



Chapter 6

The integration of Latin America and the Caribbean in global trade and production circuits

The rapid internationalization of markets and production characteristic of the current phase of globalization has been accompanied in Latin America and the Caribbean by far-reaching structural reforms. These reforms have generated drastic changes in production and trade incentives and in transnational corporations' strategies and positions in the economies of the region. Clearly, patterns of integration in the global economy have reflected the structural diversity of the region's economies in terms of factor endowment, size of the domestic market, geographic location, business and institutional development, and accumulated technological capacity.

More than a decade after the emergence of these new patterns of integration with the global economy, Latin America and the Caribbean have clearly succeeded in boosting their export sectors and becoming a magnet for FDI. Despite these overall advances and unquestionable progress in some countries and production sectors, however, these changes have not been sufficient to improve the region's structure of comparative advantages in ways that would enable it to move forward in changing its production patterns based on the generation

and absorption of technical progress throughout the production system or to achieve greater social equity (ECLAC, 1990 and 2000a). Consequently, the region has not been able to reduce the productivity gap between it and the developed world. At the same time, the structural heterogeneity of business enterprises, regions and social groups has been intensifying.

This chapter considers the main aspects of Latin American and Caribbean integration in global trade and production. The first section examines the different patterns of production specialization and composition of trade in goods and services. The second focuses on investment flows and the different corporate strategies being used in the region. The third considers the role played by regional and subregional arrangements as a stepping stone to global integration. The fourth and final section presents a public policy agenda for enhancing integration in the world economy and identifies measures for adoption at the national, regional and international levels.

I. Trade specialization in Latin America and the Caribbean

1. General trends

In the 1990s, Latin America and the Caribbean had one of the world's highest growth rates for merchandise trade in terms of both volume and value. Between 1990 and 2001, the average annual increase in merchandise exports amounted to 8.4% in terms of volume and 8.9% in value. These rates were surpassed only by China and the more buoyant Asian economies. However, imports into the region grew at even higher rates (11.7% in volume and 11.6% in value). These figures were far higher than those posted elsewhere, except for China, where the rate was nearly as high as it was for the Latin American and Caribbean region. As shown in figure 6.1, both exports and imports grew much faster than GDP, which showed only a modest increase. Between 1990 and 2001, GDP grew at an average annual rate of 2.7%, which was just one third as much as exports and one quarter as much as imports.

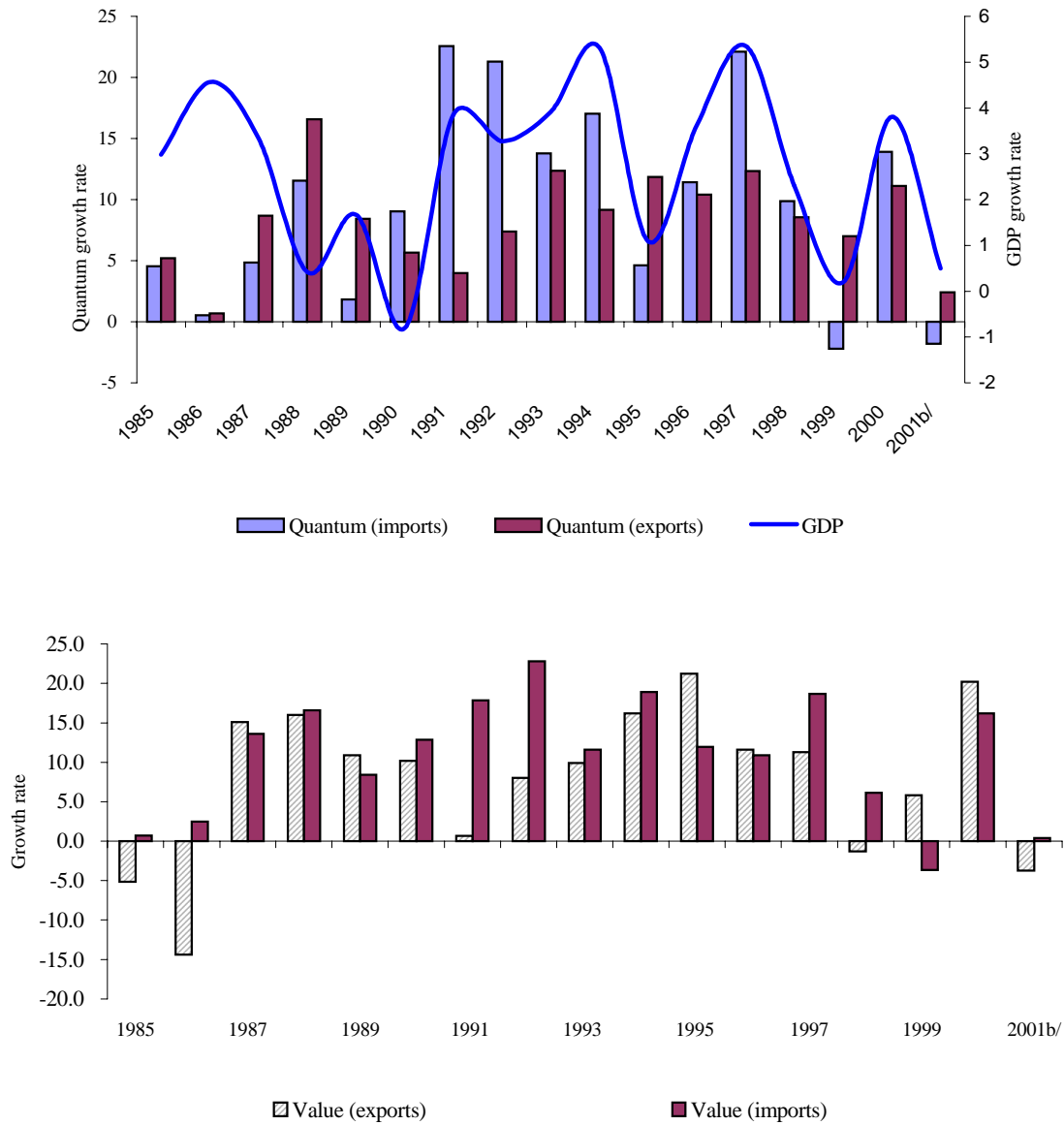
Owing to these uneven trends, the average increase in the exports/GDP ratio was 20.4% for 1999-2000. The import coefficient increased even faster, to stand at 21.4% for 1999-2001; this marks a sharp contrast with the figures for the 1980s, when imports into the economies of the region averaged around 10% of GDP.¹ The imbalance between the performance of exports and imports has generated larger trade deficits, and this, together with debt service payments and profit remittances, has led to a deterioration in the balance-of-payments current-account position. The region's deficit gradually deepened between the late 1980s and the mid-1990s and has remained high since then, even in years when economic growth was sluggish. On average, between 1994 and 2001, the current account deficit was equivalent to 3.0% of regional GDP.

It is important to note, within this pattern, the increasing share of the overall deficit in trade in goods and services that is accounted for by the imbalance in the commercial services account.² In fact, between 1992 and 2001, the deficit on the services account was equivalent to two thirds of the total trade deficit (see table 6.1). Even in years such as 1995, 1996 and 2000, when the region recorded a surplus on the merchandise trade balance, this was far outweighed by the deficit on the services account.

¹ Although in the last 15 years consumer goods have come to represent a much larger share of merchandise imports than before (increasing from one tenth to one fourth of the total), capital and intermediate goods still account for the lion's share of the region's imports.

² The World Trade Organization (WTO) defines commercial services as the sum of transport, travel and other commercial services. Therefore, it does not include government services, investment income or compensation of employees.

Figure 6.1
LATIN AMERICA AND THE CARIBBEAN: a/ TRADE AND GROSS DOMESTIC PRODUCT, 1985-2001



Source: ECLAC, on the basis of official figures.

a/ Includes 19 countries of the region: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Uruguay and Venezuela.

b/ Preliminary estimates (Preliminary Overview).

Table 6.1
GROWTH IN TRADE IN GOODS AND SERVICES IN LATIN AMERICA, 1990-2001
(Millions of current dollars)

	1990	1991	1992	1993	1994	1995
Trade in goods						
Exports	136,283	137,150	146,420	160,811	188,120	227,938
Imports	105,159	123,798	151,345	168,959	200,620	224,875
Trade balance: goods	31,124	13,352	-4,925	-8,148	-12,500	3,063
Trade in services						
Exports	25,114	26,794	29,460	31,349	35,139	36,838
Imports	33,273	36,085	40,240	44,504	47,780	48,625
Trade balance: services	-8,159	-9,291	-10,780	-13,155	-12,641	-11,787
Trade balance: good and services	22,965	4,061	-15,705	-21,303	-25,141	-8,724
	1996	1997	1998	1999	2000	2001
Trade in goods						
Exports	254,948	283,740	279,523	297,849	356,938	344,716
Imports	249,169	304,898	317,470	304,001	352,778	346,934
Trade balance: goods	5,779	-21,158	-37,947	-6,152	4,160	-2,218
Trade in services						
Exports	40,769	40,902	44,903	43,139	48,748	46,722
Imports	54,504	57,326	62,200	58,726	66,274	66,756
Trade balance: services	-13,735	-16,424	-17,297	-15,587	-17,526	-20,034
Trade balance: goods and services	-7,956	-37,582	-55,244	-21,739	-13,366	-22,252

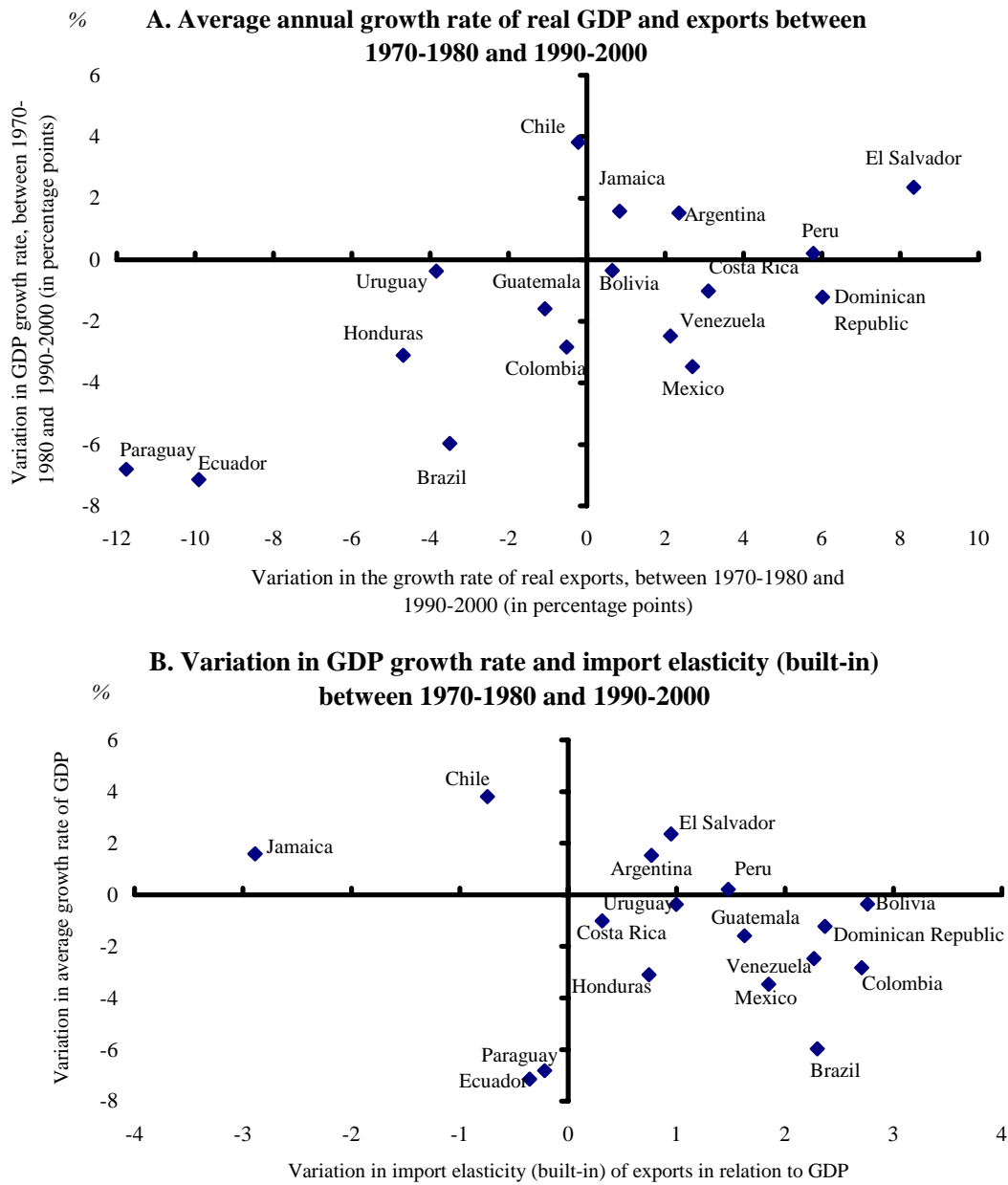
Source: ECLAC, Division of International Trade and Integration, on the basis of official data from 19 countries in the region: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Uruguay and Venezuela.

The sharp, generalized downturn in the region's terms of trade in the 1980s was followed by a slight upward trend in the 1990s (see box 2.1 in chapter 2), although the results varied from country to country. In any event, this trend was not strong enough to make up for the ground lost in the 1980s. In 2000, for example, the terms of trade for non-oil-exporting South American countries were still one third below their 1985 level.

One of the notable features of the region's situation during the last decade was undoubtedly the contrast between its strong export performance and success in attracting FDI (see section II), on the one hand, and the weakness of overall production, on the other. In fact, despite the economic upturn seen in the region during the 1990s, economic growth rates remained well below those observed before the debt crisis.

Overall, this result can be seen as the net effect of the opposing impacts on aggregate demand of export growth and a sharp increase in the import coefficient (Moreno Brid, 2002). If the periods 1990-2000 and 1970-1980 are compared, a positive link can clearly be discerned between the region's export performance and the rate of economic growth (see figure 6.2.a). Nevertheless, the group of countries with a faster growth rate was smaller than the group in which production growth was slower than in the 1970s. Moreover, this occurred even in some countries which managed to step up the development of their export sectors significantly, such as Mexico, the Dominican Republic and Costa Rica.

Figure 6.2



Source: Juan Carlos Moreno Brid, “¿Por qué fue tan bajo el crecimiento económico de América Latina en los noventa? (una interpretación estructuralista)”, 2002, unpublished.

