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Protectionism in the European Union: Implications for Latin America

In the course of the 1990s EU exports to Latin American countries have grown considerably. At the same time, however, EU imports have increasingly favoured eastern Europe and the emerging Asian markets. Latin America continues to lose presence in European markets. What are the reasons for this? Is European protectionism the root of the problem?

The search for solutions to the economic and financial dilemmas periodically faced by Latin American development has awakened an interest in strengthening trade links with other regions of the world. In the nineties, Latin America regained interest in coming closer to Europe in an attempt to achieve old and new economic and political objectives.

Biregional meetings, such as the June 1999 "Latin America – European Union Summit" in Rio de Janeiro and the agreements the Latin American countries have signed individually with the European Community are attempts to facilitate greater closeness.[1] Although each Latin American country can choose to establish an independent relationship with the European Union (EU), in the context of world regionalization and considering that the EU only negotiates trade issues as a regional bloc, individual bilateral negotiations do not seem to be the best option. In order to overcome this disadvantage and for this relationship to actually move forward, Latin American countries would have to overcome their lack of a common policy towards Europe. The initiative to carry out summit meetings between both regions finds its justification in this possibility. However, the results of the 1999 meeting, as the results of past meetings, have not been that encouraging, in spite of an insistence on sharing a "common cultural heritage".

Since the beginning of the seventies, the future of biregional trade relations had seemed to gain particular significance. It nevertheless did not materialize as expected. The relationship consolidated more on the political front, which helped reduce armed conflict in Central America in the eighties. But the Latin American objective of diversifying export markets and broadening trade horizons was not consolidated. The restructuring of the European economy in order to achieve the Single Market, initiated in the second half of the eighties, appeared to be a new opportunity for both regions to come closer in the nineties. This possibility has not materialized either.

There does not seem to be a greater possibility of breaking away from past failures now than there was in the past due to the emergence of new hindrances and the persistence of old ones. The new hindrances include divergent political interests between both groups of countries and the old ones are permeated by European protectionism. In view of the disappearance of the Soviet Union, the European Community no longer accepts its role as a lesser partner of the United States and aims to share the status of a superpower. This European pretension is confronted by the US attempt to create a Free Trade Agreement of the Americas (FTAA) as well as by the dollarization of the Latin American subcontinent. However, as will be argued in this paper, it is EU protectionism that permeated and continues to permeate this interregional relation and does not allow intentions to become manifested as economic and trade realities. It will be demonstrated how EU member countries persist and maintain this attitude. The paper aims to show that the existence of this stumbling-block hinders Latin American efforts to penetrate European markets. In order to demonstrate this hypothesis, first the implications of transformations in Europe for EU trade will be reviewed. Based on this context, the evolution of EU trade will be examined in order to establish its interconnections

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[1] Irela: Informe Especial. Cumbre de Río, Madrid 1999; Irela: La Política Europea de Desarrollo hacia América Latina: Tendencias y Perspectivas, Madrid, 11 September 2000; Carlos De Icaza: Relaciones AL y el Caribe-Unión Europea, a partir de los Resultados de la Cumbre de Río, Ponencia en Cátedra Itinerante, CEFIR-ITAM, October 1999.

with Latin America's objective of commercial diversification. Evidence of tariff and non-tariff protectionism in Europe will then be reviewed in order to conclude with some reflections regarding the future possibilities of relations between Europe and Latin America.

European Transformations and Trade Opportunities

The initiation of the European Single Market in January 1993 was the prime expression of the idea of having a common market without national divisions that re-emerged in the early eighties. The purpose that had given life and meaning to the Treaty of Rome in 1957 had finally been achieved. The "Europe 92" programme aimed at concluding the conversion of national markets into one single market so that goods and services, capital and labour would no longer have specific nationalities and simply become European. The birth of a single European currency, the Euro, on the first of January 1999 was another decisive step in the process of European integration. These advances strengthen the unity of the European economy and allow the European peoples to come ever closer. They can also be seen as the path to repositioning Europe as a world power.

In order to complete the Common Market it was necessary to transform the European production structure so as to inject a new driving force into its competitiveness and thus avoid losing ground and markets to their main competitors, the United States and Japan.[2] The "Europe 92" programme, as a set of actions to revitalize the European economy, aimed at solving the crisis of eurosclerosis or the combined aggravation of unemployment and low growth so critical in the mid-eighties. This programme created the possibility of going back to market integration by eliminating physical, technical and fiscal barriers in order to relaunch economic growth by promoting trade. In this way the failure of national development alternatives based on independent and isolated economic policies was recognized.

With the single market, the EU became the main worldwide exporter accounting for 39.4% of the world's exports per year on average between 1993 and 1999.[3] This participation, however, is much smaller when considering that most of this trade was carried out within the European Union itself. In fact, extra-community trade only accounts for 14.72% of the world total annual average for the same period, after having accounted for 14.57% between 1989 and 1992. In spite of this, the EU prevails as the main exporter followed by the United States with 11.79% and 12.15% respectively for the same periods. The European Union won market share while the United States lost it.

This also reflects on the relation between intra and extra community trade, where the former has been losing ground since 1993. Historically, the Community countries increased trade among each other at the cost of trade with the rest of the world. In 1957, intra-community trade was not as important as extra-community trade, accounting for 36.1% of all exports and 35.3% of all imports. These proportions grew to 67.4% of exports in 1991 and 64.4% of imports in 1992. Since then, it has shown a downward tendency reaching 63.4% of exports and 61.8% of imports in 1999.[4]

Trade introversion can be considered a successful expression of the ideal of integration in the sense of bringing national economies ever closer. Historically, however, the movement in this direction has not always been that firm. Progress in this direction was accelerated between 1958 and 1970 when intra-European trade increased from 36% to 53% of the total. In the next fifteen years, however, progress down this road was very slow since this ratio just fluctuated between 53% and 56%. The "Europe 92" programme started to move Europe in this direction once again, but the Union's recent Monetary Programme put a brake on progress. These variations can be explained by the intensity of the attempt to further integrate the member economies.

