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Latin American Exports to the Industrialized Countries 25X1

Summary

Latin America's export earnings in the 1980s have slowed considerably from their rapid growth in the 1970s largely because of unfavorable trends in industrialized country markets. Notable among these trends have been a decline in OECD growth, slumping prices for primary commodities, a rise in industrialized country protectionism, and an increase in the value of the US dollar against West European and Japanese currencies. The United States substantially outperformed all other industrialized countries in expanding its purchases of Latin American goods. 25X1

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The growth of Latin America's export earnings, which is critical to the region's debt servicing capabilities, has slowed considerably from a robust average annual pace of more than 18 percent in the 1970s to about 5 percent during the 1980s.*
In our judgment, the dramatic deceleration of Latin American exports has been mainly the result of unfavorable trends in industrialized country--especially West European and Japanese--markets, which normally absorb more than 70 percent of the region's foreign sales. Although government policies in Latin America are not, on average, strongly conducive to export growth, they have not changed much since the 1970s. 25X1

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* We relied on industrialized partners' trade returns to construct a comprehensive and reliable data series extending from 1979 through 1985 because comparable statistics generated by Latin American governments were far less complete, especially for recent years. As a result, data for Latin American exports are actually partner country imports, c.i.f. We used two-year dollar value averages for 1984-85 and 1979-80 to reduce single-year phenomena, such as the sharp increase in the international price of oil that occurred between 1978 and 1980. 25X1

This memorandum was requested by Deputy Assistant Secretary of State Paul Taylor. It was prepared by South America Division, Office of African and Latin American Analysis, and was coordinated with the Directorate of Operations. Information as of July 14, was used in the preparation of this paper. Questions and comments may be directed to the Chief, South America Division, ALA, 25X1

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The United States hiked its absorption of Latin American goods considerably more in the 1980s than did other major OECD countries, partly because of relative exchange rate movements and partly because it has maintained lower import barriers than the others. Despite its modest 2.4 percent average annual GDP growth in the 1980s, the United States increased its imports from Latin America--mostly manufactured products--by nearly 7 percent per year. By comparison, purchases of Latin goods by EC countries were much less impressive; those by West Germany, France, and Italy each rose 2 percent or less a year while UK imports actually declined because of that country's break in trade relations with Argentina. Japan raised its imports from this region at the rate of 5.8 percent a year, somewhat higher than the overall OECD average annual pace of 4.8 percent during the period. [redacted] 25X1

Major Impact of Commodity Price Changes

Slumping international prices for agricultural products, raw materials and fuels--which together account for more than 75 percent of total Latin American exports--explain much of the decline in the growth of regional exports in the past five years.* As Table 1 shows, the prices of all but one of Latin America's 14 principal export commodities have fallen 11 percent or more since the beginning of the decade. Our research indicates that had the prices of these commodities remained at 1980 levels, Latin exports to major OECD countries would have been $10 billion higher in 1984/85 than the $77 billion shown in Tables 3 and 4. [redacted] 25X1

The poor export performances in OECD markets of those countries or groups of countries predominantly dependent on one or a few primary products starkly demonstrate the harmful impact of plunging commodity prices. As Tables 3 and 4 illustrate, since 1979/80:

-- The export earnings of Venezuela and Trinidad and Tobago, both relying on petroleum for 85 percent or more of their total exports, either fell or rose only slightly as oil prices slumped in the past two years after surging at the turn of the decade.

-- Chile and Jamaica, which look to copper and aluminum respectively for at least one-half of their exports, experienced sharp declines in their export earnings as the prices of both metal ores plummeted in recent years.

-- The export earnings of major agricultural producers, including Argentina and a number of small Central American and Caribbean countries, fared poorly as prices for grain and sugar nosedived.