This result is largely attributable to the sharp rise in the implicit elasticity of imports to GDP (figure 6.2). This increase has been associated with a reduction in levels of protection, the tendency towards a revaluation of the exchange rate that accompanied this reduction in many countries and the high import content of inputs in many of the most robust export industries, especially in the manufacturing sector. Although the unprecedented level of import penetration did contribute to the modernization of the production apparatus and to an expansion of new export sectors based on the increased incorporation of imported inputs, it also weakened the linkages between growth sectors—associated with export activity and foreign investment, among other factors—and production activity as a whole. In net terms, this effect has tended to prevail over the effect of export growth.

The strength of export performance has varied in the different countries of Latin America and the Caribbean. While the region as a whole saw its world market share rise from 4.5% to 5.6% between the beginning and the end of the 1990s, this increase was limited to a small number of countries (primarily Mexico, the Central American countries, Argentina, Chile and Colombia) (table 6.2). Mexican exports made particularly strong gains. As a result, by 2000 Mexican exports accounted for almost half of the regional total in terms of value, whereas at the end of the 1980s they had amounted to only about one quarter (the figures for both years include the exports of assembly industries). In contrast, the region's leading exporter in the late 1980s—Brazil—saw its share of total Latin American and Caribbean exports shrink from one quarter to one sixth.

Export specialization in the region followed three basic patterns during the last decade. The first, which was exhibited mainly by Mexico but also by some countries of Central America and the Caribbean, was characterized by integration into vertical flows of trade in manufactures centred chiefly in the United States market. In the second, which mainly corresponded to South America, the countries belong to horizontal production and marketing networks, especially of natural-resource-based commodities. This group is also characterized by highly diversified intraregional trading activity and by a lower concentration of destination markets. The third pattern is based on the export of services, mainly for tourism, but also financial and transport services, and is the predominant pattern in some countries of the Caribbean and Panama. As will be discussed below, the strategies of transnational corporations have a strong impact on these patterns of integration into world trade flows.

Overall, as was seen in chapter 2, the increase in the region's share of international trade was more a reflection of competitiveness gains in slow-growth items than of its integration into the more dynamic global trade flows. Thus, the quality of the region's export specialization, measured in terms of the relative weight of high-demand products in the export basket, continues to be poor. What is more, no signs of improvement were seen during the 1990s except in the cases of Mexico and some countries of Central America and the Caribbean Basin, all of which exhibited the first of the regional specialization patterns described above (see table 6.2 and ECLAC, 2002).

The two markets accounting for the largest relative increases in exports from Latin America and the Caribbean in the 1990s were the region itself and the United States. These upswings are associated with the strong influence exerted by Brazil, in the first case, and by Mexico, in the second (see figure 6.3). Even if these two countries are excluded from the calculations, however, these two destination markets maintain their higher ranking, with the regional market in the lead. The more developed markets (United States, European Union and Japan) absorbed more than half of the exports from all the countries and groups in 2000, with the sole exception of Mercosur (excluding Brazil). Overall, the regional market, as the destination for more than a quarter of total exports in all cases except Mexico, is extremely important. As will be discussed in section III, the regional market is even more important when the composition of trade is considered in qualitative terms.

Table 6.2
LATIN AMERICA AND THE CARIBBEAN: CHANGES IN MARKET SHARES AND RELATIVE SPECIALIZATION INDEX FOR HIGH-DEMAND PRODUCTS

	Market share (%)				Relative specialization index for high-growth products a/		
	1990	1993	1996	1999	1990-1993	1993-1996	1996-1999
Mexico	1.292	1.446	1.911	2.441	0.515	0.844	0.679
Mercosur b/	1.552	1.528	1.545	1.499	0.645	0.828	0.655
Argentina	0.365	0.373	0.475	0.472	0.461	0.709	0.497
Brazil	1.093	1.070	0.987	0.949	0.793	0.950	0.860
Paraguay	0.034	0.024	0.028	0.022	1.514	1.206	0.525
Uruguay	0.059	0.062	0.056	0.056	0.454	0.537	0.736
Andean Community	0.888	0.822	0.913	0.822	0.298	0.622	0.369
Bolivia	0.024	0.019	0.020	0.017	0.125	0.680	0.748
Colombia	0.209	0.208	0.231	0.238	0.696	1.113	0.700
Ecuador	0.098	0.107	0.111	0.101	0.139	0.309	0.172
Peru	0.114	0.101	0.115	0.105	0.322	0.546	0.649
Venezuela	0.444	0.387	0.436	0.361	0.250	0.561	0.219
CACM c/	0.190	0.230	0.274	0.350	1.550	0.975	1.323
Costa Rica	0.070	0.084	0.086	0.127	1.458	1.162	1.568
El Salvador	0.022	0.029	0.043	0.050	2.848	1.030	1.443
Guatemala	0.053	0.063	0.073	0.083	1.471	1.082	1.220
Honduras	0.035	0.044	0.058	0.073	1.156	0.628	1.501
Nicaragua	0.011	0.009	0.014	0.016	0.484	0.354	0.670
CARICOM d/	0.182	0.163	0.145	0.131	0.787	0.711	0.348
Antigua and Barbuda	0.001	0.001	0.002	0.001	5.695	0.101	1.875
Bahamas	0.034	0.026	0.014	0.013	0.332	0.959	0.140
Barbados	0.005	0.004	0.005	0.004	5.368	0.804	2.609
Dominica	0.005	0.006	0.005	0.006	1.022	0.921	1.351
Granada	0.004	0.003	0.002	0.002	8.260	3.216	6.391
Jamaica	0.001	0.001	0.001	0.001	2.179	0.093	0.643
Montserrat	0.009	0.012	0.012	0.011	0.440	0.461	0.882
Saint Kitts and Nevis	0.044	0.041	0.038	0.033	1.121	0.734	0.737
Saint Lucia	0.000	0.000	0.000	0.000	38.380	0.606	1.750
Saint Vincent and the Grenadines	0.001	0.001	0.001	0.001	8.666	1.848	1.408
Trinidad and Tobago	0.004	0.003	0.003	0.003	0.626	0.242	0.357
Belize	0.005	0.004	0.003	0.002	1.884	1.223	1.219
Guyana	0.017	0.011	0.011	0.011	0.023	0.042	0.042
Suriname	0.052	0.048	0.048	0.044	0.716	0.877	0.222
Others							
Aruba	0.003	0.015	0.017	0.016	0.301	0.947	0.007
Chile	0.286	0.293	0.331	0.301	0.320	0.669	0.725
Cuba	0.037	0.025	0.024	0.017	1.015	1.377	0.895
Haiti	0.014	0.004	0.004	0.007	0.548	0.168	0.537
Cayman Islands	0.003	0.004	0.004	0.005	0.077	1.024	1.130
Netherlands Antilles	0.035	0.034	0.030	0.020	0.474	0.629	0.079
Panama	0.080	0.079	0.063	0.048	1.630	0.679	0.843
Dominican Republic	0.072	0.087	0.092	0.099	0.257	1.522	1.030

Source: ECLAC, on the basis of data obtained from the Competitive Analysis of Nations Program (2002 version).

a/ Ratio of exports of high-growth products to exports of low-growth.

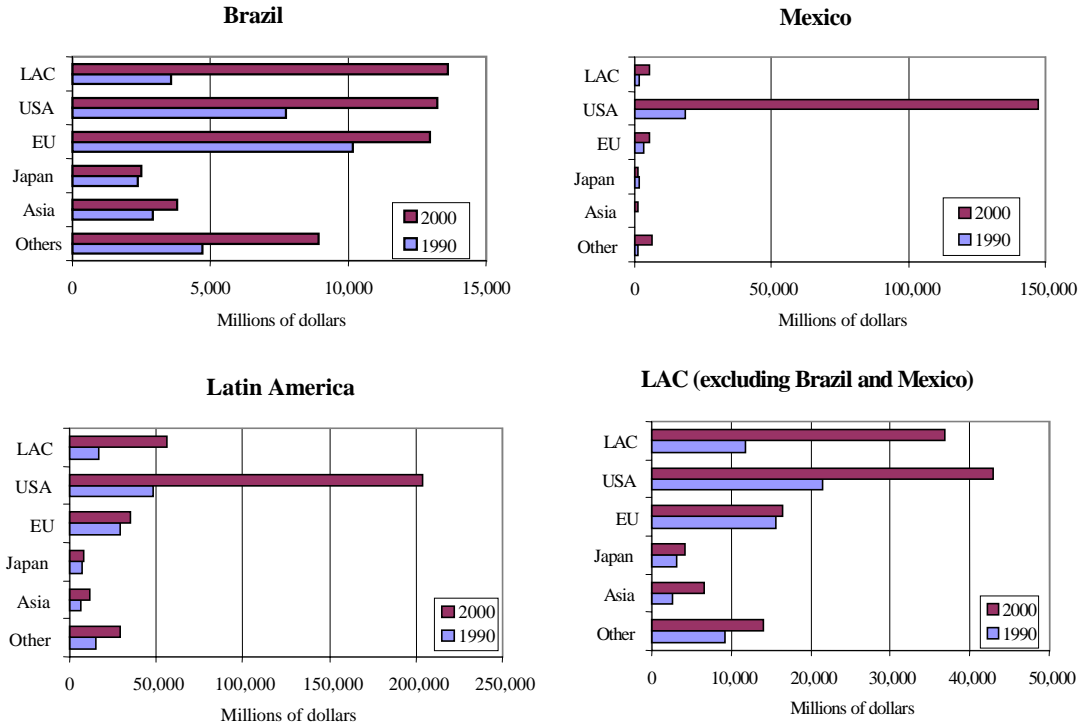
b/ Southern Common Market.

c/ Central American Common Market.

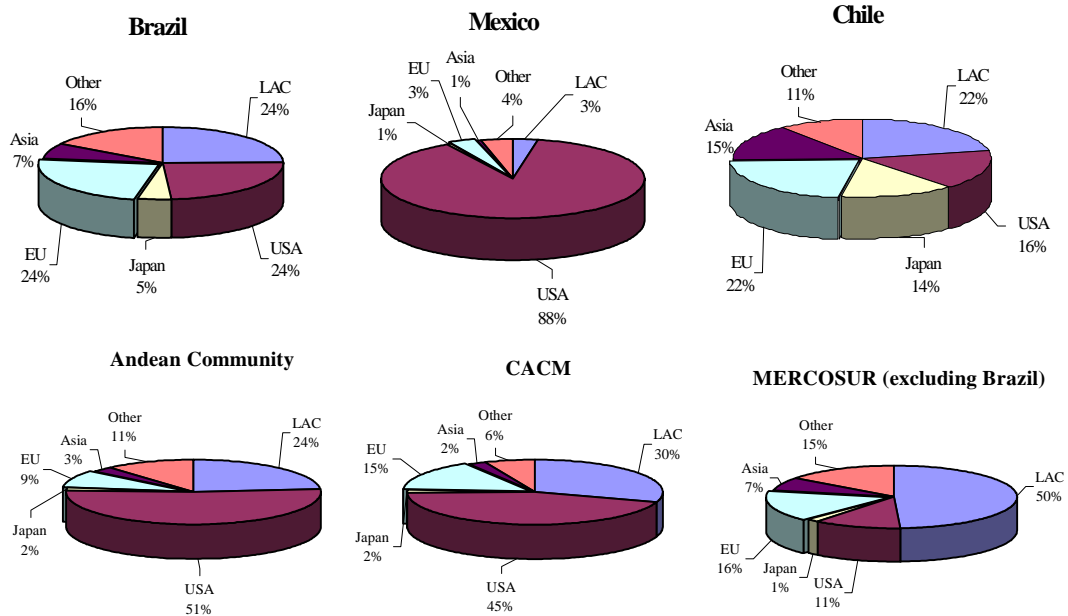
d/ CARICOM Community.

Figure 6.3
LATIN AMERICA AND THE CARIBBEAN: DESTINATION OF EXPORTS, 1990 AND 2000

A. In millions of current dollars



B. In percentages of total exports in current dollars, 2000



Source: ECLAC, on the basis of United Nations COMTRADE data.

2. The composition of trade in goods

Statistics for the last 15 years confirm the fact that a profound change has taken place in the composition of regional exports in terms of their technological intensity (see table 6.3). The most conspicuous pattern is a sharp reduction in the relative weight of exports of primary goods and natural-resource-based manufactures—from 73.5% of the region's total sales abroad in 1985 to 44.3% in 2000—and the relative increase in exports of other manufactures (low-, intermediate- and high-technology products), which more than doubled their percentage share of the export basket, rising from 24.3% in 1985 to 52.3% in 2000. For the reasons described above, these changes were much more intense in Mexico, in some Central American countries (Costa Rica, Honduras and El Salvador) and in some Caribbean countries, mainly the Dominican Republic. The trend in the two major South American blocs—Mercosur plus Chile, and the Andean Community—was similar, albeit considerably less pronounced.

This relative decline notwithstanding, the first category of goods (primary products plus resource-based manufactures) has still accounted for a large percentage of South American exports in recent years, especially in the cases of Mercosur (59%) the Andean Community (84%) and Chile (89%). This category also remains significant for CARICOM (72%). On the other hand, these goods represented a much smaller percentage of exports from the Dominican Republic (13%), Mexico (17%), the members of the Central American Common Market (37%) and Panama (39%).

As mentioned in chapter 2, most of these goods belong to the category of “falling stars” or even “retreat products”. In other words, demand for them is at a low ebb on international markets. In the case of primary goods, the region's share of world trade has climbed from 7.1% in 1985 to 9.8% in 2000, but the opposite is true for resource-based manufactures, which contracted from 5.0% to 4.6%. The main export products are crude oil and oil products, animal feed, coffee and coffee substitutes, copper, fresh and dried fruits, iron products, oilseeds, other materials and their concentrates and wood pulp. Most of these products are subject to wide price swings, some face long-standing restrictions on market access (i.e., agricultural produce) in developed countries and others are subject to new restrictions (steel and rolled steel). Most of the manufactures are commodities produced by technologically mature, machinery- and equipment-intensive industries.

In the last decade Mexico has become the most dynamic and diversified exporter of non-resource-based manufactures. It has opted for a closer trade relationship with the United States under the North American Free Trade Agreement (NAFTA), since this guarantees it more stable access to that country's market, which absorbs almost 90% of its exports. This has led to significant changes in its export mix. These changes are illustrated by the following three sectors, which represent different technological levels: garments (low technology), the automotive industry (intermediate technology) and electronic equipment (high technology).