The Single European Market Programme implied structural changes leading to new supply and demand conditions. Greater economic dynamism would be induced by using economies of scale not only in production, but also and mainly, in marketing and distribution. The Community would achieve corporate renewal, the goal under which the EU had reorganized since the mid-eighties. Consequently, it has reached rates of productive development and trade capable of recovering the domestic market share it lost in the face of competition with the United States and Japan. In recent years, however, the very same "convergence indicators" that enabled monetary union seem to have restrained intra-union trade. Nonetheless, greater international presence

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[2] Carlos A. Rozo: La Integración Europea. Del Acta Unica al Tratado de Maastricht, UAM, Mexico 1993; Comisión de las Comunidades Europeas: Un Gran Mercado sin Fronteras, Informe Cockfield, 2nd edition, Brussels 1988.

[3] Own estimates with WTO data.

[4] Own estimates with Eurostat data.

has implied benefits for EU countries by helping reduce unemployment to 8.4% in 1999 after it had reached its highest rate of 11.6% in 1994. Production growth also benefited by increasing to 2.5% per annum on average from 1994 to 2000 after having been only 1.1% between 1990 and 1993.

Congruently enough, this performance manifested itself in a greater capacity to enter emerging markets and in the recovery of the US market. In 1991, 17.9% of all extra-community exports went to the United States; in 1999, this share had reached 23.8%. Eastern and Central European markets have become important receivers of Community exports, doubling from 6.2% in 1989 to 13.1% in 1999. However, it is the Asian markets that have benefited the EU most: in the decade from 1987 to 1996 exports to ASEAN increased, from 2.6% to 11.0% of the total. Afterwards they decreased probably as a consequence of the "Dragon effect". From the beginning of the European Community until 1992, trade with Latin America gradually and constantly lost ground, falling from 8.9% to 3.9%. Since 1992, however, a new drive towards the region has contributed to an increase in these exports to 6.7% of the total in 1998.

This exporting success is supplemented by a recomposition of the structure of extra-community imports, which favoured Eastern Europe and the emerging Asian markets at the cost of the United States, Japan and Latin America. Eastern Europe won by moving from 6.4% at the fall of socialism to 10.3% in 1999, and between 1989 and 1999 the ASEAN countries trebled their participation from 3.5% to 10.6%. Japan, however, lost when its participation dropped from 11.1% in 1991-1993 to 9% in 1999, whereas the United States remained close to 20%, after an improvement from 16.5% to 19.6% between 1987 and 1991. Latin America is, in contrast, the big loser since it reduced its participation by 36% passing from 7.4% to 4.7% between 1985 and 1999.

By placing interregional relations in this context of transformation it is clear that the EU has gained share in Latin American markets during the last decade, whereas Latin America continues to lose presence in European markets. The rest of this paper attempts to explain why this happens.

Latin America – EU Trade

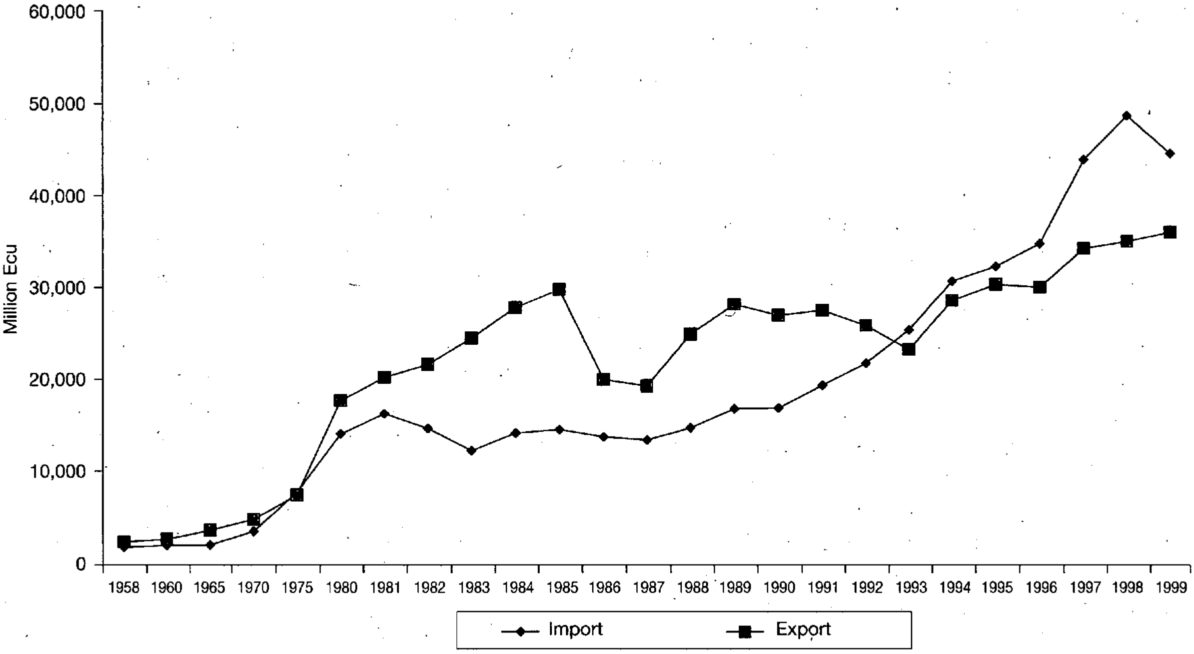
The balance in trade between the EEC and Latin America that existed in the first two decades of the EEC was broken in 1980. European imports reached ECU 29 billion in 1985, whereas exports to Latin America were interrupted. In the nineties, this trend was reverted. Exports from the EU to Latin America went from ECU 14.7 billion in 1988 to ECU 44.8 billion in 1999, whereas imports from Latin America grew from ECU 24.9 billion to ECU 36.1 billion.

Thus, the trade surplus Latin America enjoyed in the 1980s turned into a deficit in the 1990s. The large surplus existing in the eighties has a simple explanation: it results from import contraction imposed by the adjustment policy in order to have financial resources available to pay the foreign debt service. Trade surpluses with the EEC are part of the success of stabilisation policies that kept Latin American markets depressed by cutting imports and simultaneously promoting exports. The interregional trade relationship changed radically in 1993 when Latin America increased its European imports and started to experience a deficit that rapidly escalated to ECU 13.7 billion in 1998 (Figure 1). This is the result of a 188% growth in imports from ECU 16,940 million in 1990 to ECU 48,813 million in 1998, whereas exports from Latin America to the EU only increased by 30% from ECU 27,052 million to ECU 35,139 million. It seems accurate to state that Latin America has become an excellent market for European products, whereas Latin American products have not managed to establish a firm basis in the European Single Market. Various factors point to this.

