agreements can improve the terms of trade of member countries at the expense of non-member countries and give rise to incentives for maintaining or increasing preferences and protection.[8]

(iii) When there are serious asymmetries in average tariff levels among prospective partners of an integration agreement, the loss of tariff revenue in the preferential liberalisation process can have serious redistributive effects among the countries (Panagariya, 1996). In effect, part of what would have been realised as tariff revenue on imports from

[8] Looked at from another angle, rather than improving the terms of trade, regional integration may be able to soften a worsening or highly volatile terms of trade that could occur if Latin American countries keep on producing more of the same basket of traditional exports.

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the partner country prior to the agreement is transferred to the partner's producers as tariffs are preferentially eliminated.

(iv) While regional integration can clearly induce foreign direct investment in the expanded subregional market, it can locate unevenly and — in the absence of harmonised incentives — be a source of competition among partners and a fiscal drain. Integration induced investment can also involve diversion of FDI from more efficient non-members (Winters, 1997).

(v) In regional integration, benefits are often asymmetrically distributed and initially concentrated in some members while others are dependent on uncertain spillover effects (Puga and Venables, 1997).

(vi) An explosion of free trade areas creates a spaghetti pattern of agreements with multiple hubs and spokes that give rise to distortions in trade, administrative costs, rent seeking and a difficult to predict distribution of gains among countries (Wonnacott and Wonnacott, 1995).

(vii) The emergence of regional agreements can create defensive reactions, in which a country joins an agreement not because it is the best option, but because of the real or potential costs of being left out of an integration process.

(viii) Regional integration distracts attention from multilateral rounds of liberalisation and delays further unilateral opening.

5. PUTTING THE COSTS AND BENEFITS INTO PERSPECTIVE

Evaluating regional integration processes and their costs and benefits is no easy task. Part of the problem is the nature of the subject matter.

First, regional integration is a complex general equilibrium phenomenon with dynamic processes, making it difficult to dissect for purposes of causal explanation. The process involves issues that link growth to technology, learning, externalities, political economy and politics, all of which economists have trouble grappling with at a national level not to mention among several countries simultaneously. A further complication which one finds in Latin America is that the integration processes are an integral part of the profound structural reforms that have touched all levels of the economy and create big changes. Moreover, initial conditions, and the phases and sequencing of these reforms, are usually quite different among the partner countries.

Second, regional integration is a medium/long-term process. When successful, one expects to see initial costs compensated by benefits that play out over the medium and long term.

Third, regional integration is very much a second best world where generic prescriptions can be especially dangerous.

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Fourth, regional integration is typically evaluated in light of what would have happened in its absence. Moreover, economists are interested in measuring changes in welfare; given the complications of defining this for a particular subregion they often use a proxy expressed in a summary statistic reflecting growth or trade (Winters, 1997).

These characteristics place great burdens on analysts. It is well known that counterfactual analysis faces a daunting epistemological problem: contrary to fact conditionals can never be verified by realising their antecedent (the 'if' clause); thus the resulting explanation is never correct or incorrect but rather only persuasive or not persuasive. We also know that counterfactuals are more likely to be persuasive: (i) the more simple the causal process studied; (ii) the shorter the time period in question; (iii) the smaller the changes considered; and (iv) the less analysis turns on exact magnitudes. Reflecting back on the characteristics of integration processes it can be seen that our counterfactual analysis is challenged on all these counts.