Mexico increased its share of the United States market for imported garments from 3.4% in 1992 to more than 15% by the end of the decade (ECLAC, 2000d). This market penetration was initially accomplished through what are known as “shared-production facilities,”³ and it was achieved at the expense of some Asian countries. Since the entry into force of NAFTA, Mexico has increased its share by crowding out other Central American and Caribbean countries on the basis of the rules of origin contained in that treaty. It is interesting to note that, as a result, the Central American countries have been obliged to sign free trade agreements with Mexico and the Caribbean

³ The shared-production mechanism was designed to help United States corporations to compete with Asian corporations on the United States market. Basically, what this mechanism does is to permit products made with United States inputs to enter that country's market with low tariffs and to exempt them from quota limits. Taxes have to be paid only on the value added incorporated into these products abroad, which primarily consists of low-paid labour.

Table 6.3
SELECTED COUNTRIES: EXPORT STRUCTURE BY CATEGORY OF TECHNOLOGICAL INTENSITY 1985 AND 2000
(Percentage of exports)

Countries/Regions	Primary products		Natural resource-based manufactures		Low technology manufactures		Intermediate technology manufactures		High technology manufactures		Unclassified products	
	1985	2000	1985	2000	1985	2000	1985	2000	1985	2000	1985	2000
Latin America and the Caribbean	50.0	27.3	23.5	17.0	7.9	14.0	12.1	24.6	4.3	14.0	2.2	3.1
Mexico	53.4	11.7	10.3	5.8	5.8	14.7	18.0	38.5	9.9	25.3	2.6	3.9
Mercosur	42.6	34.7	23.9	24.1	12.8	11.0	15.8	21.2	2.7	6.6	2.1	2.4
Argentina	56.3	49.8	24.8	21.9	8.9	8.5	6.6	16.2	2.6	2.4	0.8	1.2
Brazil	38.6	27.1	24.6	25.5	13.5	11.6	19.4	24.3	2.9	8.9	1.0	2.5
Paraguay	77.0	57.4	17.6	14.5	4.4	8.7	0.5	0.8	0.2	0.7	0.4	17.9
Uruguay	31.8	36.7	9.7	20.5	22.2	22.0	5.1	13.6	0.6	2.8	30.5	4.4
Andean Community	59.8	59.5	32.8	24.5	2.8	6.3	2.9	6.4	0.3	0.9	1.4	2.4
Bolivia	71.4	56.0	17.7	24.7	1.9	13.4	0.4	1.1	0.3	1.0	8.3	3.8
Colombia	73.8	59.4	13.7	13.2	4.5	10.4	5.4	10.4	0.6	2.0	2.1	4.5
Ecuador	88.0	76.1	9.3	15.4	0.4	3.4	1.4	2.9	0.4	0.9	0.4	1.3
Peru	44.6	41.8	41.9	35.6	7.1	14.5	3.9	2.4	0.4	0.5	2.0	5.1
Venezuela	50.8	59.9	44.2	30.1	1.8	2.6	2.3	6.2	0.1	0.4	0.9	0.7
Central American Common Market	71.6	27.7	10.9	9.2	8.5	39.7	4.4	6.6	3.7	14.5	0.9	2.2
Costa Rica	67.2	29.1	7.9	8.5	14.5	17.1	6.5	8.3	3.2	34.3	0.7	2.8
El Salvador	67.9	13.4	8.4	9.8	9.0	62.7	4.2	5.9	9.8	6.4	0.7	1.8
Guatemala	69.9	36.1	14.4	12.4	6.6	39.9	5.1	7.4	3.2	2.5	0.8	1.7
Honduras	77.7	21.4	14.3	6.4	5.1	65.2	1.7	4.1	0.6	1.3	0.6	1.6
Nicaragua	87.2	46.9	6.9	8.8	1.1	36.7	1.3	2.5	0.4	0.3	3.0	4.7
CARICOM	41.7	37.4	39.3	34.9	5.4	10.2	5.7	11.6	6.0	1.4	1.9	4.6
Antigua and Barbuda	23.8	41.1	6.4	7.3	43.9	2.6	21.5	46.1	2.7	1.6	1.7	1.3
Bahamas	6.8	20.6	73.9	46.4	1.3	1.9	5.1	21.0	11.1	3.7	1.8	6.4
Barbados	2.0	14.3	17.5	41.5	15.5	14.1	12.5	17.0	49.7	8.9	2.9	4.2
Dominica	61.7	28.1	11.1	12.5	4.1	7.2	22.1	40.2	0.6	5.9	0.5	6.3
Granada	88.9	42.8	3.8	8.8	3.9	6.1	1.3	32.8	1.2	1.4	0.8	8.1
Jamaica	58.8	46.3	21.8	22.6	11.7	25.6	5.3	2.9	0.7	0.4	1.6	2.2
Montserrat	16.0	26.0	33.7	10.4	13.8	12.8	11.5	14.3	4.9	34.1	20.1	2.4
Saint Kitts and Nevis	17.2	0.9	27.5	19.8	30.2	8.2	8.3	41.7	10.3	24.8	6.6	4.6
Saint Lucia	86.8	55.1	4.0	9.3	8.0	15.3	0.9	7.3	0.2	7.4	0.2	5.0
Saint Vincent and the Grenadines	83.2	42.7	7.0	5.0	6.0	5.2	2.7	42.1	0.4	1.0	0.8	4.0
Trinidad and Tobago	52.5	29.2	36.8	47.6	2.9	7.9	5.9	13.4	0.6	0.3	1.4	1.5
Belize	17.6	60.4	54.5	25.8	17.6	6.4	7.2	3.8	0.8	2.0	2.3	1.6
Guyana	50.2	33.1	37.7	37.6	1.7	3.3	6.1	2.1	0.8	0.5	3.5	23.5
Suriname	83.7	81.3	12.9	5.6	0.9	0.9	0.9	2.2	0.2	0.5	1.4	9.5
Others												
Chile	41.0	40.3	50.9	48.6	1.3	3.0	3.6	5.7	0.4	0.7	2.9	1.7
Cuba	35.7	22.2	55.0	69.2	4.5	1.7	3.1	3.5	1.1	1.7	0.6	1.6
Haiti	18.4	8.9	4.5	2.9	52.8	85.2	14.3	1.0	7.5	0.3	2.5	1.6
Caiman Islands	53.9	2.3	2.1	7.0	2.7	1.0	36.3	85.3	1.1	2.6	3.9	1.9
Panama	32.5	24.9	15.3	14.3	7.7	18.1	34.7	26.7	5.6	12.0	4.2	3.9
Dominican Republic	23.7	4.9	24.3	8.6	28.2	62.7	9.9	17.5	1.1	3.5	12.8	2.9
Memo:												
Republic of Korea	4.8	1.7	9.3	12.0	48.7	16.9	21.7	29.2	14.4	38.4	1.1	1.8
China	35.0	4.7	13.6	6.9	39.7	47.6	7.7	17.3	2.6	22.4	1.4	1.1
Taiwan Province of China	5.0	1.3	9.1	4.8	48.2	21.8	20.7	25.0	15.9	45.5	1.2	1.5

Source: ECLAC, on the basis of information obtained from the CAN (Competitive Analysis of Nations) computer software (2002 version).

countries have had to negotiate amendments to the Caribbean Basin Initiative in order to maintain their competitiveness vis-à-vis Mexico on the United States market (Pérez and others, 2001).

The defensive restructuring of the United States automotive industry in response to Japanese competition resulted in advantages for Mexico (and Canada) since, under the NAFTA rules of origin, at least 60% of the total value of vehicles must originate in NAFTA member countries (Mortimore, 1998). By the late 1990s, more than 13% of United States imports under this heading came from Mexico, and three of Mexico's leading exports were passenger vehicles (10% of the total), vehicles for the transport of goods (4%) and motor vehicle parts and accessories (4%). Thus, Mexico already has an export platform that is fully incorporated into the internationally integrated production systems (IPS) of the major motor vehicle manufacturers.

Similarly, in the electronics industry Mexico is already a part of the internationally integrated production systems of firms based in the United States (IBM, Hewlett Packard and Compaq, to name a few), Asia and Europe (e.g., Sony, Sanyo, Phillips and Siemens) and of contract manufacturers such as SCI Systems and Flextronics. A number of these firms were already operating in Mexico under the shared-production mechanism provided for in Mexican legislation on export assembly (*maquila*) activities. The application of NAFTA rules of origin and the imminent disappearance of the *maquila* industry as a legal category have obliged European and Asian firms to transfer part of their production activities to Mexico in order to increase local content. Thus, by the end of the 1990s, most imports into the United States under this heading originated in Mexico; the major products in this category were television sets (4.3% of total Mexican exports), telecommunications equipment (4.1%) and computers (3.9%).

These examples clearly demonstrate that Mexico has been one of the winners —and perhaps *the* major winner— in the region in terms of international competitiveness. There is, however, need for caution in evaluating these developments, particularly with respect to the relationship between export growth and economic growth. Contrary to the experiences of some Asian countries, Mexico's successful export sector has not been able to carry the rest of the economy along with it, since GDP growth has remained relatively lacklustre during the last decade and the domestic economy has become increasingly heterogeneous.

Some Central American and Caribbean countries have points of similarity but also major differences with respect to Mexico. Apart from the changes observed in Costa Rica following the arrival of Intel Corporation, integration into international trade flows is, for most of the countries in the subregion, based largely on the manufacture of garments for export to the United States under preferential arrangements. In the early 1980s, the establishment of the shared-production mechanism provided access to the United States market at reduced tariffs as well as higher quotas for garments made with United States inputs. For their part, the countries in the subregion promoted these assembly activities by setting up export processing zones where inputs could be imported duty free and tax breaks were provided. Under the Caribbean Basin Initiative, United States firms importing such goods enjoyed tax exemptions or had to pay tax only on the value added abroad, which was mainly wages.

The sale of these products to the United States market triggered a significant change in the pattern of exports. However, apart from the considerable increase in low-technology manufactures (see table 6.3), the benefits generated by the shared-production mechanism were fairly limited. On the one hand, the mechanism penalized the incorporation of local inputs and, on the other, it unleashed a veritable “incentives war” among countries eager to attract investment (Mortimore and Peres, 2001). The changes brought about in Costa Rica when the Intel production activities in that country were incorporated into the corporation's internationally integrated production system, in combination with the supplementary actions undertaken by the Government of Costa Rica, may generate more thorough-going changes, however. In that respect, Costa Rica's experience may be closer to that of Mexico in its high-technology manufacturing sector, as would seem to be indicated

by the fact that Costa Rica's exports of manufactures jumped from 3.2% of total exports in 1985 to 34.3% in 2000.

Among the South American countries, Brazil warrants special attention. This is a continental-scale economy in which the domestic market strongly influences strategic corporate decisions. The country's foreign-exchange policy was partly responsible for its relatively sluggish export performance during much of the 1990s, but this situation changed dramatically following the macroeconomic adjustments implemented in 1999, which gave rise to a new and more buoyant phase in its export performance. In addition, Brazil is undoubtedly the country with the most active technology policy in the region. As a result, it is the only country to have increased its share of high-technology trade flows by developing its own technology in a sector as complex as the aerospace industry. This has been accomplished with the help of a locally owned aeronautics firm (EMBRAER) and the consolidation of a very strong technological corridor (Campinas-São José do Campos). However, these categories still account for no more than a small share of Brazil's total exports, which continue to be composed primarily of natural-resource-based products and of manufactures exhibiting a low degree of product differentiation and intermediate technological intensity (Miranda, 2001 and table 6.3).

Significant trends in South America include the headway being made in relative terms by Bolivia, Colombia and Peru in low-technology manufactures and by Argentina, Uruguay, Colombia and Venezuela in intermediate-technology goods. The latter include consumer durables and, in particular, automotive products, which are covered by special sectoral agreements within the framework of the two South American integration schemes: Mercosur and the Andean Community.

The technology-based classification of exports of manufactures being used here calls for a note of caution. First, trade statistics based on customs records classify products that cross national boundaries, but do not record how much value was added by local manufacturing processes; this value added has tended to be low in some relatively successful export activities in recent years. Second, the fact that several countries may be involved in the internationally integrated production systems of transnational corporations that produce high-technology goods does not necessarily mean that each of them participates in high-technology production processes. As pointed out in chapter 2, both design and engineering activities and research and development tend to be much more concentrated in the parent companies than in the rest of the integrated system (see chapter 7).

3. Trade in services

In the last two decades, international trade in services has grown faster than trade in goods. In 2000, it exceeded US\$ 1.4 billion, or around 20% of total trade in goods and services. It was also more concentrated than merchandise trade, since in 2000, the five largest exporters together accounted for 42% of total trade in services, compared with 38% in the case of goods. The increasing weight of services in the global economy and world trade, owing both to their intrinsic value and to their impact on economic activity as a whole, led to their inclusion in the Uruguay Round and, subsequently, to the General Agreement on Trade in Services (GATS).⁴

In 2000, exports of services from Latin America and the Caribbean stood at US\$ 56.2 billion, or 3.9% of the world total (see table 6.4). The region runs a trade deficit on the services account,

⁴ This agreement defines four forms of trade in services: (i) *cross-border supply*, that is, services provided by one country to another, such as international calls; (ii) *consumption abroad*, that is, services, such as tourism, used by consumers of one country in another country; (iii) *commercial presence*, which is when a company from one country sets up subsidiaries or branches in another country to provide services; and (iv) *movement of natural persons*, travel by a provider in one country to another for the purpose of providing services.

which, as already mentioned, has had a significant impact on its balance of payments. The region's imports of services amounted to US\$ 66.4 billion in 2000, or 4.6% of world imports.

Table 6.4
VOLUME AND COMPOSITION OF EXPORTS OF SERVICES, 2000
(Billions of dollars and percentages)

	Value	Composition		
		Transport	Travel	Other
World	1 438.1	22.9	32.5	46.6
Five leading exporters				
United States	274.6	18.6	36.6	44.8
United Kingdom	99.9	18.2	21.7	60.1
France	81.1	23.9	38.1	38.0
Germany	80.0	24.3	22.0	53.8
Japan	68.3	37.5	5.0	57.5
Latin America and the Caribbean	56.2	15.4	53.6	31.1
Mexico	13.7	10.0	60.5	29.5
CACM countries	3.9	18.2	56.0	25.8
Panama	1.8	54.0	25.7	20.3
Caribbean	15.2	9.1	70.2	20.7
Cuba and Dominican Republic	6.0	3.5	87.1	9.4
CARICOM a/	9.2	13.5	57.9	28.6
Countries of the Andean Community	5.9	26.3	51.3	22.4
Countries of Mercosur and Chile	15.7	16.9	34.8	48.3
Brazil	9.4	13.8	19.3	66.9

Source: ECLAC, Division of International Trade and Integration, on the basis of official data from the countries.

a/ For some CARICOM countries the statistics included are for 1998 and 1999.