The evolution of biregional trade has not managed to break away from its high concentration in six countries only. In 1999, Brazil, Argentina, Mexico, Colombia, Chile and Venezuela took in 83% of the EU's total exports to Latin America, a higher concentration rate than that in 1980 (73%). This trend can also be seen in imports. In 1970, the EU received 72% of total Latin American imports from these six countries and in 1999 this percentage had increased to 81%. Brazil not only takes the largest share, but its share has also grown with time, thus becoming the main receiver of exports from the Community and even displacing Argentina and Venezuela, which used to be the main buyers of European products. In 1999, Brazil received 31% of the total Latin American purchases (ECU 13.8 billion), whereas Mexico received 23% (ECU 10.3 billion) and Argentina 14.0% (ECU 6.3 billion). Brazil is also the main Latin American beneficiary of European markets, with 36% of the region's exports. Both Mexico and Argentina, with approx. 12% each, are well behind.

Nevertheless, one factor stands out in the evolution of these relations: Mexico's recent readjustment as a trade partner of the European Community, consid-

Figure 1
Latin American Trade with the European Union



ering that in 1999 Mexico received 23% of the EU's exports to Latin America and sent 12.7% of Latin America's to the EU. This represents 65% growth in imports and 21% in exports since 1995, not a minor achievement, and the increase may continue under the free trade agreement signed by both regions that came into force on July 1, 2000.

Mexico's new role can also be seen when examining participation by Latin American countries among the EU's 10 most important trade partners per productive sector. As can be seen in Table 1, Brazil was undoubtedly Europe's main Latin American trade partner in 1997; Mexico only appeared in the "top ten" as an iron and steel importer and as a machinery and electrical equipment exporter. By 1999, the situation had changed, Mexico being the main importer of industrial manufactured goods and a relevant exporter of beverages, chemical products and automobiles.

An additional factor in this interregional relationship is the fact that trade composition manifests a tendency that has hardly changed in the last two decades: although manufactured goods, representing 10.8% of total exports in 1981, reached 39% by 1999, foodstuffs (37%), raw materials (17%) and fuels (6.5%) still prevail among European Community imports from Latin America. In spite of a significant if not radical change in its trade composition, Latin America continues to be an exporter of primary products. Industrial trade has made progress and trade is showing new intra-industrial and intra-firm tendencies, but this is not the situation that prevails in all countries. It is stronger in some, as in Mexico and Brazil. In the former, for example, trade structure differs from the Latin American average, manufactured products constituting 60% of total exports.[5]

The EU, on the other hand, exports mainly industrial goods to Latin America. In 1999, machinery and transport equipment constituted 54%, chemical products 16% and other manufactured products 26%. Manufactured products therefore constitute 90% of Latin American imports from the European Union, with goods disseminating technological progress reaching 33% of the total.[6]

This trade profile points to the fact that major changes in Latin America's trade structure are on the order of the day to move away from the traditional international division of labour. This is even more urgent since in the EU imports of manufactured goods are growing constantly, whereas foodstuffs, raw materials and fuels tend to decrease.

The question here is whether this situation is due to a Latin American inability to adjust to the changes in

[5] Carlos A. Rozo (ed.): México en la Integración Económica Europea, Ed. Plaza y Valdez, 1989.

[6] Intal: Evolución del comercio entre América Latina y la Unión Europea, Carta Mensual, October 1997, p. 14.

Table 1
European Union: Main Latin American Partners by Product
(Number indicates rank)

SITC	PRODUCTS	1997 Exports	1997 Imports	1999 Exports	1999 Imports
3	Fish, crustaceans, molluscs		Argentina/6, Ecuador/10		Argentina/10
4	Cereals & cereal preparations		Argentina/4		Argentina/3
5	Vegetables & fruits		Brazil/5, Costa Rica/6		Brazil/5, Costa Rica/9, Ecudaor/10
11	Beverages	Venezuela/6	Chile/4, Argentina/10		Chile/3, Bahamas/5 Mexico/7, Argentina/8
24	Cork & wood		Brazil/6		Brazil/6
25	Pulp & waste paper		Brazil/3, Chile/4		Brazil/3, Chile/4
26	Textile fibres and their wastes				Argentina/26
28	Metalliferous ores & metal scrap		Brazil/1, Chile/8, Jamaica/9		Brazil/1, Chile/8
334 + 335	Petroleum products	Brazil/9			
51	Organic chemicals	Brazil/4	Brazil/9	Brazil/6	Mexico/10
54	Medicinal & pharmaceutical products	Brazil/10	Brazil/10	Brazil/9	
56	Fertilizers			Colombia/8	
57	Plastics in primary form	Brazil/10		Brazil/7	
67	Iron & steel	Mexico/10		Mexico/9	Brazil/8
71	Power generating machinery & equipment	Brazil/8	Mexico/7, Brazil/9		Brazil/8
72	Machinery specialized particular	Brazil/7		Mexico/7	Brazil/10
74	General industry machinery & equipment	Brazil/9		Mexico/9	
76	Telecommunications, sound, TV, video			Mexico/9	
78	Road vehicles	Brazil/10	Brazil/7		
781	Passenger cars		Brazil/6		Mexico/9
793	Ships, boats	Bahamas/4, Virgin Island/5, Antigua & Barbuda/6	Bermuda/6, Bahamas/7, Panama/10	Bermuda/1, Antigua/4, Mexico/6, Cayman Islands/7, St. Vincent/10	Cayman Islands/3

Sources: Eurostat, External and Intra-European Union Trade, Monthly Statistics.

production and international trade of the last fifteen years or to other reasons.