Conclusions about regional integration rarely are based on the entire story. Much of the debate centres on static trade creation and trade diversion effects. This is partly because many economists consider these effects to be the fundamental dimension for evaluating regional integration. One problem, however, is that the static analysis frequently uses a partial competitive equilibrium framework to jump to general conclusions about a process that is a general equilibrium phenomenon. Worse, the existence of trade diversion alone (never mind the net effects with trade creation) in new integration agreements has been sufficient for some to categorically condemn them and regional integration more generally (Yeats, 1996).[9]

But more importantly, trade creation vs. diversion is clearly only part of the story and many other economists (e.g., Mistry, 1996; Fernandez, 1997; and the present authors) would argue that is not the major part. This is because the net benefits of the dynamics of integration, coupled with the so-called non-traditional effects such as signalling and lock-in, can be several times larger than their static reallocation effects. Problems exist here too because our models of dynamics and empirical foundations for testing them are very deficient, so much so that some have even characterised analysis in this area as 'mystical' (Winters, 1997). It is true that the empirical foundation of dynamic analysis is still weak. Nevertheless, the models of dynamics are sufficiently specified to suggest that the benefits behind the dynamics of integration are potentially large. It therefore is worth the

[9] This latter study set off a major controversy by concluding that Mercosur was harmful to itself and the rest of the world due to trade diversion. It concluded this by discovering intense intraregional trade in some sectors with high preferences. The study, however, did not control for the fact that protection might be independent of Mercosur nor for other potentially important explanatory factors, and overlooked indications of much trade creation in the 1990s (see Devlin, 1997; and IDB, 1996b).

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effort to go beyond static trade creation-diversion analysis (which has its ambiguous dimensions as well) to begin to better understand, even if only very imperfectly, the longer-term dynamics.

The empirical bottlenecks to understanding Latin American integration should not be underestimated. Even basic data such as the evolution of preferences, rules of origin, non-tariff measures, intra-regional investment flows, firms cost structures, etc., are unavailable or incomplete. The many gaps sometimes induce questionable *ad hoc* compromises in our analytical techniques or cause us to ignore important phenomena altogether through the convenient use of the *ceteris paribus*. Better data development and more field research will not eliminate the debate over regionalism but it would certainly help to ground the debate more in reality and probably help narrow our differences.

The starting point is to better complement our powers of scientific deduction with much more empirical field work and case studies of the disaggregated dimensions of the dynamics of regional integration. In other words, instead of examining what would have happened in the absence of integration we might want to spend more time discovering what is actually happening and how it is happening in Latin American integration. In effect, one would examine the different objectives of a specific integration arrangement, see whether these different objectives are being realised, and begin to catalogue the causal factors contributing to developments without necessarily being overly concerned about precise weights. For example, one frequently stated objective of regional integration is to enhance competition; hence we can examine how sectoral markets are changing their competitive structure and the forces behind that. Is intra-industry specialisation increasing in the subregional market? Are the different parameters of the integration agreement stimulating firms to invest? Are firms' technology and cost structures improving in the direction of greater international competitiveness and is there room to reduce preferences? Are new international exports and comparative advantages emerging out of experiences in the subregional market?

This type of research is at 'ground zero' and examines the integration agreement from the bottom up. Field research does not generate elegant analytical structures. It is time consuming and expensive, often requiring the building of primary data bases. It also will not generate summary statistics of welfare or permit categorical evaluations of integration processes. But it has four potential benefits:

(i) It will allow for better observation of what is actually happening in the different dimensions of integration. The analyst gets 'inside' the process where the action is and examines the dynamics of sectoral markets and firms which actually move the process forward.
(ii) By working at relatively low levels of aggregation one might be able to

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begin to identify causal factors that are not easily captured in existing theory or more aggregated analysis.

(iii) While such analysis will not permit the adding up of effects into a summary statistic of welfare, the examination of multiple disaggregated dimensions of an integration process will permit a series of analytical 'vignettes' which taken together can build a tentative story of whether the integration process is achieving expected goals in strategic areas.

(iv) The empirical work will feed our economic modelling of integration with better informed assumptions and better data for testing.

In sum, the suggested approach of more intensive interaction between deductive and inductive research methods should enhance our powers of discovery and evaluation of a process that is ever more present in the world economy. Any major transformation has costs, usually concentrated up-front. Therefore, it is no surprise that regional integration has costs. For instance, since regional integration is a strategic compromise among economies with different economic and political characteristics, a degree of unwanted trade diversion is inevitable.[10] However, countries justify these costs by the greater benefits that are expected, which are derived from a combination of political returns, lock-in effects, trade creation and the aforementioned dynamic forces of transformation which are spread out over a longer period of time.