As is well known, international service transactions tend to be underestimated owing to serious shortcomings in the coverage, classification and measurement of these flows. The data shown in table 6.4 correspond to the classification used for balance-of-payments statistics, which basically distinguish between three groups: transport services, travel services and other commercial services.⁵ In the main industrialized countries, with the exception of France, this last category accounts for the greater part of service exports. In the case of Latin America and the Caribbean, on the other hand, more than half of total service exports come under the heading of travel, which highlights the importance of the region as a tourist destination. The percentage is particularly high in Mexico (60.5%) and the countries of the Caribbean (70.2%), especially Cuba and the Dominican Republic (87.1%) and some of the small island States of the subregion. The most notable cases in which other categories account for a large proportion of service exports are Panama, which provides transport services through the Canal (54% of its tertiary-sector exports) and Brazil, whose exports of technological services have been expanding since 1985 and exceeded US\$ 1.2 billion in 1999 (Ministério da Ciência e Tecnologia, Brazil, 2001).

Many of the smaller Latin American and Caribbean economies' linkages with the global economy are primarily based on services—especially tourism—rather than on their exports of goods. The Central American countries' income from tourism accounted for 4% of GDP in 2000 and represented over 12% of their total exports of goods and services. In some countries of the Caribbean, the impact of tourism on the economy is even greater. In 2000, tourism revenues,

⁵ The *IMF Balance of Payments Manual* defines these groups as follows: "transport" includes all services used for conveying passengers, goods and other objects; "travel" includes all goods and services acquired in the host economy by visitors on stays of less than one year; and "other commercial services" includes communications, construction, finance, insurance, information and information technology, royalties and licences, other business, personal, cultural and recreational services, and government services not included elsewhere (IMF, 1993).

measured as a percentage of GDP, totalled approximately 6% in Cuba; 15% in the Dominican Republic; 16% in Jamaica; over 20% in Saint Vincent and the Grenadines, Saint Kitts and Nevis, Barbados and the Bahamas; and 40% in Antigua and Barbuda and Saint Lucia.

II. Foreign direct investment flows to Latin America and the Caribbean

The significant increase in international capital mobility and the intensification of productive and corporate restructuring processes, in addition to the accelerated pace of the economic reforms implemented in Latin America and the Caribbean in the 1990s, led to an unprecedented increase in FDI flows to the region. As shown in table 6.5, these flows increased more than fivefold, if the average for 1990-1994 is compared to the maximum level recorded in 1999, but fell in both 2000 and 2001. Nevertheless, inflows in those two years were still three times as high as those recorded in the first half of the 1990s (see table 6.5). In fact, in that decade, FDI became the main source of external financing, displaying a pattern which, except during the recent crisis, has tended to be countercyclical (see chapter 5). However, the counterpart to these investment flows to the region are outflows in the form of repatriation of profits, which have been increasing in recent years.

Table 6.5
LATIN AMERICA AND THE CARIBBEAN: FOREIGN DIRECT INVESTMENT INFLOWS,
1990-2001

(Millions of dollars and percentages)

Countries	1990-1994 a/	1995	1996	1997	1998	1999	2000	2001 b/
1. Latin American Integration Association (LAIA)	14,371	28,084	41,741	61,458	66,661	82,769	70,404	45,490
Argentina	2,971	5,610	6,949	9,161	7,292	23,984	11,665	5,383
Bolivia	85	393	474	731	957	1,016	733	551
Brazil	1,703	4,859	11,200	19,650	31,913	28,576	32,779	17,292
Chile	1,219	2,957	4,634	5,219	4,638	9,221	3,675	4,455
Colombia	818	968	3,112	5,562	2,829	1,468	2,376	2,310
Ecuador	293	470	491	625	814	690	720	600
Mexico	5,430	9,526	9,186	12,831	11,312	11,915	13,286	12,775
Paraguay	98	103	149	236	342	87	82	80
Peru	785	2,056	3,226	1,781	1,905	2,390	680	723
Uruguay	...	157	137	126	164	235	298	250
Venezuela	836	985	2,183	5,536	4,495	3,187	4,110	1,071
2. Central America and the Caribbean	1,410	1,926	2,068	4,140	5,542	5,261	3,657	3,000
3. Caribbean financial centres	2,506	1,270	8,627	7,827	12,130	17,113	13,941	11,000
Total (1+2+3)	18,287	30,934	52,413	73,084	84,295	103,930	87,266	59,490

Source: ECLAC, Unit on Investment and Corporate Strategies, Division of Production, Productivity and Management.

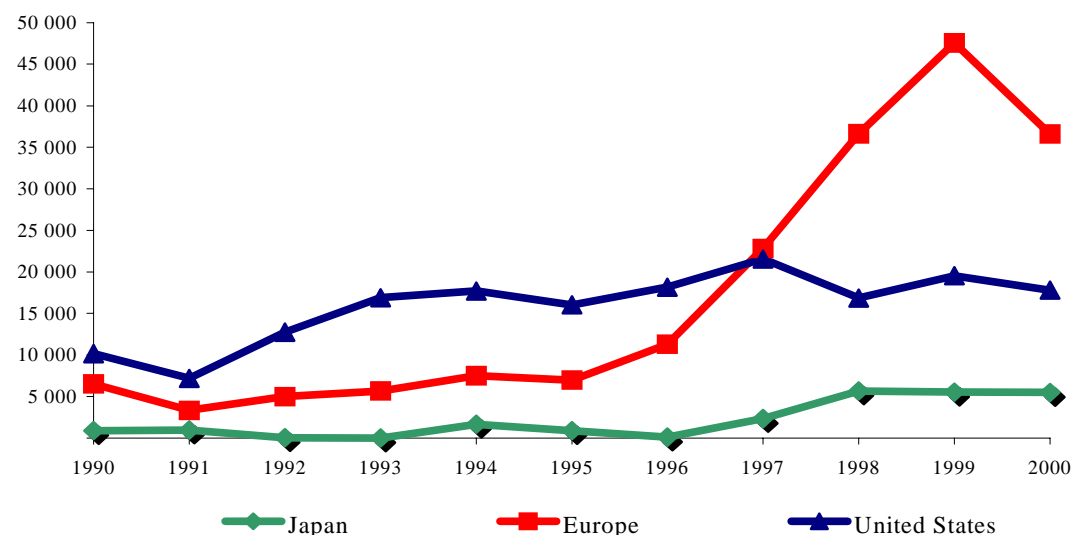
a/ Annual average.

b/ Preliminary estimates.

Although the region's three largest economies have been the main focus of attraction of FDI (more than half of the inflows in the first half of the decade and two thirds in the second), the medium-sized and small countries have received flows that are significant in relation to the size of their economies. The international financial centres located in the region have lost relative importance: they received 14% of inflows in 1990-1994, but only 5% in 1995-2000.

There have been significant changes in terms of the origin of flows, especially in the second half of the decade, when investments from Europe increased sharply (see figure 6.4). Spain, in particular, became the second largest investor in the region, after the United States, and the leading European country in this regard. Flows from the United Kingdom, the Netherlands, France, Germany, Italy and Portugal also showed significant increases, while FDI flows from Asia, especially Japan, were less brisk.

Figure 6.4
**FDI FLOWS TO LATIN AMERICA AND THE CARIBBEAN,
 BY COUNTRY OF ORIGIN, 1990-2000**
(In millions of dollars)



Source: ECLAC, Unit on Investment and Corporate Strategies, Division of Production, Productivity and Management, based on IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors*, Madrid and the Inter-American Development Bank (IDB), and on data from the central banks and statistical offices of the investing countries.

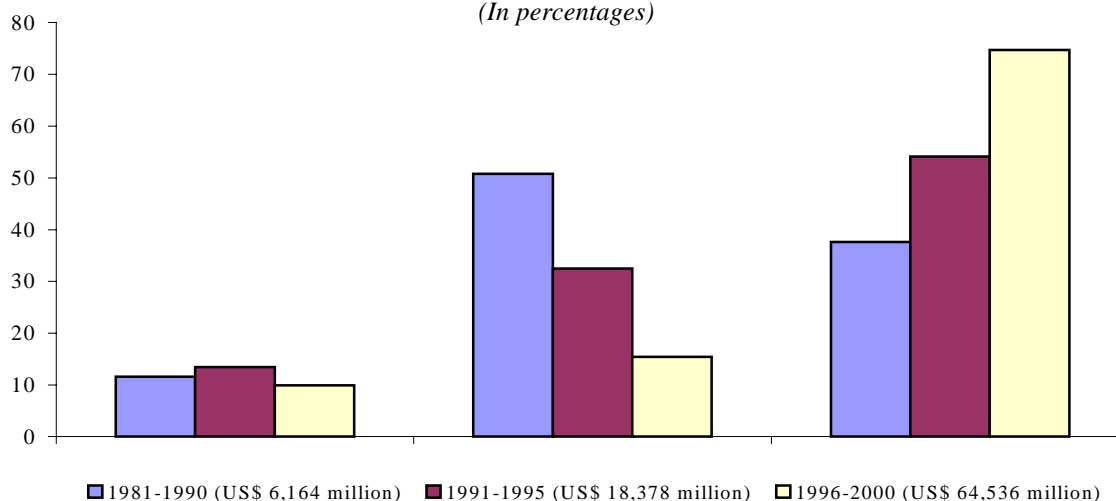
In terms of composition by sector of activity, the most decisive element in recent foreign investment trends has been the rapid growth of investment in the services sector (see figure 6.5). European FDI, in particular, has been channelled primarily to that sector, especially to telecommunications and energy, the banking sector and retail commercial chains (Calderón, 1999). Investments from the United States, once heavily concentrated in the manufacturing industry, started to diversify into services in the second half of the decade, initially with emphasis on energy and telecommunications and, more recently, on financial services.

This marks a dramatic shift in foreign investment patterns in the region, which contrast with those that prevailed in the first post-war decades and up to the late 1980s, when FDI was channelled mainly into manufacturing for the supply of protected domestic markets. Investment in these activities also changed significantly in the last decade. Owing to both changes in international market competition and the economic reforms being undertaken in the region, new transnational manufacturers entered the market and some of the older ones had to redefine their strategies. Some withdrew, opting, in some cases, to supply the domestic market through imports. Others, intent on defending or expanding their market share, rationalized their operations (basically through defensive strategies with respect to competition from imports)⁶ or

⁶ For example, a survey conducted in Brazil revealed that increased competition on the local market forced subsidiaries of transnational corporations to seek efficiency by reducing their product lines, resorting more to outsourcing arrangements and raising their import coefficient and intra-group trade (Miranda, 2001).

restructured their activities through new investments more in keeping with the new context (ECLAC,2000d).

Figure 6.5
**LAIA COUNTRIES: SECTORAL DISTRIBUTION OF FOREIGN DIRECT INVESTMENT,
1981-2000**
(In percentages)



Source: ECLAC, on the basis of figures from national sources in the recipient countries.

The nature of the new FDI structures can be determined more precisely using the classification proposed by Behrman (1972) and disseminated by Dunning (1993b, 1994). These authors have identified four types of basic strategies which foreign corporations use, depending on whether they seek (i) natural resources; (ii) markets; (iii) economic efficiency or (iv) strategic capacities (see table 6.6). In addition to these general aims, which may include multiple objectives, their actions may be either defensive or proactive.

Transnational corporations engaged in manufacturing in the region basically follow the second and third strategies. Generally speaking, a distinction can be made between those operating in South American countries and those operating in Mexico and the Caribbean Basin. In the first group, the basic objective remains market capture, but in the context of the more open economies and larger markets that have developed as a result of subregional integration processes. Major investments have been made in the automotive industry, food and beverages, machinery and equipment and chemicals. In the case of the automotive industry in MERCOSUR, some companies with a strong earlier presence, such as Ford Motors, General Motors, Volkswagen and Fiat, have made huge investments to defend their market share, especially in the compact car segment. Other transnational corporations, including DaimlerChrysler AG, Renault-Nissan, BMW, Toyota and Honda, have also entered the market seeking to secure and retain market niches.

The most obvious examples of the strategy aimed at achieving greater productive efficiency by incorporating local plants and processes into integrated production systems that operate internationally, under the leadership of different transnational corporations, are found in Mexico and, to a lesser extent, in some Caribbean Basin countries. As has already been pointed out in earlier analyses, these are, for the most part, transnational corporations seeking to take advantage of positive factors—low wages, geographic proximity and preferential access to the United States market—to enhance their capacity to compete in that market. This is very clear in the case of their involvement in the production of vehicles, computer equipment and electronics, in the garment industry under NAFTA and in the garment assembly industry in the Caribbean Basin countries.

Table 6.6
**LATIN AMERICA AND THE CARIBBEAN: STRATEGIES OF
 TRANSNATIONAL CORPORATIONS IN THE 1990s**

Corporate strategy	Efficiency	Raw materials	National or regional market access	Strategic capacities
Sector				
Primary		Oil/gas: Argentina, Bolivia Brazil, Colombia, Venezuela Minerals: Argentina, Chile, Peru		
Manufactures	Automotive: Mexico Electronics: Caribbean Basin, Mexico Clothing: Caribbean Basin, Mexico		Automotive: Mercosur Agribusiness: Argentina, Brazil and Mexico Chemicals: Brazil Cement: Colombia, Dominican Republic, Venezuela	
Services			Finance: Argentina, Brazil, Chile, Colombia, Mexico, Perú, Venezuela Telecommunications: Argentina, Brazil, Chile Peru Electric power: Argentina, Brazil, Central America, Chile, Colombia Natural gas distribution: Argentina, Brazil, Chile, Colombia Retail trade: Argentina, Brazil, Chile, Mexico	

Source: ECLAC, Unit on Investment and Corporate Strategies in the Division of Production, Productivity and Management.

In primary activities and related manufactures, most firms follow strategies that pursue a combination of the first and third of the above-mentioned objectives; that is, access to natural resources coupled with efforts to achieve productive efficiency within the framework of competition on world commodity markets. The sphere of these operations has been expanded as a result of the opening of sectors and activities previously closed to private investors and, in particular, foreign corporations. In mining and quarrying, inroads by transnational corporations were part of a new pattern for organizing production and applying new technologies. A study by Kulfas, Porta and Ramos (2002) shows that firms that have invested in agro-industry and mining in Argentina have a high export ratio. The same applies to the mining sector in Chile (Moguillansky, 1999).