European Protectionism

The inability of Latin American products to gain market share in the European Single Market is due to various factors. One of them is the increase in Latin American dependence on trade with the United States resulting from the liberalisation initiative in the mid-eighties due to the foreign debt crisis. Another factor is the preferential treatment received by the African, Caribbean and Pacific countries and, more recently, by central and eastern European countries. Here, however, we are more interested in emphasising the role played by the protectionist attitude and policies prevailing in the EU.

The establishment of the Single Market appeared to be an opportunity for European growth to recover, but it also appeared to be an option for isolation and greater protectionism.[7] "The Economist" stated that, "In the decade since the fall of the Berlin Wall, countries all over the world have knocked down the walls enclosing their economies. The European Union, however, is still as strong as ever".[8] Although the Federal Republic of Germany propagates complete market liberalisation, not all members of the European Community share this stance unanimously. In fact, the possibility of imposing protectionist measures within the European Community, even if only temporarily and on specific products, has been considered a valid, viable and necessary option.

The European Community has undoubtedly presented the lowest level of average tariffs in the world. Tokyo Round negotiations led to an important reduction in tariff protection that left the European average at 2%, whereas it stood at 3.6% in the United States and 4.1% in Japan. Since the mid-seventies, however, the use of trade barriers and non-tariff measures multiplied thanks to quantitative restrictions on imports permitted by clause 115 in the Treaty of Rome. GATT was led to consider the European Community as the main introducer of grey zones with over half of the 130 initiatives enforced in 1988.[9] This led to strengthening rules of origin, quality and phytosanitary standards as well as voluntary trade restrictions. The fact that the 1992 programme was postulated in terms of "reciprocal exchange" is just as significant. This questioned and invalidated the principles of multilaterality on which post-war international institutions were based.

In modern protectionism, antidumping measures have played such a central role that Finger was led to postulate that, "Antidumping is the current reality of that protection"[10] and Bender called antidumping rules "a secret conspiracy against GATT rules".[11] Since 1986, the European Community has been as aggressive in relation to antidumping issues as the United States had ever been. This happened not only because measures were increased, but also because cases multiplied and the areas in which this kind of measure was applied diversified. Finger argued that although the Europe 92 Programme claimed an open stance within the European Community, antidumping actions continued to be the main instrument of the EU's trade policy towards the rest of the world: "From antidumping law, the Commission and the Council have fashioned a trade-policy weapon of great power".[12]

In fact, this was seen in 1999 when the EU appeared as the top user of antidumping measures, with 65 investigations out of a total of 328.[13] Koopmann's and Scharrer's warning that "the protectionist potential of antidumping measures is significantly greater" in the Uruguay Round agreements seems ominous.[14]

The use of these policies points to a tendency towards an "administered exchange" in the EU that raises serious doubts regarding its intent to establish the kind of free trade appearing in textbooks.[15] The experience with competition and trade policies in creating a common domestic market lends credibility to this idea. Nicolaïdis and Vernon concluded that "in these two lines of policy, the community's goals as well as the preferred means of achieving them, have been quite different for trade between its members than for trade with outside countries".[16]

The EU's protectionist orientation creates great concern since it is neither new nor has it been overcome by the more recent trade liberalisation efforts of the Uruguay Round. We must not forget that this attitude led to a dead end that caused these negotiations to stagnate and delayed their completion for years. Esser explicitly expressed the opinion that, "The fact that Latin American manufactured goods exports to the European Union in relation to total shippings is less than half those sent to the United States obeys to the EU's protectionist measures".[17] Five years later, Puyana postulated something similar by concluding, "Certain items that have substituted extra community imports and maintain increasing protectionist pressure carry more weight in the exchange with the EU".[18] We could also refer to

[7] Wayne Sandholtz, John Zysman: 1992: recasting the European bargain, in: World Politics, October 1989, pp. 95-128; Martin Wolf: The Resistible Appeal of Fortress Europe, American Enterprise Association, 1994; H.G. Krenzler: Zwischen Protektionismus und Liberalismus. Europäischer Binnenmarkt und Drittlandsbeziehungen, in: Europa Archiv, Vol. 43, 1988, pp. 241-248; Ludger Schuknecht: Trade Protection in the European Community, Gordon & Breach Publishing Group, 1992; J. Wiemann: The implications of the Uruguay Round and the single market for the European Community's trade policy towards developing countries, Occasional Papers No. 99, German Development Institute, Berlin 1990; Seamus O'Cleireacain: Europe 1992 and Gaps in the EC's common commercial policy, in: Journal of Common Market Studies, March 1990, pp. 201-217.

[8] The Economist: Europe's burden, 22 May 1999, p. 84.

[9] E.U. Petermann: Grey area trade. Policy and the rule of law, in: Journal of World Trade, Vol. 22, No. 2, 1988, p. 27.

[10] J. Michael Finger: Dumping and anti-dumping: The rhetoric and the reality of protection in industrial countries, in: The World Bank Research Observer, July 1992, p. 122.

[11] Dieter Bender: The developing countries in the New World Trade Organisation, in: Economics, Institute for Scientific Cooperation, Tübingen 1997, pp. 15-38, here p. 23.

[12] J. Michael Finger, op. cit., p. 139.

[13] Ralf Boscheck: Trade, competition and antidumping. Breaking the Impasse?, in: INTERECONOMICS, Vol. 35 (2000), No.6, pp. 282-287, here p. 283.

[14] G. Koopmann, H.E. Scharrer: International trade after the Uruguay Round of the GATT in: Economics, Institute for Scientific Cooperation, Tübingen 1995, pp. 25-46, here p. 41.

[15] The 20 or so free trade agreements signed by the EU could also be explained in this context. For an explanation of their logic, see Mathias Busse: The Hub and Spoke Approach of EU Trade Policy, in: INTERECONOMICS, Vol. 35 (2000), No.4, pp. 153-154.

[16] Kalypso Nicolaïdis, Raymond Vernon: Competition policy and trade policy in the European Union, in: Edward M. Graham, David Richardson (eds.): Global Competition Policy, IIE, Washington, December 1997, pp. 271-309, here p. 305.

[17] Klaus Esser: Comercio e inversiones entre América Latina y Europa, in: Comercio Exterior, Mexico, April 1995, p. 323.