Thus when examining up-front static costs, analysts should be careful to interpret them as only a piece of a story which plays out over a longer term, and thereby refrain from categorical overall assessments, except in the most extreme cases. Meanwhile, since regional integration is a strategic decision, participants should have their objectives clearly articulated. One objective is to minimise costs; thus any constructive analysis that sheds light on them also should be welcome. Moreover, vigilance about costs is extremely important. On the one hand, while fashionable, not all integration arrangements make economic sense. On the other, even those that do can potentially go awry. Finally, there are systemic costs arising from the sum effect of many regional initiatives which individually may make sense.[11]

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[10] Trade diversion growing out of a regional negotiation can reflect trade-offs from a process of endogenous protection which is essential for the political sustainability of commitments. Also, as mentioned earlier, in a 'dynamic' setting some trade diversion could be a benefit to the extent it ultimately would contribute to lower costs, increase competitiveness and growth.

[11] The clearest example of this is the spaghetti effect of many integration arrangements in the hemisphere which reduce transparency and raise transaction costs. However, the problem may be less severe than appears at first blush because the majority of arrangements follow the umbrella concepts laid out by ALADI (e.g., Chilean bilaterals) or NAFTA (e.g., the Mexican bilaterals). Moreover, the complex network of arrangements provides incentives for consolidation, as witnessed in Mercosur's emerging free trade association in South America, the Free Trade of the Americas process and perhaps someday soon at the world level in a new multilateral round aiming at a target of zero tariffs (which would eliminate the simplest free trade areas).

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6. CONCLUSIONS

Regional integration is a fact of life in Latin America and indeed in most of the world. Regional integration is being pursued in Latin America for political reasons as well as for its value as a strategic tool of development in a second best world. No one denies that it can have important costs. But much of the attention on costs has been focused on the short-term up-front costs that are part of any major transformation. These costs must be measured against the benefits, and the bulk of these are expected in the medium to long term through the dynamics of economic transformation. These dynamic processes could be better understood and measured if more attention were given to micro and sectoral field research where much of the process of regional integration takes place. This ground zero research would complement our more aggregate analysis and model building.[12]

Since regional integration is here to stay it is also constructive to promote policies that are likely to minimise the risks of unacceptable costs and to amplify potential benefits. Some of the major challenges in this regard are:

(a) *Progressive elimination of imperfections in subregional integration schemes.* There is a need for full implementation of agreements and effective enforcement. Politically feasible formulas are needed to gradually eliminate existing exceptions to agreed trade liberalisation because the opening up of sensitive sectors is usually very rich in trade creation effects. Integration of services is largely a frontier that still must be crossed, but special caution is needed regarding integration of financial services due to potential negative macroeconomic side-effects (Zahler and Budmevich, 1997). Remaining trade distorting non-tariff measures (NTMs) must be eliminated or harmonised to the extent possible, and very importantly, rules of origin in free trade areas should be gradually replaced for common external tariffs or, alternatively, simplified and relaxed sufficiently (within the confines of rigour) to respect the status quo in trade patterns (Garay and Estevadeordal, 1995; Simpson, 1997; and Serra et al., 1996). Latin America must also replace its tradition of settling disputes through diplomatic channels (perhaps effective when the economies were state-dominated) for modern transparent dispute settlement mechanisms (Devlin, 1995). Now it is necessary that integration arrangements be transparently rule-based; only in this way will the full potential for productive private investment — that is so important for the efficient specialisation which is at the heart of successful integration agreements — be realised.

[12] The Institute for Latin American and Caribbean Integration (INTAL) in Buenos Aires is sponsoring a series of sectoral studies for three subregional schemes (Mercosur, Andean Community and the Central American Common Market). ECLAC is also researching the sectoral effects of integration.