With respect to services, the size of the local market, regulations and technological changes were the decisive factors for transnational investors seeking market access (the second of the strategies mentioned). This trend stems from a combination of regional and international factors. First, the privatization of State assets, public utility concessions and the large-scale liberalization of

the telecommunications, energy and financial sectors prompted the main transnational corporations to make massive inroads into regional markets. Second, the increase in global competition, changes in international regulatory frameworks and rapid and constant technological changes have promoted the globalization of these industries. In these circumstances, a group of emerging transnational corporations is starting to consolidate its position in the services sector. Its regional impact is measured in terms of the population's access to new products and services, dissemination of international best practices and contributions to the systemic competitiveness of economies.

In short, by means of these basic strategies, transnational corporations have enhanced the Latin American and Caribbean countries' linkages with the international economy. Thus, some firms in different countries of the region are beginning to join the vertical networks of some international integrated production systems, while others are joining horizontal networks with a strong presence in international markets. Such strategies are also helping to modernize certain sectors of infrastructure which are essential for building systemic competitiveness. There are still no indications, however, that any transnational corporations in the region are pursuing strategies geared to the fourth objective, namely the pursuit of strategic capacities (such as research and development), as may be observed in the OECD countries and in some Asian economies.

As in the case of the world economy as a whole, the purchase of existing assets has played an important role in foreign investors' strategies in the region. This activity was associated first with the privatization processes undertaken in Argentina, Colombia, Peru and Venezuela, among other countries, in the early and mid-1990s, and particularly in Brazil in the second half of that period. Towards the end of the decade, in contrast, the purchase of local private firms took on growing importance as part of an intense process of mergers and acquisitions in the areas of public services, banks and financial services, trade and energy firms. On the whole, however, the purchase of existing assets has represented two fifths of direct investment flows and was thus exceeded by investment in new assets (ECLAC, 2000d).

In the final years of the 1990s, the sudden increase in the share represented by mergers and acquisitions was due to the large amounts involved in a few operations. In 1997 and 1998, Brazil privatized its telephone (TELEBRAS) and electric power distribution services. In 1999, Argentina's Yacimientos Petrolíferos Fiscales (YPF) was sold to Repsol and Chile's ENERSIS was sold to Endesa-Spain. In 2000 the so-called "Operation Veronica" took place, in which Telefónica of Spain increased its ownership of its subsidiaries in Argentina, Brazil and Peru to almost 100%. Similarly, in the banking sector, the Spanish banks Banco Santander Central Hispano (BSCH) and Banco Bilbao Vizcaya Argentaria (BBVA) purchased local banks in Brazil and Mexico; in the latter country, a United States bank (Citicorp) also made a major purchase. As these examples show, one of the outstanding features of foreign investment trends was the acquisition by foreign investors, at the end of the decade, of firms which had previously been purchased by local firms under privatization processes.⁷ Two of the largest operations were the above-mentioned commercial banking purchases in Mexico and some public utility purchases in certain South American countries (Garrido, 2001; Kulfas, 2001).

The importance of the services sector in attracting FDI in recent years can be measured by its pre-eminence in the process of mergers and acquisitions. Out of a total of 494 operations in the region in 1999-2000, 347 were for services, and accounted for US\$ 67 billion (73.5%) out of a total of almost US\$ 94 billion. Almost half of the operations concerned basic services (electricity, gas, water, mail and telecommunications), while some business services (financial intermediation, computer services and related activities and other business services) accounted for another 13%.

⁷ In contrast, the locally owned Carso Group maintained control of Teléfonos de México (TELMEX).

These developments produced significant changes in the ownership structure of the region's largest firms in the 1990s. Among the 1,000 largest Latin American firms in terms of consolidated sales, the number of foreign-owned firms rose from 312 to 395 between 1990-1992 and 1998-2000, and their share of total sales grew from 29.9% to 41.6%.⁸ The number of State firms fell from 114 to 63 and their share, from 32.5% to 17.1%, while local private firms increased their share of total sales from 37.7% to 41.3% (see table 6.7).

Table 6.7
**LATIN AMERICA (10 COUNTRIES): SHARE OF TOTAL SALES IN EACH SECTOR OF
 THE 1,000 LARGEST FIRMS, BY TYPE OF OWNERSHIP**
 (1990-1992; 1994-1996; 1998-2000)
(In percentages of total)

Sectors/ownership	1990-1992 a/			1994-1996			1998-2000		
	FE	LP	PE	FE	LP	PE	FE	LP	PE
Primary sector	19.3	6.3	74.5	19.3	14.5	66.2	19.7	17.9	62.5
Mining and oil	19.3	6.3	74.5	19.3	14.5	66.2	19.7	17.9	62.5
Manufactures	48.6	45.4	6.0	53.5	44.9	1.6	55.0	44.8	0.3
Agroindustry	31.3	66.6	2.1	36.6	62.9	0.6	44.2	55.8	...
Automotive and auto parts	87.0	12.3	0.7	90.5	9.5	...	83.4	16.6	...
Electrical equipment and electronics	68.6	30.1	1.3	89.6	9.5	0.9	84.4	15.0	0.6
Engineering	9.8	57.7	32.5	15.9	73.4	10.7	30.0	70.0	...
Chemicals and pharmaceuticals	77.5	21.4	1.1	79.1	20.9	...	71.3	28.7	...
Petrochemicals	37.4	47.7	14.9	22.5	75.8	1.7	21.8	78.2	...
Cement industry	16.4	83.7	...	31.2	68.8	...	24.6	75.4	...
Cellulose and paper	11.2	79.4	9.3	18.0	82.0	...	19.4	80.6	...
Other manufactures b/	33.0	67.0	...	28.4	71.6	...	27.2	69.9	3.0
Services	10.2	53.0	36.8	19.3	54.0	26.7	36.9	49.7	13.4
Trade	13.3	84.4	2.3	22.9	75.5	1.6	37.1	60.9	2.0
Telecommunications	22.5	38.1	39.5	38.1	17.9	44.0	59.4	36.1	4.5
Electricity	0.2	6.3	93.5	11.7	20.3	68.0	34.7	18.4	46.9
Transport services	7.1	63.5	29.3	4.8	76.7	18.4	16.8	79.5	3.6
Construction	10.3	89.7	100.0	...	6.8	93.2	...
Public services	100.0	...	27.2	72.8	10.4	8.2	81.4
Other services c/	16.9	83.1	...	11.0	86.4	2.6	18.6	79.2	2.2
All sectors	29.9	37.7	32.5	35.5	42.7	21.9	41.6	41.3	17.1

Source: ECLAC, on the basis of figures provided by the Departamento de Estudios de América Economía, and figures from other financial sources: Exame (Brazil); Mercado (Argentina); Expansión (Mexico); Semana (Colombia); Estrategia (Chile); and figures from the public reports and balance sheets of the companies.

Note: FE = foreign enterprises, LP = local private firms, PE = public enterprises.

a/ The sample for this period includes only 800 companies.

b/ Includes leather and footwear, machinery and equipment, rubber and plastics, photography, publishing, glass, and the textile industry.

c/ Includes tourism.

⁸ For the years 1990-1992 the sample covers a total of 800 enterprises.

In terms of the economic sectors in which these 1,000 firms operate, the most significant changes took place in primary and service activities. In the primary sector, consisting mainly of oil and mineral extraction, State firms still predominate, although the share of local firms has grown. In the service sector, however, sales by foreign firms rose from 10.2% to 36.9%. In the manufacturing sector, foreign firms also increased their share of sales, from 48.6% to 55.0%.

As these changes in ownership took place, transnational corporations also expanded their involvement in exports. In the group of the 200 largest exporting firms, which account for almost one half (47%) of exports from the region, transnational corporations increased their share of exports from 29% in 1990-1992 to 43% in 1998-1999. It is no surprise that today, more than half of the region's 20 largest exporting firms are transnational corporations (see table 6.8).

Table 6.8
THE TWENTY LARGEST EXPORT COMPANIES IN LATIN AMERICA, 2000
(Millions of dollars)

N°	Empresa	Country	Activity	Ownership	Exports
1	PDVSA	Venezuela	Oil	State	41,462
2	PEMEX	Mexico	Oil	State	16,300
3	Delphi	Mexico	Metallurgy	Foreign	7,651
4	DaimlerChrysler	Mexico	Automotive	Foreign	6,941
5	General Motors Mexico	Mexico	Automotive	Foreign	6,768
6	Volkswagen Mexico	Mexico	Automotive	Foreign	5,174
7	Grupo Carso	Mexico	Tobacco	Local private	4,779
8	Sanborn's	Mexico	Trade	Local private	4,132
9	Ford Mexico	Mexico	Automotive	Foreign	3,514
10	Codelco	Chile	Mining	State	2,994
11	Cemex	Mexico	Cement	Local private	2,962
12	Nissan	Mexico	Automotive	Foreign	2,720
13	Ecopetrol	Colombia	Oil	State	2,565
14	Embraer	Brazil	Aviation	Local private	2,302
15	Hewlett-Packard	Mexico	Computing	Foreign	2,176
16	Grupo Minero Mexicano	Mexico	Mining	Local private	2,068
17	Repsol YPF	Argentina	Oil	Foreign	1,975
18	Lear	Mexico	Food	Foreign	1,877
19	Visteon	Mexico	Auto parts	Foreign	1,676
20	Panamerican Beverages	México	Soft drinks/beer	Foreign	1,625

Source: ECLAC, on the basis of figures provided by the Departamento de Estudios de América Economía, and figures from other financial sources: Exame (Brazil); Mercado (Argentina); Expansión (Mexico); Semana (Colombia); Estrategia (Chile); and figures from the public reports and balance sheets of the companies.

III. Integration processes in the region

1. Subregional integration schemes and intraregional free trade agreements

In the first half of the 1990s, the various subregional integration processes advanced at a rapid rate. The accords signed in 1986 between Argentina and Brazil with a view to establishing a preferential trade zone preceded the unilateral liberalization efforts of the two economies and marked the start of a revival of integration processes. In 1991, following the accession of Paraguay and Uruguay, the bilateral agreement was converted into the Treaty of Asunción, by which MERCOSUR was created. Similarly, at the end of 1989, a meeting of the Andean Presidents in the Galapagos reactivated the Andean Pact, which years later became the Andean Community. The Central American Common Market (CACM) and the Caribbean Community (CARICOM) went through similar processes.

Accordingly, at the end of 1994 MERCOSUR became a free trade area, with few exceptions, and its member States agreed to establish a common external tariff, which came fully into force for Argentina and Brazil in 2001, while Paraguay and Uruguay are to complete the process by 2006. The Andean countries, in turn, managed to liberalize most of their mutual trade in the first half of the 1990s. Colombia and Venezuela fully adopted the common external tariff in 1992, while Ecuador adopted it partially the following year. Bolivia and Peru have not yet joined the agreement and continue to apply their respective national tariffs, which are basically flat-rate.

In contrast, the negotiations that have been held since the mid-1990s to achieve a convergence of these two processes to form a free trade area and, possibly, a common market in South America have made little progress. Thus far, these efforts have resulted in two preferential trade agreements—one with Argentina and one with Brazil—concluded by the Andean Community. The Meeting of the Presidents of South America (Brasilia, 2000) gave new political impetus to this process of rapprochement, and the countries concerned are determined to complete it in the shortest possible time.

There has been free trade in CACM since the mid-1990s, although each member country maintains a significant number of safeguards and restrictions on reciprocal trade. The CARICOM countries had also liberalized most of their intraregional trade by that time. In the second half of the 1990s, the two subregional processes agreed on separate agendas for reducing and rationalizing their respective common external tariffs, but to date these agreements have not been fully implemented in relation to the most sensitive products, and there is still a degree of tariff dispersion within each grouping. This process of reduction and convergence of national tariffs is also affected by the difficulties faced by various countries, particularly the smallest ones, owing to the negative impact of tariff reductions on fiscal revenue.

At the same time, a significant number of partial agreements have been reached, almost all bilateral in nature, which have been termed "new generation". This description refers to the fact that they have demanding goals with regard to the liberalization of trade in goods and the incorporation of commitments in complementary areas such as services and investment promotion. In part, these agreements have been promoted by the new commitments and issues contained in NAFTA and have taken shape, in particular, in the bilateral and multilateral treaties in which Mexico is the primary stakeholder. In the context of LAIA, about 10 such agreements have been signed, in addition to those signed by Mexico with Costa Rica and Nicaragua, as well as a large number between member States of LAIA, on the one hand, and countries of Central America and the Caribbean, on the other, which generally provide preferential treatment to the latter.

In the context of these processes, intraregional trade recovered from the severe slump it experienced in the 1980s, expanding at a very quick pace between 1990 and 1997. Growth was particularly rapid within the two South American integration agreements. Between 1990 and 1997, trade within MERCOSUR increased fivefold, and trade within the Andean Community increased somewhat more than fourfold. Central American trade also grew quickly over this period, although not as fast as trade in the two South American blocs. A similar but less marked trend was observed in CARICOM (ECLAC, 2001b).

One result of rapid trade growth in the two South American blocs was a reversal of the historical relationship in which the level of intraregional trade was higher for smaller economies. In 1997 the largest intraregional trade flows were concentrated in MERCOSUR. In the Andean Community, if oil exports are excluded, the share of trade within the bloc was also very high. In any case, however, trade within these groupings is still far from the levels reached in the European Union, where intraregional trade has accounted for about 60% of total trade for the last few decades (Ocampo, 2001b).

Towards the end of the last decade, subregional integration processes were hard hit by the effects of the Asian crisis, which gave rise to a sharp downturn in activity throughout the region and severe crises in a number of countries. At the institutional level, compliance with existing obligations was delayed and countries were reluctant to take on new commitments. Various countries resorted to trade contingency measures (antidumping, safeguards and countervailing duties) to control imports of any origin. In contrast to the situation during the crisis of the 1980s, however, there was no generalized breakdown of compliance with the agreements. Most affected were the two South American blocs: between 1997 and 1999, MERCOSUR and the Andean Community experienced overall declines of 26% and 30%, respectively. Both blocs experienced a partial recovery in 2000-2001. Trade in CACM did not suffer such a decline; in fact, it even continued to grow. Consequently, the increase in trade within CACM for the decade as a whole was similar to that within MERCOSUR. This is explained primarily by the Central American subregion's lower level of sensitivity to the international financial crisis and its strong linkages with the United States economy, which had high growth rates in the second half of the past decade.