[18] Alicia Puyana: América Latina y la Unión Europea ¿Dos regionalismos económicos convergentes? in: R.M. Piñon (ed.): Uniones Monetarias e Integración en Europa y las Américas, FCPS-UNAM, Mexico 2000, pp. 301-346, here p.338; see also Rafael O. Pampillon: Relaciones Económicas entre América Latina y la Unión Europea, Comercio Exterior, Mexico, August 2000, pp. 649-658.

disputes about bananas, genetically modified foods, cultural products and finally the critical beef issue.

According to Vogel, two contradictory tendencies coexisted at the beginning of the nineties, "On the one hand, internal pressure from consumer and environmental organisations, sometimes promoted by the producers, induced a number of industrial nations to adopt increasingly stricter and more comprehensive standard regulations, many of which restrict international trade explicitly or implicitly. On the other hand, there has been a substantial increase in international efforts to harmonise health, security and environmental regulations in order to jointly reduce the use of regulations as protectionist barriers as well as to preserve and improve the objectives of protectionist regulations".[19] There is thus a choice between respecting citizens' rights to self-determine national regulations and minimising protectionist regulations so that they do not become non-tariff barriers. This situation has a long history of divergences regarding national controls and Community inspection standards.

National consumer protection is simply becoming protection as such. As new controversies emerge regarding food security, they become potential sources of greater protectionism to such an extent that it is known as the "fourth level of protection".[20] There are signs that when countries try to eliminate non-tariff protection measures they resort to more creative and sophisticated instruments, some of which are practically impossible to detect. Such is the case of the so-called "chilling effect" created by the insecurity produced by the threat or possibility of restrictions. A complementary element must be faced: the return of tariffication resulting from the search for solutions to non-tariff protection. This phenomenon is said to be temporary, but that remains to be seen.

It is in this context that the EU's protectionist structure and its importance for Latin America will be reviewed here at two different points in time: the mid-eighties and the mid-nineties.[21] Although the comparison is not exact, it helps to show the importance protection continues to have for the Community's development model.

Pre-Uruguay Round Protectionism

Of total Latin American exports, classified by country, 19.9% were subject to some kind of non-tariff barriers in 1986 (Table 2).[22] In the case of the EEC, this level rose to 21.7%, which implied a non-tariff protection level way above that of the United States and Japan. The scope of protection in the European Community is clearer when we examine specific countries experiencing particularly serious situations, like Argentina with an average percentage of 38.4% and Uruguay with 50.9%. Mexico and Brazil, on the contrary, showed below-average levels. The wide diversity of degrees of protection reveals that European trade policy was highly discriminatory.

Table 2
Import Coverage Ratios of Non-Tariff Barriers by Country, applied to Latin American Exports, 1986

	DMEs[1]	USA	EEC	Japan	Others
Argentina	36.8	33.6	38.4	21.7	56.3
Bolivia	4.8	4.6	0.4	35.5	5.7
Brazil	21.2	26.1	20.0	7.3	30.3
Colombia	18.9	29.4	9.7	2.2	28.7
Chile	15.6	11.8	19.6	12.5	6.3
Ecuador	17.0	4.9	26.0	61.0	44.3
Mexico	14.7	14.5	9.4	28.3	6.9
Paraguay	8.0	19.0	1.4	13.9	5.7
Peru	15.1	7.3	15.4	30.8	3.0
Uruguay	38.3	14.5	50.9	12.1	24.2
Venezuela	10.6	13.4	17.5	0.1	42.4
Latin America	19.9	18.9	21.7	14.2	26.8

[1] Developed market economies.

Source: Reinaldo Goncalves and Juan A. de Castro: El proteccionismo de los países industrializados y las exportaciones de América Latina, in: El Trimestre Económico, April-June 1989, pp. 443-469, here p. 451.

Table 3 shows the EEC as the region which, by group of products, has taxed Latin American exports higher with a 23.8% average import coverage ratio, far above the 9% rate in the United States and Japan. The situation has become more serious in Latin America since the products with greater non-tariff barriers are those with certain exportation potential. The EEC's import coverage ratio in manufactured goods (Table 3) is substantially higher except in apparel, in which the United States had the lead. Footwear is an extreme case with a 100% ratio. The situation was different for raw materials and food,

[19] David Vogel: Protective regulation and protectionism in the European Community: The creation of a Common Market for foods and beverages, Center For European Studies, Harvard University, Working Paper Series No. 37, 1992, p. 3.

[20] Ibid., p. 49.

[21] The difficulty of this comparison stems from the different purposes of each one of the two studies used though they utilise the same data source: the UNCTAD Database on Trade Control Measures.

[22] The measure used for this purpose is the Import Coverage Ratio, defined as "the share (or percentage) of a country's own imports that is subject to a particular NTB or any one of a specified group of NTBs". OECD: Indicators of Tariff and Non-tariff trade Barriers, update 1997, p. 13.

Table 3
Import Coverage Ratio of NTBs by Group of Products, applied to Latin American Exports

Group of products	DMEs[1]	USA	EEC	Japan	Others
Agricultural products	25.1	26.3	23.9	32.7	37.9
Food products and live animals	26.8	27.4	26.8	31.3	38.2
Oilseeds and nuts	9.5	48.2	0.0	32.6	32.7
Animal oils and vegetables	5.9	7.1	1.3	0.0	68.2
Raw and agricultural materials	11.1	33.8	4.9	5.9	8.1
Minerals and metals	12.6	24.3	9.1	9.1	4.4
Iron and steel	65.0	75.4	96.2	0.0	21.7
Non ferrous metal	6.5	0.3	14.6	0.0	0.0
Fuels	6.9	0.0	29.3	0.4	6.0
Chemical substances	22.2	21.8	4.0	47.0	37.1
Manufacturing					
Excluding chemical substances	18.6	11.8	44.9	2.4	15.7
Leather	4.8	0.0	9.4	1.4	8.3
Textiles	75.6	75.0	96.8	16.8	17.6
Apparel	72.4	87.6	39.7	0.0	32.1
Shoes	21.6	0.0	100.0	10.4	79.8
Total, except fuels	19.3	18.9	21.7	14.2	26.8
Total	14.1	9.7	23.8	9.3	15.1

[1] Developed market economies.
Source: See Table 2.

where the EEC's ratio was lower than the rest of the developed countries.