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Rationalisation of regional institutions is necessary. In the case of some traditional integration schemes which modelled themselves after Europe, the task is to downsize an overdimensioned and underfinanced institutional structure. For the new schemes of the 1990s the task is just the opposite: fortify incipient institutional arrangements so that instruments are compatible with objectives. Of particular concern for ambitious integration schemes is the need to have mechanisms in place to ward off dangerous imbalances in the distribution of costs and benefits of the process. Another area of concern is infrastructure (Vera, 1997). There is a need to create effective institutional mechanisms for the coordination of regional infrastructure networks and their financing, in order to better exploit the advantages of location.

Finally, integration schemes, especially deep ones, must improve official mechanisms for the interchange of information and analysis on macroeconomic developments in the subregions and monitor the processes of convergence which should emerge (Ben-David, 1996).

(b) *Macroeconomics and structural economic reforms*. These reforms, including those leading to macroeconomic stability, have been underlying the recent success of intra-regional trade. However, there is concern that exchange rate appreciation linked to capital surges and indiscriminately open capital accounts, coupled with the use of the exchange rates primarily as anchors of domestic prices, is distorting resource allocation and trade, and may reduce the sustainability of macroeconomic balances and their contribution to growth (IDB, 1997; and Ffrench-Davis, 1996). Sometimes short-run targets of stabilisation also have tended to contribute to a weakening of mezzoeconomic policies (such as education, labour training, support to technological improvement of medium and small firms, infrastructure). All this tends to differ the reaping of profitable opportunities in processes of economic integration and opening, and worsens the balance of benefits and costs. In extreme instances of instability in the face of volatile capital flows, it would actually threaten the viability of the integration project itself. There clearly is a need to foster development of more direct instruments for stabilisation policy.

(c) *Operational WTO review of regional integration processes.* Article XXIV of the GATT and Article V of the GATS are meant to ensure consistent, fair and transparent multilateral monitoring of integration arrangements. However, the articles and their implementation, even with the important clarifications of the Understanding attached to Article XXIV in the Uruguay Round, still suffers from a degree of imprecision. The doubts that sometimes are raised about regional integration could be more constructively dealt with in the context of operational Article XXIV reviews with multilaterally agreed criteria and strong empirical foundations (Serra et al., 1996). Moreover, improved multilateral guidelines would

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help to broaden the common base among agreements and mitigate the potential costs of the spaghetti bowl of arrangements in the hemisphere and the world.

(d) *Reducing the volatility of international capital flows*. Volatility of capital flows and contagion undermine any major economic initiative, whether at the national or subregional levels. While countries' macroeconomic stance and financial regulatory settings are a first line of defence, improved international cooperation to deal with this growing problem is long overdue.

As long as countries are clear in their strategic objectives for an integration agreement, are vigilant of costs, continue to perfect shortcomings and ensure the process remains an integral part of an overall policy framework of structural economic reform, there is good reason to be cautiously optimistic about the ability of regional initiatives to serve as an effective instrument of growth and development. The other essential element for Latin America and the rest of the world is further development of the multilateral system. Multilateral initiatives to assuage the volatility of capital flows are essential for the sustained world growth and the open markets which are the foundation of the new regionalism. Latin America also has a vested interest in ensuring that regionalism is consistent with a healthy and progressively more liberalised rules-based world trading system, if for no other reason than that 80 per cent of its trade is extra-regional. Fortunately, there is growing consensus among economists and policy makers about the potentially positive contribution of the new open regional integration to the world trading system. The trend is well captured in a recent WTO Secretariat study which states:

> ... to a much greater extent than is often acknowledged, regional and multilateral integration initiatives are complements rather than alternatives in the pursuit of more liberal and open trade (WTO, 1995, p. 56).