Commercial flows within the different integration systems not only grew very rapidly, but were also increasingly concentrated in industrial goods, especially the more technology-intensive ones. This pattern is particularly clear when Mexico is excluded, as that country's sales of manufactures to the United States have shown spectacular growth since the entry into force of NAFTA, as indicated earlier. As shown in table 6.9, the proportions of intraregional exports of non-natural resource-based manufactures (low-, mid-level and high-technology) from the MERCOSUR countries and Chile (an associate member) are higher, in all cases, than the respective proportions of exports to industrialized countries. The same is true of the Andean Community countries, although in this case it also applies to the corresponding shares of natural resource-based manufactures. In CACM and CARICOM as well, the share of all manufactures exported within the region is larger than the share exported to industrialized countries. Mexico is the only country which exports similar percentages of its manufactures to other countries of the region and to industrialized countries, mainly the United States.

The growth of trade flows and the development of new regulatory frameworks for foreign investment have brought about an unprecedented boom in intraregional direct investment. Although still modest in terms of volume compared to the very dynamic flows of FDI to the region (about 5% of the total), these flows are significant owing to certain characteristics that make them particularly important for effective integration of the region's production and trading systems. Such investments have taken place both in the manufacturing industry and in the trade and service sectors. They are also part of a broader set of responses adopted by firms in view of the new situation, which range from strategic alliances between firms located in different countries to processes of industrial concentration in which some firms in the region, particularly those in the largest countries, have played a significant role.

Table 6.9
**LATIN AMERICA AND THE CARIBBEAN: EXPORTS BY DESTINATION
 AND LEVEL OF TECHNOLOGY, 2000**
(In percentages)

Countries/Regions	Primary products		Resource-based manufactures		Low-technology manufactures		Intermediate-technology manufactures		High-technology manufactures		Unclassified products	
	Intra-regional	Industrialized	Intra-regional	Industrialized	Intra-regional	Industrialized	Intra-regional	Industrialized	Intra-regional	Industrialized	Intra-regional	Industrialized
Latin America and the Caribbean	24.6	27.0	26.0	14.3	13.1	14.7	26.5	25.0	8.1	15.6	1.6	3.5
Mexico	7.3	11.9	16.2	5.4	14.5	14.9	35.5	38.8	24.9	25.0	1.6	4.1
Mercosur	26.1	37.2	19.5	25.8	12.1	11.0	33.7	15.8	7.2	7.2	1.5	3.0
Argentina	41.8	58.4	20.2	20.9	7.4	10.1	26.2	7.2	3.4	1.6	1.1	1.7
Brazil	8.5	30.9	18.3	27.6	16.3	10.9	44.8	18.5	11.7	9.0	0.4	3.1
Paraguay	56.0	64.2	11.7	20.6	7.1	12.6	0.8	0.6	0.7	0.7	23.6	1.4
Uruguay	29.0	46.9	28.1	12.5	17.4	22.6	19.6	7.8	4.3	1.1	1.6	9.1
Andean Community	36.7	66.0	32.0	22.5	11.9	4.7	14.8	3.8	3.3	0.2	1.4	2.8
Bolivia	71.7	35.0	20.4	29.4	5.8	24.2	1.2	0.9	0.7	1.5	0.1	9.0
Colombia	21.4	72.2	21.4	10.4	20.0	7.2	26.2	5.0	7.4	0.3	3.6	4.9
Ecuador	58.7	81.4	23.9	13.3	7.6	1.9	7.4	1.0	2.3	0.4	0.1	2.0
Peru	25.3	36.5	45.3	38.6	16.3	16.8	9.2	0.8	2.0	0.1	1.9	7.1
Venezuela	38.7	66.3	39.1	27.3	7.8	1.1	12.4	4.3	1.5	0.1	0.4	0.8
Central American Common Market	11.8	31.0	29.3	4.5	22.5	44.4	22.1	3.3	10.3	15.0	4.0	1.8
Costa Rica	5.8	33.4	29.9	4.9	21.1	16.9	21.4	6.1	12.9	36.8	9.0	1.9
El Salvador	8.7	14.8	29.8	2.3	30.0	75.3	21.2	0.6	9.4	5.4	0.9	1.6
Guatemala	12.5	43.9	27.3	5.6	22.8	47.9	25.0	1.3	9.2	0.1	3.2	1.2
Honduras	11.8	21.8	35.0	3.7	16.9	70.4	23.6	2.1	12.4	0.2	0.3	1.7
Nicaragua	58.6	44.6	24.6	5.4	7.7	43.3	7.2	0.8	1.2	0.1	0.7	5.7
CARICOM	20.8	41.0	51.7	31.3	12.4	9.9	12.5	11.2	1.8	1.1	0.8	5.5
Antigua and Barbuda	4.4	16.6	19.8	9.6	26.2	1.6	46.0	68.9	2.4	1.3	1.2	2.0
Bahamas	26.9	20.0	47.0	46.8	4.1	1.7	5.1	22.8	16.7	1.7	0.1	7.0
Barbados	29.8	2.1	35.5	47.0	14.4	13.6	14.0	19.0	3.2	13.2	3.1	5.2
Dominica	7.6	39.7	7.4	14.9	5.6	7.1	77.9	21.9	1.5	7.1	0.1	9.3
Granada	24.3	47.2	38.5	2.1	28.8	1.0	7.8	38.2	0.4	1.6	0.2	9.9
Jamaica	13.3	47.8	60.6	20.4	12.7	26.8	11.9	2.5	0.7	0.3	0.9	2.3
Montserrat	24.5	18.9	51.2	6.5	11.7	15.4	11.8	18.8	0.8	36.9	0.0	3.5
Saint Kitts and Nevis	19.9	0.3	71.5	18.1	5.9	8.3	1.4	43.1	0.6	25.6	0.6	4.7
Santa Lucia	8.4	62.0	64.1	1.3	21.8	14.4	4.5	7.7	0.4	8.4	0.8	6.3
Saint Vincent and the Grenadines	49.0	42.3	32.8	0.7	13.6	3.9	4.0	47.4	0.3	1.1	0.3	4.6
Trinidad and Tobago	12.6	36.3	58.4	42.7	14.3	5.5	13.6	13.5	0.4	0.2	0.7	1.8
Belize	19.1	64.1	55.0	25.5	4.5	6.9	7.6	1.4	13.4	0.3	0.5	1.8
Guyana	46.4	31.1	44.0	36.4	5.5	3.1	2.5	2.1	1.5	0.3	0.2	27.0
Suriname	88.9	80.4	10.3	4.7	0.3	0.9	0.4	2.4	0.0	0.6	0.0	11.0
Other												
Chile	24.2	47.7	45.7	45.5	9.5	1.5	15.6	3.2	2.6	0.2	2.4	1.9
Cuba	10.0	25.2	53.5	69.1	4.0	1.6	19.7	1.7	12.5	0.3	0.4	2.0
Haiti	20.5	8.7	13.6	2.8	20.2	85.8	38.5	0.7	2.7	0.3	4.6	1.6
Cayman Islands	13.1	1.8	61.0	4.3	3.0	0.4	11.8	89.7	0.8	2.3	10.4	1.5
Panama	3.7	52.5	18.7	10.6	32.6	4.6	22.1	21.8	22.3	2.0	0.6	8.5
Dominican Republic	19.4	4.7	19.7	8.5	27.1	63.6	26.0	16.8	6.4	3.5	1.3	3.0

Source: ECLAC, on the basis of figures obtained from the CAN computer program (2002 version).

In contrast, existing subregional integration arrangements have not prompted movements of labour. In fact, labour migration essentially reflects differences in levels of relative development rather than integration processes (see chapter 8). Some of the migration flows are long-established (Argentina's attraction of labour, for example), while others have appeared or accelerated in recent years (migration to Chile, migration from Nicaragua to Costa Rica and migration from Haiti to the Dominican Republic). At the same time, some migration flows have declined or have generated return flows (from Colombia to Venezuela and, currently, from Argentina to Bolivia, Chile, Paraguay and Peru).

2. Other integration arrangements

In addition to the renewed effectiveness of the four existing imperfect customs unions, which have the ultimate aim of establishing common markets, there have been three other important developments: Mexico's integration under the North American Free Trade Agreement (NAFTA); the proliferation of free trade agreements with countries outside the region; and the negotiations on the establishment of the Free Trade Area of the Americas (FTAA).

The North American Free Trade Agreement entered into force on 1 January 1994, and is the first reciprocal understanding between a developing country and developed countries. This agreement emerged from the United States government's multitrack trade policy, Mexico's process of economic and political reform and Canada's policy of economic integration. Both the Canadian and the Mexican economies were already closely associated with that of the United States through agreements that allowed advantage to be taken of differential costs for labour factors, mainly by means of outsourcing between firms.

NAFTA provides not only for the elimination of the usual barriers to trade in goods, such as tariffs and quotas, but also for the liberalization of trade in services and the protection of intellectual property and investments. It also addresses less traditional concerns such as the environment, labour standards and human rights issues. The Agreement's most noteworthy elements include a sophisticated dispute settlement mechanism, mainly to handle complaints from member States concerning antidumping practices.

There have also been other important initiatives geared to strengthening the region's trade and investment links with other integration arrangements and countries of the world. Governments in the region have given priority to the conclusion of free trade agreements with the European Union. Mexico concluded such an agreement recently, and both Chile and MERCOSUR have made progress in this direction. Asia is another area of growing interest to Latin American governments. The preferred arrangement has been the inclusion of Latin American countries in the Asia-Pacific Economic Cooperation Council (APEC). Mexico was accepted in 1993, whereas Chile and Peru have been full members since 1997 and 1998 respectively. Lastly, some Asian countries have recently shown an interest in strengthening their bilateral ties with Latin American countries, as evidenced by the free trade agreement between the Republic of Korea and Chile.

The participants in the Third Summit of the Americas, held in Quebec in 2001, agreed that the Free Trade Area of the Americas should enter into force in 2005. FTAA is the most ambitious integration project in the world, as it will include 34 countries with a joint population of 800 million and an economy of about US\$ 10 trillion. At the same time, the signing of this agreement will require the countries involved to overcome enormous challenges: on the one hand, ensuring that all members benefit despite the huge disparities in the size of their economies and in their relative levels of development; and on the other, enabling all the countries to take full advantage of the benefits deriving from trade liberalization on the continent.

IV. The Latin American and Caribbean agenda for trade and investment

As was emphasized in chapter 2, global experience indicates that there is no single development model for market economies, nor is there any single form of participation in international networks for investment, production and marketing of goods and services. The modalities for participation depend on a combination of factors, some of which are inherent to individual firms (assets and capacities), while others are specific to the industrial branches (organization of markets) or associated with the characteristics of individual countries. The latter include the availability of natural resources, the quality of human resources, the existence or absence of innovation systems, the efficiency of infrastructure services and the quality of the institutional framework and the traditions it follows.

Diversification of production and sustained increases in productivity are the result of long-term developments involving a constant technological, commercial and institutional learning process. They therefore depend on past experience; that is, they have a high historical content. The quality of the diversification of the production system depends on the breadth and depth of the series of networks linking firms within and between sectors and on the quality of their productive resources and institutions. Competitiveness is determined by the capacity of these networks to establish links with investment, production and marketing chains that operate worldwide. Both processes are therefore essentially systemic. Accordingly, measures to ensure more rapid and lasting increases in global productivity must address all these components. This means implementing not only neutral or horizontal policies (that is, policies that are independent of the sector in question), but also targeted policies that have a lasting impact on systemic competitiveness and production chains.

In recent years, multilateral regulations have reduced the amount of leeway available to countries in the design and implementation of incentive systems to achieve these ends. However, the practices of the industrialized countries themselves show that there is still room for active economic and social policies, despite the commitments undertaken within WTO. In this regard, the regional sphere offers an opportunity to enhance productive complementarity, learning processes and integration of physical infrastructure, as well as the bargaining power of individual countries in relation to global-level organizations and the large corporations operating in the region (see chapter 4). It is thus important that national and regional efforts should be supported by the fine-tuning of multilateral rules to create a macroeconomic and financial framework that helps to reduce the external vulnerability of the region's economies. Steps should be taken to consolidate legal stability in order to guarantee market access for the goods and services produced in the region and, at the same time, to open up opportunities for diversifying the production structure and, especially, exports.

1. The national agenda: export promotion policies

As shown in chapter 4, the creation of systemic competitiveness is the focus of actions at the national level. This involves the development of innovation systems, as will be analysed in chapter 7; the provision of high-quality infrastructure services, as discussed in previous publications (ECLAC, 2000a and 2001a); and the implementation of policies to diversify the production structure, which will be the focus of this chapter.

In the current phase of globalization, the process of diversifying the production structure requires, first of all, an explicit effort to broaden the export base and increase the number of target markets. As noted earlier, while undeniable progress has been made, in the 1990s the external sector was still a fundamental constraint on the growth of the Latin American and Caribbean economies. Many of the countries based their international participation on a limited number of products in

sectors showing slow growth at the global level. Those countries that did manage to enter dynamic sectors, such as Mexico and some Caribbean countries, also show the highest degrees of concentration in the target markets for their exports, which are directed primarily to the United States.

The key to any export promotion policy is a competitive exchange rate. This is especially true when countries are making the transition to more open economies, as is still the case in the region. Therefore, reaching and maintaining a competitive exchange rate should be an essential and explicit objective of macroeconomic policy and one of its main contributions to growth in open economies.

Active commercial diplomacy is another basic element. The aim of this strategy is to guarantee market access, identify new opportunities and combat the various practices that restrict free trade. It is therefore necessary to train high-level negotiating teams and to develop appropriate mechanisms for communication between these teams and the private sector and for keeping prospective exporters apprised of opportunities offered by different preferential agreements or arrangements. It is also important to create expert groups that can make efficient use of the dispute settlement mechanisms established under trade agreements, particularly those of WTO. This means that joint teams of experts should be formed with the smaller countries and that effective tools should be developed to provide multilateral support to their governments.

Lastly, a competitive exchange rate and commercial diplomacy should be complemented by a comprehensive export promotion policy geared to diversifying the export base, especially in favour of more technology-intensive areas, and to reducing the concentration of exports on just one or a few target markets. Export promotion instruments should be adapted continually to make them more efficient and, at the same time, more consistent with the commitments made under WTO and other trade agreements. This should not, however, preclude efforts in future WTO negotiations to expand developing countries' range of action, which was severely limited as a result of the Uruguay Round. In this regard, special efforts should be made to secure greater freedom to promote incipient export sectors, in some cases reinstating rules that allow improved internal linkage of export activities. At least in the relatively smaller countries, some of the special benefits of free zones should be maintained, even though current regulations call for them to be dismantled in the coming years.

The first instrument of this comprehensive policy to promote external trade is the provision, to export firms, of ready access to imported inputs at international prices, either by refunding indirect taxes or by waiving tariffs. The latter is the most effective tool for regular exporters and in fact has been the key to export growth in South-East Asia and Mexico. In addition to improving these instruments, governments should develop other mechanisms to allow indirect exporters—that is, firms that sell inputs to direct exporters—to recover the duties and other indirect taxes they pay. This is necessary to strengthen the backward linkages of exports and enhance the stimulating effect of export growth on the rest of the national economy, as discussed below.