High protection levels for iron, steel, chemical products and textiles are singularly relevant since the Latin American manufactured goods exportation boom focused on these. The European Community recognises that in the relations between the EU and Mexico, steel and textiles, for example, have been particularly prone to conflict.[23]

With this information, we can state that by the mid-eighties the conditions for increasing Latin American exports to the EU, particularly of manufactured goods, were far from optimal.

Post-Uruguay Round Protectionism

The OECD stated that, "proportionally, fewer products face NTBs in 1996 than in 1993"[24] as an acknowledgment of the eloquent results of the GATT's Uruguay Round. In fact, the percentage of imports subject to non-tariff measures decreased between 1988 and 1996: the EU figure dropped from 26.6% to 19.1% of all imports (Table 4). The EU, however, resorted to these measures more often than the United States and Japan and, even worse, this tendency did not change between 1988 and 1996. The prevailing non-tariff measures are quantitative restrictions, particularly in the form of voluntary export restraints, that the United States reduced by 80% and the EU by only 26%. In terms of price control measures, reduction was more even, although the United States used these measures more often than the EU.

The importance of the fact that the degree of NTBs is greater in the United States and the EU than in other countries cannot be minimised. In this sense, the United States appears to be the more protectionist country, since only 37% of all tariff chapters are free of non-tariff measures. It must however be acknowledged that in 1988 only 24% of all chapters were free of non-tariff measures. In the EU, the situation is not so dramatic since 59% of all chapters are now free from restrictions, when in 1988 only 40% were. In contrast, this percentage reached close to 90% in Switzerland, Norway and Iceland.[25] This means that in the EU in 1996, 41% of all tariff lines were subject to a certain kind of non-tariff measure. The next OECD observation teaches us a lot about this trend and helps emphasise the message this paper intends to convey: "In Finland and Sweden NTBs have become more pervasive as a result of their accession to the EU".[26] Besides, it was not the EU that reduced this kind of protection most, especially between 1993 and 1996, since in relative terms its increase in the number of chapters free from NTBs (47%) is lower than for the United States (54%). It is nevertheless much higher than for Japan, where the increase was only 12%. Progress in the United States does not condone the fact that 60% of its chapters are still subject to some sort of NTBs.

Table 5 shows that in general terms the EU is highly protective regarding its agriculture, whereas the United States is slightly more so regarding its manufactured goods. Food, textiles and apparel as well as basic metal industries are the sectors in which protection concentrates. NTB reduction was roughly similar between 1988 and 1993, at a relatively slow pace, but it accelerated between 1993 and 1996, especially in the EU because of reductions in food and basic metal industries. In textiles and apparel, NTBs were slightly reduced in the United States and in the EU, but not in Japan, where this protection appeared

[23] Comité Económico y Social: Dictamen sobre las relaciones entre la Unión Europea y México (2o dictamen adicional), Brussels, 20-21 December 1995 (CES 1459/95 ES-gf), p. 17.

[24] OECD, op. cit., p. 19.

[25] Ibid., p. 61.

[26] Ibid., p. 19.

Table 4
Pervasiveness of Different Types of NTBs in the USA, EU and Japan, 1988-1996

NTB categories	USA 1989	USA 1993	USA 1996	EU 1988	EU 1993	EU 1996	Japan 1989	Japan 1993	Japan 1996
All NTBs	25.5	22.9	16.8	26.6	23.7	19.1	13.1	12.2	10.7
Core NTBs	25.5	22.9	16.7	25.2	21.8	15.1	12.5	11.3	10.0
Quantitative restrictions	20.4	18.1	10.9	19.5	17.2	13.1	11.7	10.5	9.2
Export restraints	19.5	13.1	10.8	15.5	13.9	11.4	0.3	0.1	0.0
Non-automatic licensing	0.0	0.0	0.0	4.4	3.5	1.5	8.9	8.9	8.6
Other QRs	6.6	5.6	0.6	0.2	0.2	0.2	2.8	1.6	0.6
Price control measures	17.8	10.8	7.6	12.4	8.4	3.2	0.8	0.9	0.7
Variable Charge	0.1	0.0	0.1	6.3	5.4	1.4	0.8	0.9	0.6
AD/CVs and VEPRs	17.8	10.8	7.6	2.6	1.9	0.9	0.0	0.0	0.0
Other PCMs	0.0	0.0	0.1	4.3	1.1	1.0	0.0	0.0	0.0

Source: OECD: Indicators of tariff and non-tariff trade barriers, update 1997, p. 53.

Table 5
Pervasiveness of Core NTBs by Sector in the USA, the EU and Japan
Frequency ratios, in per cent

ISIC Description	USA 1989	USA 1993	USA 1996	EU 1988	EU 1993	EU 1996	Japan 1989	Japan 1993	Japan 1996
Agriculture, forestry, fishing	5.5	3.6	2.8	20.6	14.8	8.5	11.3	10.3	7.0
Manufacturing	27.3	24.7	17.9	26.2	22.8	13.4	12.8	11.7	10.3
Food, beverages and tobacco	14.5	12.1	2.8	50.7	44.2	17.2	22.2	12.4	5.9
Textiles and apparel	82.6	69.9	67.5	84.1	71.6	68.3	31.9	32.0	31.9
Wood and wood products	3.5	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Paper and paper products	1.3	1.3	1.1	2.7	0.4	0.7	0.0	0.0	0.0
Chemical, petroleum products	8.7	5.8	3.3	5.4	5.1	2.9	0.9	0.9	0.9
Non-metallic mineral products	9.8	5.3	3.6	6.6	0.2	0.0	0.0	0.0	0.0
Basic metal industries	53.4	57.1	30.4	37.5	19.0	0.6	5.5	6.1	5.1
Fabricated metal products	10.2	13.8	5.9	4.1	2.3	0.0	0.0	0.0	0.0
Other manufacturing	4.4	1.1	1.7	1.4	2.0	0.0	0.0	0.0	0.0
Total all products	25.6	23.0	16.7	25.5	22.1	13.0	12.5	11.4	9.9

Source: OECD: Indicators of tariff and non-tariff trade barriers, update 1997, p. 57.

to have top priority since the frequency ratio throughout the decade remained at 32%. It is nevertheless lower than in the United States and the EU. The EU carried out its greatest efforts in the basic metal industries, reducing its coverage ratio from 37.5% to 0.6%. The United States reduced its coverage ratio, but the level remained high while Japan did not vary its relatively low 5% level of coverage.