APPENDIX

The Composition and Technological Content of Intra-regional Trade

1. *Composition of intra-regional trade*

The Latin American economies provide very important, and dynamic, markets for the sales of manufactures for many countries of the region (ECLAC, 1994). For instance, for Argentina, Chile, Colombia, Uruguay and Venezuela, this is by far the biggest market, be it for traditional industries, basic inputs or new industries. Latin America continues to be the almost exclusive destination for exports from the new industries of several countries; these exports have been markedly dynamic in the 1990s. The same is true of their respective subregional

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market as regards the new industries of Costa Rica and Guatemala. Brazil has channelled its export manufactures to different markets; the United States continues to be the main buyer of traditional industries, followed by Europe; as for basic inputs, other developing regions have displaced Latin America as the main destination, but in the case of new industries, the region is the most important market for Brazil. An exception is the case of Mexico, where the regional market has less relative importance than the United States.[13]

2. *Technological intensity*

Development based on a growing and sustained international competitiveness is boosted by the dynamic effects derived from technological apprenticeship. The strategies to improve international linkages, based on productive development, emphasise the role played by trade in the process of stimulating the development of activities which make intensive use of knowledge and technology. In this sense, it is interesting that trade among developing countries is characterised by concentration in goods that are more technology-intensive than exports from developing to industrial countries.

This is the broad conclusion of a study by Buitelaar (1993) which combines data on foreign trade and on production. Three main conclusions emerge from the research:

(i) The production of goods which depend to a greater extent on intra-regional trade has more sophisticated technological features. Such goods are to be found mainly in the chemical sector, non-electrical machinery and transport equipment. They are also sectors in which international demand tends to be more dynamic. Their price trends are more stable and evolve more positively over the long term than prices of traditional exports.

(ii) The sectors which exhibit a strong export drive toward the region also tend to show (sometimes with a lag) a drive towards extra-regional markets, which suggests that the promotion of intra-regional trade complements the promotion of extra-regional exports.

(iii) These same sectors are those in which the region has a high dependency as regards extra-regional intermediate imports; therefore, intra-regional trade benefits from having access to inputs and equipment which may be imported from third countries. Thus, relaxation of excessive import restrictions has contributed to foster and upgrade exports.

[13] Regressions carried out by ECLAC for the period 1970–91 show that there was a strong positive relationship between the importance of Latin America as a destination and the share of new-industrial products in total exports of Argentina, a relationship that is positive but less intense for Brazil. In Chile, the exercise revealed a strong positive correlation for all manufactures. For Mexico, however, no significant relationship was obtained.

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TABLE A.1
Latin America (14 Countries:[a] Composition of Exports by Destination, 1970–74 and 1995
(In percentages)

		Latin America and the Caribbean		*Total*	
		1970–74	*1995*	*1970–74*	*1995*
A.	Commodities	51.0	19.7	53.6	32.2
1.	Agricultural products	11.7	10.3	29.9	16.0
2.	Mining products	1.0	2.4	6.2	4.0
3.	Energy products	38.3	7.0	17.6	12.2
B.	Industrial products	48.8	79.7	46.0	65.6
1.	Semi-manufactures	23.3	29.9	33.6	30.5
1.1	Agriculturally-based, labour-intensive	7.5	10.3	9.5	11.9
1.2	Agriculturally-based, capital-intensive	3.1	4.8	6.0	5.2
1.3	Mineral-based	6.4	8.4	9.2	9.1
1.4	Energy-based	6.2	6.5	8.9	4.4
2.	Manufactures	25.5	49.8	12.4	35.1
2.1	Traditional industries	4.8	8.9	4.3	5.8
2.2	Basic inputs	4.8	10.2	1.9	7.2
2.3	New labour-intensive industries	8.7	13.0	3.6	10.0
(a)	Low technological content	1.7	2.3	0.6	1.7
(b)	Mid-range technological content	4.1	6.3	1.6	4.5
(c)	High technological content	3.0	4.4	1.4	3.8
2.4	New capital-intensive industries	7.2	17.8	2.6	12.1
(a)	Low technological content	0.7	1.2	0.3	0.9
(b)	Mid-range technological content	5.0	14.7	1.7	10.1
(c)	High technological content	1.5	2.0	0.6	1.2
C.	Other	0.2	0.5	0.4	2.2
Total		100	100	100	100

Note:
[a] Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Mexico, Paraguay, Peru, Uruguay and Venezuela. For 1995, Mexico's figures were adjusted excluding maquila, in order to homogenise with the 1970–74 period figures.