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* Soaring commodity prices, especially in the second half of the decade, contributed greatly to the sharp increases in Latin America's dollar export earnings in the 1970s. In addition to the large boost petroleum export revenues received from a more than tenfold rise in oil prices, major commodity booms also benefitted Latin American exporters of bananas, bauxite, cocoa, coffee, copper, fishmeal, iron ore, soybeans, sugar, and wheat during 1970-80. [redacted]

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The only two countries that recorded large export gains were Brazil and Mexico, in part because of their large and well-developed industrial sectors. Also, Brazil pursued aggressive export promotion policies while Mexico benefitted from large new oil finds and production increases. 25X1

Evident Effect of Slowing OECD Economic Activity

Faltering economic activity in the industrialized world also explains some of Latin America's poorer export performance in the 1980s compared to the previous decade. Whereas aggregate OECD growth registered an annual rate of more than 3.3 percent in the 1970s, it slowed to a 2.3 percent pace in the 1980s. To a degree, the disparity in imports from Latin America among individual OECD countries over the past five years paralleled differences in the expansion of each country's economy. For example, the United States, Japan, and, to a lesser extent, Canada--the three that recorded the highest growth rates among major OECD countries--increased their imports from Latin American countries at a faster rate than did Western Europe (Table 2). 25X1

The High Value of the US Dollar

While Latin American exports generally remained competitive in the United States, their competitiveness in West European and Japanese markets eroded as a result of the appreciation of the US dollar--to which most Latin American currencies are linked--in other industrialized countries throughout the first half of the 1980s. By the time it hit its peak in February 1985, the value of the dollar had risen some 55 percent against other OECD currencies on a trade-weighted average since the beginning of the decade; since then, the dollar has lost a little more than one-half that gain. According to CIA research, exchange rate changes typically affect the trade of manufactured products more strongly than primary commodities. As Table 3 illustrates, while the dollar value of manufactured sales rose considerably as a percent of total Latin American exports to the United States, they declined as a share of exports to West European countries, despite the major drop in commodity prices during the period. 25X1

Protectionism in Industrialized Countries

In our view, the United States has absorbed Latin American exports more rapidly than have other OECD countries also because of its more open import policies. Following the considerable progress on trade liberalization achieved in the 1970s, depressed economic growth and soaring unemployment have caused a number of industrialized country governments--especially in Western Europe--to succumb to forceful demands from domestic business and labor lobbies for tougher import restraints. Although tariffs continue to impede trade flows in some instances, the World Bank notes that the more serious obstacle to Latin American exports has been the growing use of non-tariff barriers (NTBs). According to World Bank analysis, with which we agree, by the mid-1980s, 22 percent of EC imports from developing countries were subject to NTBs, compared to 10.5 percent of Japan's imports and 12.9 percent of US imports. 25X1

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Restraints on agricultural trade have been the most prevalent within the industrialized world. While the overall dollar value of Latin American agricultural exports to the OECD remained relatively constant during the 1980s, Western Europe's absorption of these commodities declined while those of the United States and Japan went up, probably in large part because of tighter European import restraints. The NTBs on sugar imports in force throughout the OECD, including the United States, to protect domestic growers have been the most damaging to Latin American agricultural exporters--losses on an annual basis have equalled nearly 5 percent of all aid from industrial countries to all developing countries--according to World Bank analysis. The EC countries, for example, purchase limited quantities of sugar from members of a preference scheme largely for former colonies--which includes only Barbados, Jamaica, Guyana, Trindad and Tobago, and a few smaller countries in the region--and prohibit imports altogether from other countries. [redacted] 25X1

Among agricultural commodities, exports of Latin American beef have been the second most severely impacted by OECD protectionist measures. EC countries not only have levied high tariffs on imports of beef from countries that are not members of the EC preference scheme, but recently have established import quotas for them as well. Since 1979-80, Argentine beef exports to West Germany, France, the United Kingdom, and Italy have dropped considerably. OECD tariffs and NTBs--and especially those imposed by West European countries--also have set back Latin American exports of cocoa, feed grains, soybean meal and oil, and bananas. [redacted] 25X1

Protectionist barriers against imports of Latin American manufactures, though not as extensive as restraints on agricultural trade, have been growing more rapidly, according to the Inter-American Development Bank. Our research indicates that, although limitations on imports of manufactured products are on the rise throughout the OECD, they are more restrictive in other industrialized countries than in the United States. Latin America has had particular difficulty expanding its sales of a number of labor-intensive and, therefore, politically sensitive products in European, Japanese, and Canadian markets because of a myriad of import quotas and other trade impediments. The EC countries in the late 1970s were the leaders in urging stiffer restrictions on trade in textiles and clothing during negotiations for the renewal of the Multi-Fiber Arrangement, and they concluded voluntary restraint agreements (VRAs) with eight Latin American, as well as 18 other, textile exporters. Meanwhile, Latin America has had little success in gaining access to a potentially large clothing market in Japan, which generally has given preferential treatment to textile product imports originating in nearby South Korea and Taiwan. Latin American exports of footwear have encountered similar barriers in Western Europe, Japan, and Canada. Protectionist pressures in these countries became particularly strong in the mid-1980s because of sharp increases in footwear imports early in the decade. [redacted] 25X1