This kind of protection is also manifested in the escalation of NTBs in the EU and the United States. It concentrates on semi-finished manufactured products, for which the degree of non-tariff protection practically did not change between 1988 and 1996. The US percentage was close to 24% whereas the EU percentage was 11%, in spite of the fact that the rate for manufactured goods fell from 11.9% to 6.9% in the United States and from 6.5% to 0.2% in the EU. As opposed to the United States, which reduced NTBs from 5.11% to 2.2%, the EU maintained a significant degree of NTBs in finished manufactured goods with a low variation during these ten years from 8.1% to 6.9%.[27]

Evidence is thus not conclusive in showing that the Uruguay Round induced a significant decrease in non-tariff protection in industrial countries, but the situation has become more paradoxical with the new orientation which tariff protection is assuming.

In the EU, between 1988 and 1996, the number of exempted tariff fractions remained stable, moving from 10.5% to 11.4% of the total. Compared to countries such as Japan, Canada, Norway, Australia and New Zealand, in which this ratio is between 25% and 50%, the EU is *highly protective*. The US case is no less serious since its percentage increased only

[27] Ibid., p. 63.

from 17.4% to 17.8%. The fact is that in the EU close to 90% of the tariff fractions are subject to a certain level of tariff protection. The OECD acknowledged that, "Tariff protection on agricultural products, already high in 1993, has increased in 1996 with the tariffication of NTBs".[28] Even by 1996, food, prepared beverages, textiles and footwear were still among the sectors more highly protected by tariffs. To defend this situation, the OECD maintains that this can be attributed to the tariffication process that led the Uruguay Round to reduce non-tariff protection. Anyway, compared to what happened by the mid-eighties, the situation did not change in the nineties, even after the Uruguay Round.

Tariffication, however, cannot justify the increase in domestic tariff spikes that took place between 1988 and 1996. This situation is particularly serious in the EU if we consider that these tariffs reached 4.8% of the fractions when in 1988 this percentage was only 2.2%. Japan also increased this protection, although to a lesser degree. It increased from 5.3% to 6.8%, whereas the United States recorded a decrease from 4.5% to 3.8%. Another negative element occurring between 1993 and 1996 is the increase in the range of rates, expressed by an increase in the standard deviation. This growth in the array of tariff rates results in a greater distortion of economic decisions and trade exchange and shows a more complex protection structure. In the United States the number of fractions with a standard deviation higher than 10 remained relatively stable throughout the entire period whereas in Japan the increases that took place between 1988 and 1993 were eliminated between 1993 and 1996. In the EU, the tendency is completely opposite: between 1988 and 1993, the situation remained relatively stable but experienced an extraordinary growth between 1993 and 1996, by passing from 9 to 65 headings with substantial increases in the standard deviation.[29]

Another relevant factor for developing countries is the change in the tariff escalation process that occurred as a result of the Uruguay Round. Before these negotiations, raw materials had lower tariffs than semi-manufactured and finished goods, but since 1993, this trend has reverted. The changes to "all products" seem insignificant since the USA and Japan maintain constant rates, the former at 6.2% and the latter at 6.7%; the EU presented some growth from 7.6 to 8.2%.[30] In a disaggregation per transformation level, differences are substantial and manifest negative important effects for developing countries. EU raw materials showed a considerable increase in the number of fractions subject to tariffs (close to 70%) although in this same item the United States fared worse by presenting an increase of close to 100%. Nevertheless, the EU presented a greater increase in the number of fractions related to manufacturing raw materials, from 5.2% to 11.5%. Finished manufactured goods experienced an equally negative increase from 7.8% to 10.8%. These tariff modifications allow the OECD to observe that, "The overall level of tariff protection is lower in the United States and Japan than in the European Union and Canada".[31] This is shown more clearly when the average tariff rate levels for different goods are compared, as in Table 6. The first point is that the general average levels are higher for the EU than for the United States or Japan. Positive is the fact that the EU tends towards a reduction of these rates, as does Japan. The United States, on the contrary, tends towards growth, increasing from 4.4% to 5.2% between 1989 and 1996. Although the difference between the EU and the United States is closing, the difference between the EU and Japan is increasing. These higher averages result from higher rates for most products except textiles and apparel, in which the United States and Japan have higher rates. For foodstuffs, beverages and tobacco, EU rates are particularly high and since the late eighties have presented an upward tendency, which reached 32.5% by 1996. In paper, chemical and metal products 1996 levels were somewhat higher than in the United States and significantly higher than in Japan.

Final Observations

This tariff and non-tariff protection structure of the main industrial countries does not seem to be particularly beneficial for emerging countries, such as the Latin American nations, which since the foreign debt crisis have attempted to carry out industrial restructuring, emphasising the development of manufacturing sectors and export promotion. Latin American countries must be concerned about EU protectionism since the application of these measures to countries with a certain degree of competitiveness has turned out to be highly damaging. For example, the escalation of NTBs, as an increment in the level of effective protection, becomes an obstacle to local processing of primary goods, and therefore a negative

[28] Ibid., p. 18.

[29] Ibid., p. 44.

[30] Ibid., p. 51.

[31] Ibid., p. 18.