Source: ECLAC, on the basis of official figures.

To sum up, intra-regional trade, because of its characteristics, associated with location and the diverse channels which facilitate such trade, complement the Latin American countries' linkages with the global economy and provide a dynamic context of technological apprenticeship, leading to greater international competitiveness and a more diversified, balanced pattern of specialisation.

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TABLE A.2
Western Hemisphere Total and Intra-regional Imports[1]
(Millions of dollars and percentages)

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1990–1996 Average*[2]
Western Hemisphere[3]								
Global Imports	747,493	758,937	837,042	913,399	1,046,065	1,161,200	1,238,749	
Per cent growth	5.4	1.5	10.3	9.1	14.5	11.0	6.7	8.8
Extra-Hemispheric Imports	431,751	423,603	459,534	512,927	585,874	642,112	672,737	
Per cent growth	4.5	−1.9	8.5	11.6	14.2	9.6	4.8	7.7
Intra-Hemispheric Imports	315,743	335,334	377,507	400,473	460,191	519,088	566,012	
Per cent growth	6.6	6.2	12.6	6.1	14.9	12.8	9.0	10.2
Intra/Total	*42.2*	*44.2*	*45.1*	*43.8*	*44.0*	*44.7*	*45.7*	
Latin America and the Caribbean[4]								
Global Imports	110,235	128,880	157,007	174,272	205,546	226,317	250,306	
Per cent growth	11.9	16.9	21.8	11.0	17.9	10.1	10.6	14.6
Extra LAC Imports	93,221	108,082	131,190	144,680	171,237	183,963	204,990	
Per cent growth	12.1	15.9	21.4	10.3	18.4	7.4	11.4	14.0
Intra-LAC Imports	17,014	20,798	25,817	29,592	34,310	42,352	45,317	
Per cent growth	11.0	22.2	24.1	14.6	15.9	23.4	7.0	17.7
Intra/Total	*15.4*	*16.1*	*16.4*	*17.0*	*16.7*	*18.7*	*18.1*	
Latin America and the Caribbean (excluding Mexico)								
Global Imports	68,643	78,914	94,877	109,163	125,367	153,867	162,140	
Per cent growth	7.7	15.0	20.2	15.1	14.8	22.7	5.4	15.4
Extra-LAC Imports	52,685	59,703	71,021	81,874	93,983	113,531	118,979	
Per cent growth	6.9	13.3	19.0	15.3	14.8	20.8	4.8	14.5
Intra-LAC Imports	15,958	19,210	23,855	27,289	31,384	40,345	43,161	
Per cent growth	10.1	20.4	24.2	14.4	15.0	28.6	7.0	18.0
Intra/Total	*23.2*	*24.3*	*25.1*	*25.0*	*25.0*	*26.2*	*26.6*	
CACM								
Global Imports	6,535	6,868	8,874	9,456	10,224	12,087	12,304	
Per cent growth	6.0	5.1	29.2	6.6	8.1	18.2	1.8	11.1
Extra-CACM Imports	5,895	6,058	7,805	8,326	8,950	10,580	10,743	
Per cent growth	6.2	2.8	28.8	6.7	7.5	18.2	1.5	10.5
Intra-CACM Imports	640	810	1,069	1,131	1,274	1,507	1,561	
Per cent growth	3.9	26.5	32.0	5.8	12.7	18.3	3.6	16.0
Intra/Total	*9.8*	*11.8*	*12.0*	*12.0*	*12.5*	*12.5*	*12.7*	
Andean Community								
Global Imports	17,425	22,311	27,220	29,398	30,617	38,300	36,814	
Per cent growth	2.0	28.0	22.0	8.0	4.1	25.1	−3.9	18.3
Extra-Andean Imports	16,243	20,665	25,129	26,753	27,345	33,423	31,954	
Per cent growth	1.5	27.2	21.6	6.5	2.8	22.2	−4.4	11.9
Intra-Andean Imports	1,182	1,646	2,091	2,645	3,272	4,877	4,860	
Per cent growth	30.4	39.3	27.0	26.5	23.7	49.1	−0.4	26.6
Intra/Total	*6.8*	*7.4*	*7.7*	*9.0*	*10.7*	*12.7*	*13.2*	
Mercosur								
Global Imports	27,326	32,140	38,536	47,823	61,851	75,311	83,217	
Per cent growth	12.3	17.6	19.9	24.1	29.3	21.8	10.3	20.4
Extra-Mercosur Imports	23,204	27,016	31,266	38,427	49,989	61,218	66,125	
Per cent growth	13.1	16.4	13.7	22.9	30.1	22.3	8.0	19.1
Intra-Mercosur Imports	4,122	5,125	7,270	9,396	11,862	14,094	17,092	
Per cent growth	8.0	24.3	41.9	29.2	26.2	18.8	21.3	26.8
Intra/Total	*15.1*	*13.9*	*18.9*	*19.6*	*19.2*	*18.7*	*20.5*	