Access to financing and to export insurance is another essential component of export promotion policies that has become increasingly important worldwide, particularly for small and medium-sized enterprises that do not have access to foreign credit. With a few noteworthy exceptions (including Brazil, Colombia and Mexico), the application of this measure is still quite deficient, especially with regard to export insurance.

A third instrument is the establishment of public or mixed export promotion agencies and the use of these agencies' foreign branch-office networks or of diplomatic delegations to boost exports. These agencies can make a decisive contribution to facilitating access to the information needed to export products, and can provide data to prospective buyers on the supply of exports. They can also play an important role in encouraging exporters to organize in different ways, by product or by target market, to take advantage of economies of scale and the externalities arising out of their combined presence in international markets. Making more active use of these institutions to forge

close ties of cooperation with trade associations of exporters or producers and with private businesses that offer complementary information services for export firms, as well as certification of quality and environmental standards, can be a key factor in making the export sector more dynamic.⁹

One type of activity that has not received enough impetus is the establishment of an investment banking industry or other private entities specializing in channelling venture capital towards new activities or firms involved in diversifying the export base. For decades, public development banks in several countries played a prominent role in promoting new investment, first for import substitution but later, increasingly, for exports. Some of these institutions are still engaged in the latter activity. The decline in their relative importance has not, however, been offset by private initiatives. Despite a few isolated efforts, the Export Promotion Office of Chile (PROCHILE) is still unique in this regard. Such efforts should be integrated with those aimed at promoting high-technology enterprises.

Although the new WTO rules restrict most export subsidies, there is still room for designing incentive programmes which some countries can use to support innovations in the export sector.¹⁰ In establishing incentive programmes, it is important to observe the following criteria: they must be designed to promote exports of new products or to new markets; the support must be moderate and must target firms that are really willing to share the cost of the programme; the assistance must be temporary; in order to avoid permanent subsidies, the results of the programmes must be subject to periodic external evaluations so that they can be modified or suspended if they do not contribute to an increase and diversification of exports; and the programmes must be jointly designed and administered by entities of both the public and private sectors.

The development of free zones merits some special consideration. Today there are about 200 such areas throughout Latin America and the Caribbean, involving both trade and production. On the whole they have been an important vehicle for job creation¹¹ and new exports. For this reason, some smaller countries in Central America and the Caribbean now see them as one of the fundamental elements in their development strategy. The incentives they offer are subject to scrutiny by WTO, given that they entail export subsidies. In this regard, under current agreements, the income tax exemptions offered by many free zones should be phased out by 2005. Another appreciable benefit offered by these areas is exemption from tariffs on inputs and capital goods, which have also declined in importance due to the overall reduction in tariffs and the proliferation of free trade agreements, as well as the creation of general tariff refund or waiver systems. The rules of origin typically included in trade agreements also limit their benefits.

For this reason, the survival of subsidies will depend less on the tax benefits they offer than on the efficacy of their distribution and production support services and the agglomeration economies they manage to create. Moreover, it should be noted that, according to a recent ECLAC study (Buitelaar, Padilla and Urrutia, 1999), *maquila* industries, which tend to develop in free zones, can —under certain conditions— promote various forms of learning and technical progress. In this process, the ability to develop quality control engineering, which improves the chances of gaining a foothold in more specialized product niches with greater value added, is of particular importance.

⁹ In this sphere, the Export Promotion Office (PROEXPORT) of Colombia, the Export Promotion Office of Chile (PROCHILE) and the Banco Nacional de Comercio Exterior (BANCOMEXT) of Mexico are some of the best examples of promotion agencies in the region.

¹⁰ In particular, WTO allows the use of horizontal subsidies (not specific to export activities per se). Subsidies are authorized for technological development projects to cover up to 75% of their costs. There is also leeway for some direct subsidies under the *de minimis* clause (GATT, 1994; Tussie, 1997).

¹¹ Clothing assembly, for example, provides approximately one million direct jobs in the countries of the Caribbean basin, including Mexico.

2. The national agenda: policies on linkages and clusters

A country's success in positioning itself within the international economy is not measured only in terms of the percentage of GDP represented by its exports, the growth rate and diversification of its export products and by a reduction in the concentration of destination markets. Consideration should also be given to how well the export sector is integrated into the national production system and how much it contributes to the progressive leveling of productivity rates throughout the national economy as a whole. The combination of high export growth rates with low overall economic growth in the countries of the region is a sign that the weakness of the linkages existing between dynamic sectors -associated with export activity and foreign investment, among other factors- and production activity as a whole is having adverse macroeconomic effects. In addition, various ECLAC studies indicate that total factor productivity is not increasing fast enough to reduce the productivity gap between the region and the developed world (ECLAC, 2000a and 2001a, Katz, 2000). Furthermore, the fact that some sectors and firms are undergoing a rapid modernization process at the same time that informal labour is expanding is an unmistakable sign of growing structural heterogeneity, which denotes situations in which firms, social sectors and regions have sharply differing levels of productivity (ECLAC, 2000a).

These trends indicate that efforts to enhance export development should be accompanied by policies that will expand the national and regional linkages of activities geared to the world market. The economic literature reflects a consensus that market mechanisms alone do not generate spillovers from export activities and foreign investment to the less dynamic sectors (Baldwin, 1956). As a result, policies and institutions are needed to implement and/or accelerate, as appropriate, the growth impulses which the firms that are more fully integrated into the world economy can transmit to the economy as a whole. Policies designed to create more and better production linkages should be based on four complementary lines of action: the development of business support enterprises (backward linkages), progression along the value chain (forward linkages), the promotion of various forms of association among business enterprises; and the provision of logistical services that can be outsourced by such firms.

The first of these lines of action will involve negotiating with large firms, particularly transnational corporations, in order to induce them to promote the operations of business support firms that can increase the local content of inputs, parts and components in final export goods and thus create backward linkages. This potential exists in various sorts of internationally integrated production systems (e.g., the automotive, electronic and aeronautics industries). A number of recent cases illustrate the power of such initiatives. For example, the main aircraft manufacturers (Boeing Corporation, General Dynamics Corporation, Honeywell Aerospace and General Electric Aircraft Engines) have announced their decision to make Mexico the base for the manufacture and assembly of parts for their various models and, to this end, have arranged for their suppliers to visit a number of industrial parks in that country. In Brazil, the production facilities of General Motors, in Gravataí, and of Volkswagen and Renault, in Paraná, were set up at the same time as those of their suppliers because their production processes are organized in such a way that their vehicle parts and components have to be supplied as integrated systems. In Peru, domestic purchasing by the mining industry is concentrated in energy and in engineering, construction and environmental services, but there is considerable potential for increasing local supply as Peruvian firms raise the quality of their products and lower their costs in order to meet the standards of the large-scale mining industry (UNCTAD, 2001). The tourism industry—a particularly important activity for the countries of the Caribbean basin, but one that has growing potential for other countries as well—also offers significant opportunities for expanding the local supply of inputs, which in many cases is surprisingly limited. The success of all these initiatives will, of course, depend on what supplier development programmes that relevant governments and the private sector manage to implement and on the levels of quality, speed and reliability that they attain.

The above actions focus on strengthening the backward linkages of exported goods, but it is also possible to promote the development of forward linkages, in line with the now classic distinction drawn by Hirschmann (1958). These types of initiatives are critical in order to progress along the value chain which begins —mainly, but not exclusively— with the use of natural resources. Such efforts may be particularly important for the South American countries, since, as noted earlier, they are exporters of natural resources and manufactures based on those resources. In the majority of cases, however, the countries will have to move a long way up these value chains before they reach the point where they are exporting goods with a higher level of processing and technological content in the food, lumber and paper, petroleum and petroleum products, and mining-based industries. This line of action is also applicable to assembly activities, where opportunities exist to move towards more complex products, as appears to be happening in Mexico. The tourism industry also offers the possibility of moving on from the operations of hotels to the organization of tourism packages, recreational activities, cultural events and time-share systems.

The most productive linkages, of both types, can be promoted through a variety of business partnership schemes, of which there are three main types: joint ventures between large corporations, licensing and franchising arrangements between a large corporation and several small firms, and enterprises involving a number of SMEs. Joint ventures basically combine the assets of two or more firms. One example would be a venture in which the process or product technology of a transnational corporation is combined with the market access and local-market knowledge of local firms. Another is when firms that are located in different countries and have complementary assets establish partnership agreements within the framework of subregional integration processes in order to gain markets in other countries. The aim of the second type of partnership is to establish a set of shared technical standards, quality control regulations, and trade and management practices. Examples of this type of scheme include supplier development programmes and licensing or franchise operations. The negotiations between Costa Rica and the transnational Intel Corporation are an interesting example of such a scheme because a key stipulation of the agreement refers to the modernization of local suppliers and their integration into the corporation's network. One of the reasons why this was possible was that the Government of Costa Rica and the local Chamber of Industry, together with other institutions, were already conducting a series of programmes to provide SMEs with the technological, commercial and management training they needed to join the production chains of large local and foreign corporations. Lastly, partnerships among SMEs allow them to pool information, resources, markets or support services in order to coordinate their capacities or knowledge more effectively. These schemes are generally based on a local industrial structure, such as an industrial district.

The final linkage-building mechanism is the development of logistical, quality-control, marketing and technical consultancy services, which all come under the general heading of business services. Evidence can be found in the region of the potential offered by these linkages within the framework of outsourcing arrangements. For example, a breakdown of the gross product of Buenos Aires shows considerable growth in information sciences and related activities, engineering design and development, and other business services, which together generated around 13% of the city's employment and 11% of its value added in 2000 (ECLAC, 2000e). In Brazil, the State of São Paulo is the main centre for technology and services. A recent survey conducted by the Brazilian Geographical and Statistical Institute (IBGE) found that non-financial enterprises that provide specialized services to other firms generate sales of over US\$ 13 billion per year and employ almost one million people (IBGE, 2002). In Chile, a survey of engineering consultancy firms found that the main source of demand for their services is generated by resource-intensive sectors of production. In the wine industry, for example, these firms provide coding and quality control, project design and implementation, sanitary controls, water purification and treatment, and plant construction, among other services (Acosta, 2002).

The development of production linkages has its spatial expression in the formation of production clusters. A cluster is generally defined as a geographical and/or sectoral concentration of firms engaged in the same or closely linked activities which allow them to accumulate substantial external economies of agglomeration and specialization and to act jointly in order to achieve greater collective efficiency. There are a number of mature production clusters in the world,¹² and some incipient ones in Latin America and the Caribbean. These include a cluster in the footwear industry in New Hamburg, Brazil, an oilseed complex in Argentina and the clusters that have developed around the copper industry in Chile, the iron and steel sector in Brazil and the forestry industry in both Chile and Brazil.¹³

Well-designed public policies to encourage interaction between firms, make markets function better and strengthen learning, research and technological innovation capacities are essential at all stages in the development of clusters. The main lines of action for such policies are: (i) to conduct, in conjunction with the private sector, strategic planning exercises to analyse the development potential of input- and equipment-supplying activities and of increasingly complex processing industries and related services, in particular engineering and consultancy; (ii) to target those activities within existing clusters that are most in need of foreign investment —because of the advanced status of their technology, their need for access to international markets, or the amounts involved— and make them the focus of efforts to attract the most suitable transnational corporations; (iii) to identify key matrix technologies for cluster development, to help them to maintain a dominant cutting-edge position at the local level through selective R&D policies, and to facilitate technological updating and adaptation through missions abroad, the promotion of licensing arrangements and joint ventures; and (iv) to determine the infrastructure needs of the cluster in the short, medium and long terms, especially in the areas which are of greatest public interest and responsibility, such as physical, scientific and technological infrastructure and human resource endowments (especially of skilled and highly skilled technicians and professionals) (Ramos, 1998).

3. The regional agenda

Existing regional agreements have displayed a disturbingly high degree of vulnerability to the crises that have hit the South American economies in recent years. This suggests that, in addition to questions relating specifically to the integration of production and trade, the integration agenda should address the issues that have long been debated in connection with what has become known as the international financial architecture. Yet thus far only one of these issues —the coordination of macroeconomic policies— has begun to figure on integration agendas (ECLAC, 2002). The experience of the European countries over the last quarter of a century offers a clear demonstration of the difficulties involved in this process. Although a number of optimistic analyses have been put forward on the subject, some of which even refer to common subregional currencies, it is clear that the objectives must necessarily be modest in the short term. The harmonization of fiscal rules and the establishment of mechanisms for pursuing a dialogue (and perhaps, in time, mutual oversight) regarding monetary policies should be the immediate objectives.

Intraregional trade has demonstrated that regional agreements can be an important tool for encouraging export diversification with a view to creating more interconnected markets that enable firms located in the region to benefit from economies of scale. It is widely acknowledged that

¹² The most successful include the industrial districts of Emilia Romagna in Italy and Baden Wurttemberg in Germany, Silicon Valley and Route 128 in the United States, the newly developed computer industry in Ireland and electronics industry in Scotland, electronics and software clusters in Bangalore, India, the cluster that has formed around the production of simple surgical instruments in Sialkot, Pakistan, and a microelectronics cluster in the Hsinchu Science Park in Taiwan, Province of China.

¹³ Since 1997, ECLAC has been conducting a research and technical cooperation programme that focuses on the production clusters that develop around natural resources (see Buitelaar, 2001 and Dirven, 2001).

regional markets play a key role in expanding non-traditional exports, creating product and brand differentiation, and producing more knowledge-intensive goods and services with greater value added. The learning curve that starts with experience in regional markets may thus serve as a trampoline to new international markets. Current technologies and modalities for the organization of production enable firms to engage in joint actions without running up against the problems inherent in the old schemes of sectoral complementarity. Joint action of this nature should form part of broader agreements on the integration of technological R&D efforts that can, in turn, lead to the formation of true regional innovation systems (see chapter 7) and serve as a means to transfer technology to less developed countries.

In the agricultural sector, technological complementarity agreements and the development of phytosanitary rules could form the basis of a common policy. The difficulties associated with the asymmetry of existing production schemes—owing to the use of price bands in a number of countries—demonstrate the importance of implementing joint schemes (based, perhaps, on regional stabilization funds) to mitigate the internal transmission of the sharp price cycles characteristic of some agricultural goods.