Industrial country governments also have moved to restrict imports of Latin American metals that compete with domestic manufacturing sectors plagued by world overcapacity and low demand. For example, quantitative limits imposed by the Japanese government on imports of copper and copper products have led to declining imports from Chile and Peru. In the early 1980s, EC countries took steps to restrain imports of steel--including VRAs with major Latin American and other suppliers--to protect major parts of Western Europe's steel industries. More recently, Japan also has arranged similar restraints with Latin American steel producers. [redacted] 25X1

TABLE 1

Latin American Commodity Prices
(Index, 1980=100)

Commodity	1981	1982	1983	1984	1985
Bananas	107	100	114	99	101
Bauxite	102	98	85	78	77
Beef	90	87	88	82	78
Cocoa	82	64	78	98	89
Coffee	77	85	83	94	89
Copper	83	72	77	66	65
Cotton	89	74	84	84	72
Fishmeal	93	70	90	74	56
Iron Ore	90	96	88	85	83
Petroleum	111	108	95	93	88
Soybeans	97	83	95	95	76
Sorghums	98	84	100	92	80
Sugar	78	43	43	42	31
Wheat	112	92	79	73	65

TABLE 2

OECD Countries: Comparison of Economic, Growth and Growth of Imports from Latin America, Average Annual Increases from 1979/80 to 1984/85

	G.D.P.	Imports from Latin America
United States	2.4	6.9
Spain	1.6	3.1
Canada	1.9	3.2
West Germany	1.1	0.8
France	1.2	2.0
United Kingdom	1.2	- 2.6
Italy	0.9	0.6
Benelux	0.5	2.5
Japan	4.1	5.8

Table 3

Latin American Exports to Major OECD Countries by Origin

(Millions US$, CIF)

(average for 1984 and 1985)

	Argentina	Brazil	Chile	Mexico	Venezuela	Andean	C.America	Caribbean	Total
Total	3879	17140	2635	25964	10727	7305	3781	6022	77453
Foodstuffs	2019	6658	685	1950	120	3063	2732	1381	18607
Bananas	0	2	1	11	6	643	934	119	1715
Beef	102	123	0	9	0	0	117	11	361
Cocoa	0	461	0	32	20	213	19	105	849
Coffee	1	2335	1	394	20	1770	1155	180	5854
Feed Grain	231	159	183	2	0	68	6	8	656
Soybeans	239	1133	0	0	0	0	0	0	1372
Sugar	99	196	2	51	0	117	250	515	1228
Raw Materials	770	2991	722	767	211	957	342	458	7219
Aluminum Ore	0	88	0	0	18	0	0	341	446
Copper	0	2	203	82	1	38	1	5	331
Cotton	41	38	0	84	1	40	180	1	384
Iron Ore	0	1751	162	0	191	48	0	0	2151
Fuels	265	492	2	13537	9559	1943	74	2303	28177
Manufactures	796	6890	1213	9178	774	1283	569	1754	22457
Chemicals	198	870	51	670	35	49	22	398	2290
Copper mfg.	2	47	1028	64	0	364	1	0	1506
Footwear	2	1012	0	78	1	3	4	6	1106
Iron, Steel	109	1078	6	219	180	39	0	121	1751
Textiles & Clothing	66	630	2	391	1	226	195	418	1927
Other	29	110	12	532	63	59	64	125	994

(average for 1979 and 1980)