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TABLE A.2
continued

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1990–1996 Average*[2]
NAFTA Imports								
Global Imports	678,850	680,023	742,165	804,493	919,866	1,007,336	1,076,608	
Per cent growth	5.2	0.2	9.1	8.4	14.3	9.5	6.9	8.0
Extra-NAFTA Imports	443,190	430,927	462,031	510,164	578,310	627,931	655,530	
Per cent growth	4.8	−2.8	7.2	10.4	13.4	8.6	4.1	6.7
Intra-NAFTA Imports	235,650	249,096	280,134	294,329	341,556	379,405	421,078	
Per cent growth	5.9	5.7	12.5	5.1	16.0	11.1	11.0	10.2
Intra/Total	*34.7*	*36.6*	*37.7*	*36.6*	*37.1*	*37.7*	*39.1*	
Group of Three								
Global Imports	54,168	66,073	82,264	86,588	100,433	97,549	111,838	
Per cent growth	14.4	22.0	24.5	5.3	16.0	−2.9	14.6	12.8
Extra-G3 Imports	53,450	65,110	80,795	84,626	98,242	94,379	108,600	
Per cent growth	14.2	21.8	24.1	4.7	16.1	−3.9	15.1	12.5
Intra-G3 Imports	719	963	1,470	1,963	2,191	3,170	3,238	
Per cent growth	31.7	34.0	52.6	33.6	11.7	44.7	2.1	28.5
Intra/Total	*1.3*	*1.5*	*1.8*	*2.3*	*2.2*	*3.3*	*2.9*	

Notes:
[1] Mexico's imports include maquila. In principle, intra-regional imports should equal intra-regional exports. Slight variations between values of intra-regional exports from Table 1 and intra-regional imports in this table are due to reporting differences between the countries.
[2] Average for Latin America and the Caribbean is for 1990–1996.
[3] Western Hemisphere includes Latin America and the Caribbean (see following definition), the United States and Canada.
[4] Latin America and the Caribbean here is Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay, Venezuela, Bahamas, Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago, Haiti and the Dominican Republic.
e = estimate.

Source: IDB, Department of Integration and Regional Programs, Division of Integration, Trade and Hemispheric Issues, based on DATAINTAL. Caribbean, US and Canadian data, as the source country, are from IMF Direction of Trade

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