The regional arena also offers considerable growth opportunities for SME exports. These firms, in particular, stand to gain a great deal from using regional markets as a platform for learning about export activity. Practical experience can be gained in the regional arena regarding such facets of the export process as delivery times, quality control, technical assistance, marketing and participation in trade fairs. In addition, the regional market is large enough to offer SMEs the different market scales they may need to increase their efficiency. Contact with neighbouring markets also helps SMEs to improve their technological and management practices as they exchange experiences and learn to become more adaptable.

From a regulatory and institutional perspective, countries tend to be more willing to accept new objectives and issues and to undertake greater commitments within the framework of regional schemes than they are in multilateral agreements. In a number of areas, moreover, the regional process can proceed more quickly and produce more concrete trade and investment results than the multilateral process. Regional agreements can thus facilitate liberalization and coordination in areas that are too complex to be negotiated or very difficult to address in multilateral forums. For example, in sensitive areas such as government procurement, antidumping measures and services agreements, policies for liberalization and the regulation of competition may be more viable in a regional context than in the global forums. Regional integration agreements are also more conducive to debates on subjects such as the establishment of rules and technical standards. Indeed, great strides have already been taken in many of these fields in Latin America and the Caribbean.

With respect to physical infrastructure (transport, telecommunications and energy), it is important to develop networks that will serve the purpose of regional integration rather than simply in order to meet domestic requirements. The South American Summit of 2000 and the Puebla-Panama Plan, which was signed in 2001 by the Presidents of Mexico and the Central American countries, represented an important step towards visualizing infrastructure as an essential dimension of regional integration. The development of regional oil and gas pipelines and electricity distribution networks would clearly help to boost trade in energy, whose potential is already apparent in number of binational schemes. Recent experience shows that projects in this area, as well as in transport and communications, are capable of attracting substantial public and private resources. The Inter-American Development Bank, together with subregional and national development banks, has already begun to assign priority to financing projects of this type.

Harmonized transport regulations and more appropriate customs rules are also crucial elements in facilitating intraregional trade. In addition, telecommunications infrastructure and

regulations must be made compatible across countries in order to develop a more dynamic regional market for industries associated with information and communications technology.

This view of infrastructure as a dimension of integration implies the need to develop a similar perspective with regard to national territories. Progress has been made towards creating a vision of this sort in relation to the sustainable development of shared ecosystems (the Amazon, the Andean ecosystem and the Central American corridor) and hydrographic basins. Border-area development plans offer another example of this integration-generated shift in the conceptualization of national territories. These processes are incipient, however, and their strategic importance is only just beginning to be recognized.

Great potential gains are offered by the regional harmonization of rules in a large number of areas, but regulations on competition and public utilities, in particular, merit closer attention. With respect to rules on competition, the European experience suggests that as markets become more integrated and consolidated, a common competition policy has clear advantages over the unfair competition rules that are usually attached to trade and integration agreements. One of various advantages afforded by a framework of this sort is that it permits more effective management of the operations of transnational corporations in the different countries.

The idea that market regulation can serve as an arena for regional policy is equally applicable to utilities (particularly energy and telecommunications). The harmonization of regulatory standards could play an important role, given the heavy involvement of transnational corporations in these sectors in a number of countries and the difficulties encountered by national authorities in ensuring effective competition. In particular, harmonization would preclude arbitrage between different regulatory frameworks and would foster competition, not only within countries, but also at the subregional or regional levels.

WTO provides a set of rules and disciplines that offer protection and guarantees for legitimate national interests in trade relations. In this respect, subregional and regional forums are essential for exchanging information, consolidating positions on trade negotiations at the hemispheric and global levels, and defending member countries from infringements of the established rules. Regional and subregional agencies provide a natural channel for the convergence (coordination, harmonization and unification) of criteria for the definition of rules that, without violating global rules, take regional and subregional interests into account. This would make it possible to agree upon common rules and disciplines for the regulation of services, for intellectual property legislation (for example, in the controversial area of pharmaceutical patents) and for trade-related investment measures.

In order to move forward in these areas, the region needs a much stronger institutional structure, especially for subregional integration agreements and, at some future point, perhaps for broader initiatives. This is the only way that the region can make progress in the areas of macroeconomic coordination, common competition and regulatory policies, physical infrastructure for integration, and the advocacy of common interests within hemispheric and global processes. These institutions also play a key role in protecting the interests of smaller countries with respect to their larger partners within the agreements and, hence, in fostering confidence in these integration processes.

4. The international agenda

The globalization process has taken international trade negotiations far beyond conventional agreements on the cross-border purchase and sale of goods (tariff or quantitative restrictions) to touch upon issues that previously fell exclusively within the domain of national policy (services, international movements of the factors of production, regulatory regimes, environmental and labour standards, etc.). In consequence, today the issue of market access must be addressed in a much more

integrated and consistent manner than in the past, encompassing a range of actions from trade policy to investment and competition policy. This systemic approach makes it necessary to define and implement suitable and coherent policies on a variety of fronts and to back them up with technically solid and operationally versatile institutions.

In chapter 4 it was mentioned that multilateral rules are now being oriented towards the establishment of a uniform regulatory framework premised upon the need for a “level playing field”. This shift, however, has failed to take account of the asymmetries existing among the various players in the world economy. This approach is not only inappropriate, but also overlooks features that were essential to the economic convergence of today’s developed countries. The European integration experience is an ample demonstration of this. The incorporation of Spain, Greece and Portugal and the subsequent unification of Germany show that the convergence of regulatory and institutional models among countries and regions carries a high cost which can only be met through redistributive action on a basis of solidarity.

The main apprehensions among the countries of the region with respect to the current process of multilateral negotiations are the following: (i) serious limitations on access to sectors that are essential to the development of the countries of the region; (ii) restrictions imposed by the Uruguay Round on the developing countries’ manoeuvring room in defining their own policies; (iii) the complex institutional adjustments called for in a number of the agreements and the shortness of the transition periods provided for making those adjustments; (iv) scant consideration of the difficulties they have to overcome in order to meet the higher requirements established for their exports; (v) the few concrete, effective results obtained from the Uruguay Round provisions on special and differential treatment for developing countries; and (vi) the fear that recognition of legitimate demands for the right to work and for environmental protection may be transformed into trade barriers and obstacles to a more balanced integration of the developing countries into world markets.

If these problems are to be overcome, the international community must recognize the legitimacy of the developing countries’ use of an array of policy tools to improve their position in the global economy. This means that these countries need to maintain their prerogative to design and pursue investment and diversification policies in order to take greater advantage of the opportunities offered by international markets. The negotiating interests of the Latin American and Caribbean countries are therefore grouped around two different, but related, sets of issues: first, issues relating to market access, which are essentially static, since they refer to the markets existing within the current production and export structure; and second, issues of “policy space,” which involve the use of policy tools directed at diversifying countries’ trade patterns in order to gain a stake in the dynamic segments of the globalized economy.¹⁴

It is therefore essential that the development dimension of trade negotiations should be expressed as a genuine commitment on the part of the international community not only to open up crucial markets for developing countries, but also to create an environment conducive to the development of more dynamic production structures that will enable them to improve their international position. In the preparatory activities for the Fourth WTO Ministerial Conference, held in Doha, Qatar, in November 2001, the developing countries succeeded in arriving at a united position regarding their demand that multilateral rules should offer a real opportunity for them to

¹⁴ A proposal made by the Government of Venezuela in 1998 suggests that several issues addressed in the agreements, such as those concerning Trade-Related Investment Measures (TRIMs) and aspects of intellectual property rights associated with trade (TRIPs), should be consolidated within a multilateral framework for investment. This framework would be broader than a multilateral agreement on the protection of foreign investment (“Espacio de las Políticas de Desarrollo en las Negociaciones del Milenio”, Geneva, 22 December 1998).

diversify their production structures and reduce their economies' external vulnerability.¹⁵ This position was acknowledged as legitimate in the negotiating mandate which was agreed upon at the meeting and should form the basis for giving real and effective meaning to the term "special and differential treatment".

This requires that the negotiations produce explicit and enforceable commitments in favour of developing countries on both old and new issues. These issues include: the liberalization of trade in agricultural products, to include reductions in current levels of protection, the gradual elimination of the "tariff-quota" system applied to agricultural products (which in practice operates more as a quantitative restriction than as a tariff), the discontinuation of export subsidies and substantial reductions in agricultural subsidies in developed countries; a more rapid reduction of the industrialized countries' trade barriers affecting manufactures, in particular labour-intensive goods such as textiles and clothing, and those on which tariff escalation hampers the development of forward linkages with resource-intensive activities; the strengthening of WTO rules and disciplines in order to prevent abuses, in particular with respect to antidumping measures; measures to ensure that technical rules, including sanitary and phytosanitary regulations, do not become barriers to trade; and liberalization of trade in services that are of particular interest in terms of developing-country exports, which means that the negotiations must address the question of labour migration and the formulation of rules to govern short-term employment in another country.

In the sphere of global economic negotiations on trade and on financial issues, the developing countries must emphasize their need for special and differential treatment that will enable them to increase their rate of development. It is particularly important to consolidate progress that has already been made in the different international agreements on this subject and to prevent any ground from being lost in this regard. In practice, special and differential treatment as applied to trade issues consists of two basic elements: non-reciprocal improvements in the access of developing countries' exports to the markets of industrialized countries; and flexibility and discretionality in developing countries' policies with respect to their own markets.

This means that the negotiations should ensure, first of all, that the industrialized countries will provide meaningful access to the sectors and modalities of supply that are of interest to developing-country exporters. It also means that the industrialized countries should make a commitment to concentrate their demand in those sectors and types of transactions that the developing countries are prepared to liberalize. Furthermore, the industrialized countries should undertake not to insist on the removal of the conditions that each developing country attaches to its commitments. Lastly, in order to secure developing countries' right to pursue policies to strengthen their services sectors and accomplish national policy objectives, the measures they adopt and the associated regulations must continue to be governed exclusively by national legislation (article VI of the General Agreement on Trade in Services). In this respect, in keeping with the sentiments of many developing countries, the negotiating guidelines for trade in services appear to represent an improvement in their negotiating position. The guidelines provide that the Council on Trade in

¹⁵ The proposals on specific issues raised by the developing countries reflect interests such as the following: increasing their role in the trading system and in the institutions that govern it, having greater flexibility in meeting commitments, securing access to goods and services markets –sectors and modes– of interest to them, and maintaining or broadening the conditions for implementing development policies. They have also shown an interest in upgrading the multilateral structure of institutions to promote participation, transparency and dispute settlement and in strengthening a number of disciplines which they consider to have been especially costly for them to implement, such as antidumping measures. Lastly, the developing countries have been reluctant to become involved in negotiations on new issues –such as investment and competition– before the existing difficulties with respect to the implementation of the Uruguay Round agreements have been resolved (ECLAC 2002).

Services is to suggest ways and means to accomplish the goal of wider participation by developing countries in services trade.¹⁶

Lastly, special and differential treatment should include the right of developing countries to regulate their economic activities in such a way as to pursue development objectives, to maintain some barriers to trade and to furnish adequate support for local firms. In accordance with the analysis conducted in the two previous sections, the most critical elements of flexibility are those needed to facilitate the adoption of comprehensive export-promotion policies designed to guarantee the diversification of the export base and of destination markets and of policies to improve national and regional production linkages in the activities that are most closely associated with international markets.

Trade-related aspects of intellectual property rights must not be allowed to become an obstacle to the transfer of new technology to developing countries or to attach too high a cost to the process. They must also be made to work as an effective instrument to protect areas of interest for developing countries, such as traditional knowledge and biological wealth (see chapter 7). The countries of the region must conduct an objective analysis of the costs and benefits inherent in negotiations on new issues—particularly investment and competition—while difficulties with the implementation of the Uruguay Round agreements remain. In this respect, even taking into account the positive aspects of negotiations on these issues, it has not been clearly established that WTO would be the most appropriate forum for efforts to advance in these spheres of international cooperation (see chapter 4).

The Latin American and Caribbean region's participation in multilateral negotiations on trade in goods and services is taking place alongside a number of other ongoing negotiation processes with industrialized countries. The Free Trade Area of the Americas (FTAA) initiative merits particular attention within this context both because it is intrinsically important and because the pace of the negotiations has recently been stepped up. The FTAA negotiating agenda is broad and varied, ranging from traditional issues such as access to goods markets to trade in services and the protection of intellectual property. The negotiations seek to be consistent with WTO rules and disciplines and—where possible and appropriate—to improve upon them. A number of issues, however, such as investment and competition policies, transcend the WTO framework.

The FTAA disciplines would require the creation, and in some cases the reformulation, of national rules and institutions governing the protection of intellectual property, the development and administration of standards, and the design and implementation of competition policy, among others. The countries stand to benefit from the adoption of common disciplines that strengthen national reform policies. These disciplines can also require some difficult policy choices, however, especially for the less developed countries. For example, restrictions on requirements regarding local or technological content can prevent countries from using these policy tools to foster the diversification of the economy and export base. By the same token, the liberalization of financial services may hinder the appropriate management of capital account volatility and may thus make many countries more vulnerable to financial cycles, with the resulting effects on the sustainability of trade flows.

For many Latin American and Caribbean countries, the benefits to be obtained from increased market access and from trade liberalization will depend on their being able to pursue

¹⁶ Paragraph 2 of the section on the objectives and principles of the negotiating guidelines is of particular interest in this respect, as it indicates that, "The negotiations shall aim to increase the participation of developing countries in trade in services". Paragraph 3 of the same section goes on to specify that, "The process of liberalization shall take place with due respect for national policy objectives, the level of development and the size of economies of individual Members, both overall and in individual sectors. Due consideration should be given to the needs of small and medium-sized service suppliers, particularly those of developing countries." See (WTO, 2001).

active policies to increase systemic competitiveness and thus expand their exports. In addition, the diversification of exports to include products with greater value added and greater technological content and the expansion of their linkages with the rest of production activity are vital in order to translate increased export capacity into economic growth. Mechanisms are also required for restructuring firms and, eventually, non-competitive sectors, on the one hand, and for enabling SMEs to participate in hemispheric trade flows, on the other. In fact, it is of crucial importance for the new rules and institutions to be based on a recognition of the asymmetries existing between countries. This is the only way that the fragile production structures of many Latin American and Caribbean countries can be strengthened while at the same time promoting new sustainable and dynamic comparative advantages.

It must be emphasized that free trade alone cannot guarantee convergence in levels of development within the framework of a process as complex as FTAA. This is why, as discussed in chapter 4, two additional elements are absolutely vital: increased international mobility of labour and the transfer of resources from more to less advanced regions for the explicit purpose of ensuring the convergence of levels of development. These elements have, moreover, played a key role in the consolidation of the most successful integration process the world has seen thus far, the European Union.