	Argentina	Brazil	Chile	Mexico	Venezuela	Andean	C.America	Caribbean	Total
Total	4145	10994	2951	13700	9730	7358	4465	7810	61153
Foodstuffs	2251	5237	412	1950	85	3469	3363	1643	18410
Bananas	0	0	0	4	0	394	766	77	1241
Beef	269	5	0	8	0	2	271	5	560
Cocoa	1	545	0	30	30	218	33	106	963
Coffee	0	1946	0	525	17	2394	1602	228	6712
Feed Grain	319	176	116	2	0	89	7	3	712
Soybeans	44	816	0	0	0	0	0	0	860
Sugar	97	442	2	90	0	149	316	773	1869
Raw Materials	911	2632	991	693	264	1129	481	819	7920
Aluminum Ore	0	37	0	0	0	0	0	706	743
Copper	0	1	149	76	1	59	5	4	295
Cotton	65	12	0	157	0	65	259	0	558
Iron Ore	0	1668	236	0	256	92	0	0	2252
Fuels	136	47	11	6123	8971	1250	26	4402	20966
Manufactures	798	3000	1493	4603	370	1445	419	822	12950
Chemicals	175	259	38	315	14	28	18	215	1059
Copper mfg.	1	8	1340	24	0	465	0	0	1838
Footwear	5	353	0	62	0	3	6	4	433
Iron, Steel	25	462	4	69	75	6	0	118	759
Textiles & Clothing	43	431	2	303	0	195	118	185	1277
Other	49	78	44	331	40	65	176	124	907

Table 4

Latin American Exports to Major OECD Countries by Market

(Millions US$, CIF)

(Average for 1984 and 1985)

	US	Canada	Spain	W Germ.	France	Italy	Benelux	UK	Japan	Total
Total	45663	3289	3281	5798	3031	3463	3904	2456	6567	77453
Foodstuffs	8793	631	812	2423	1202	1003	1604	893	1246	18607
Bananas	990	99	0	259	12	127	74	148	7	1715
Beef	122	9	19	105	16	33	20	31	6	361
Cocoa	578	24	41	56	12	8	66	11	53	849
Coffee	2581	213	252	988	316	386	450	193	476	5854
Feed Grain	58	0	8	213	41	61	208	17	51	656
Soybeans	10	0	125	272	510	129	290	15	22	1372
Sugar	891	38	3	32	11	12	13	175	55	1228
Raw Materials	1393	237	364	1119	424	580	883	362	1856	7219
Aluminum Ore	181	161	3	22	6	5	16	43	10	446
Copper	35	26	9	56	0	1	11	0	194	331
Cotton	19	4	21	79	39	41	2	10	169	384
Iron Ore	130	10	91	418	104	168	184	76	970	2151
Fuels	18497	1332	1888	1100	872	978	988	700	1821	28177
Manufactures	16126	1073	216	1137	533	890	386	497	1598	22457
Chemicals	1418	49	70	133	94	93	98	59	278	2290
Copper Mfg	422	14	47	214	187	186	68	147	222	1506
Footwear	1024	16	0	5	9	0	10	41	1	1106
Iron and Steel	1088	62	32	115	26	71	30	16	312	1751
Textiles & Clothing	1386	87	8	180	46	89	45	41	47	1927
Other	854	16	1	19	1	12	42	3	45	994

(Average for 1979 and 1980)

	US	Canada	Spain	W Germ.	France	Italy	Benelux	UK	Japan	Total
Total	32650	2806	2823	5579	2739	3354	3444	2794	4964	61153
Foodstuffs	8205	630	914	2595	1282	1090	1563	970	1161	18410
Bananas	572	80	0	249	49	106	72	111	2	1241
Beef	281	0	41	97	28	27	41	41	4	560
Cocoa	534	28	71	85	35	18	102	41	49	963
Coffee	3197	220	320	1229	350	359	487	157	393	6712
Feed Grain	20	0	9	236	66	69	225	15	72	712
Soybeans	0	0	23	130	405	104	173	8	17	860
Sugar	1212	119	19	58	19	40	62	218	122	1869
Raw Materials	1671	215	551	1112	447	563	738	657	1966	7920
Aluminum Ore	458	60	58	16	11	7	3	119	11	743
Copper	23	4	52	62	1	0	1	1	151	295
Cotton	8	7	29	66	31	109	5	35	268	558
Iron Ore	218	14	83	385	119	135	183	95	1020	2252
Fuels	14662	1647	1149	683	513	835	607	360	510	20966
Manufactures	7407	299	209	1148	492	863	503	793	1236	12950
Chemicals	508	17	67	75	61	56	78	73	124	1059
Copper Mfg.	389	6	52	325	152	278	119	265	252	1838
Footwear	326	17	0	20	10	1	14	44	1	433
Iron and Steel	390	27	6	67	21	97	15	34	102	759
Textiles & Clothing	733	45	11	189	54	109	65	46	25	1277
Other	705	15	0	41	5	3	33	14	91	907

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