Table 6
Production Weighted Average MFN Tariff Rates in the USA, the EU and Japan

ISIC Description	USA 1989	USA 1993	USA 1996	EU 1988	EU 1993	EU 1996	Japan 1989	Japan 1993	Japan 1996
Agriculture, forestry, fishing	3.8	4.1	7.9	6.4	6.1	10.7	5.1	5.1	5.0
Manufacturing	4.7	5.0	5.4	8.4	8.6	7.7	4.1	3.5	3.3
Food, beverages and tobacco	7.6	8.2	15.9	27.4	27.1	32.5	15.6	17.5	18.9
Textiles and apparel	11.6	11.8	11.3	10.0	9.9	9.8	10.4	11.7	10.1
Wood and wood products	4.1	4.2	3.5	5.2	5.4	3.4	5.0	3.7	3.6
Paper and paper products	2.0	2.0	1.8	7.1	7.2	4.7	2.0	1.6	1.2
Chemical, petroleum products	5.7	5.8	4.4	6.4	6.5	5.3	4.6	4.3	3.2
Non-metallic mineral products	4.9	5.0	4.5	5.5	5.4	3.9	2.9	1.7	1.5
Basic metal industries	4.1	4.3	3.7	5.1	5.1	3.6	4.1	3.7	3.0
Fabricated metal products	3.7	3.9	3.2	6.0	6.3	4.3	1.7	0,3	0,3
Other manufacturing	6.0	5.9	4.8	5.6	5.5	4.2	3.8	2.9	2.5
Total all products	4.4	4.7	5.2	8.2	8.4	7.7	4.2	3.6	3.4

Source: OECD: Indicators of Tariff and Non-tariff Trade Barriers, update 1997, p. 49.

incentive to the industrialisation process in these countries. The application of a Generalised Preference System has had similar effects since it tends to exclude products or reduce the quotas of countries that have reached a certain degree of development and competitiveness, such as South Korea, Brazil and Mexico.

The lack of transparency of NTBs has enabled Europeans to argue that trade difficulties between the two regions are due to Latin America's inability to become competitive in European markets, to which must be added the inability to make a broad and appropriate use of the generalised preference system (GPS). This may be true, but it is only half-true. In the first place, we must not minimise the fact that the GPS for Latin America has covered only close to 50% of its exports, whereas in other regions it has covered up to 80%. Koopmann and Scharrer noted that 140 sensitive articles, which had tariffs, ceilings or strict and specific quotas, covered products in which the scheme's supposed beneficiaries are competitive. They therefore concluded that, "The GPS's real impact is mild".[32] Wiemann expressed a similar view when he stated that so long as the European Union continues imposing ceilings on the preferential tariffs it grants, the GPS will continue implying limited benefits for developing countries.[33]

The Europeans have made a more generalised use of tariff and non-tariff measures and have reached higher average levels than the whole of the developed market economies in the sector of low growth industries. However, it is in these sectors that the Latin American export manufacturing industry, such as the chemical, iron, steel and metal industries, has reached a certain degree of efficiency. Should this attitude continue, it would be very difficult for the European markets to become an alternative for the Latin American objective of market diversification.

With the creation of the Single Market and the Uruguay Round negotiations, it seemed inevitable that protection would have to disappear, since technological standardisation and regulation harmonisation should help revert and reduce this tendency. The countries of the European Community, however, not only have not practised a lesser degree of non-tariff protection in the late nineties, as can be appreciated by the use of antidumping procedures, but negotiations induced a new emphasis on tariff protection. The fact that tariff protection is more transparent does not imply that its reduction or elimination is guaranteed. The most outstanding fact is that even after all these negotiations, the sectors in which Latin America is interested remain relatively closed.

Besides, the idea of having a levelled competition field is rhetorical when not all stakeholders enjoy the same degree of government support. In industrial countries, particularly in the EU, producers and consumers receive various forms of support. The FAO affirms that support to agriculture continues to be high in OECD countries. In 1995-1996, total transfers induced by economic policies remained close to 335 billion dollars, whereas between 1986 and 1988 they were 278 billion dollars on a yearly average. These figures are much higher than the GDP of most Latin

[32] G. Koopmann, H.E. Scharrer: Scenarios of a common external trade policy for the EC after 1992, Hamburg Institute of International Economics (HWWA), mimeo, 1990, p. 7.

[33] J. Wiemann, op. cit.

American countries except the largest. In 1995, the Equivalent Producer Subsidy represented 41% of the production value of these products. This high level persisted in spite of the fact that it had decreased from 20% to 15% in the United States from 1994 to 1995 as a result of lower direct payments and higher world market prices, whereas it had increased in the European Community mainly due to the incorporation of new members.[34] It should be noted that this 20% increase in total support occurred during the decade in which the Uruguay Round was negotiated and in which the official discourse focused on state reduction.

Contrarily, support of this kind has been systematically eliminated in Latin American countries because of the discourse on globalisation and the pressure of international organisations. Although comprehensive information regarding support to agriculture in these countries is lacking, the FAO, based on different studies, accepts that this particular tendency is confirmed in Latin America[35] as well as in grain producing countries.[36] As long as industrial countries maintain subsidies and developing countries reduce them the asymmetry between these economies will not only remain, it will become larger. Nor will this asymmetry abate if Latin America keeps exporting coffee, oil seeds, tropical and subtropical fruit as well as fruit juice, meat and animal food or if it continues focusing on maquila production based on cheap labour and inputs that are specifically imported for exportable production.

Evidence leads to the inevitable conclusion that in trade liberalisation there is a gap between what industrial countries say must be done and what they do to make it happen. If the EU continues granting subsidies to agriculture and to other sectors and maintains its protectionist stance, it will be extremely difficult for negotiations to level out the playing field. Under these conditions, the gap between what Latin America sells to the EU and what it buys from the EU will continue to expand.

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[34] FAO: Commodity Market Review, 1996-97, p. 7.

[35] A. Valdés: Surveillance of agricultural price and trade policy in selected Latin American countries at the time of major reform, The World Bank, 1996.

[36] FAO: Review of Cereal Prices Developments in Selected Developing Countries in 1995-96 and Policy Response, Commodities and Trade Division, September 1996.

CURRENCY CRISES

Gerhard Aschinger*

Why Do Currency Crises Arise and How Could They Be Avoided?

In the 1990s currency crises arose in different regions, e.g. in Mexico, East Asia, Russia, Brazil and Ecuador, to mention only the most important ones. What are the main factors which may trigger such events? How does globalisation and deregulation of financial markets influence the emergence of a currency crisis? What forms of crises exist? Are they driven by fundamental imbalances in a country or are they caused by self-fulfilling mechanisms involving herd behaviour and destabilising speculation? To what extent do such crises reflect implicit governmental and international guarantees which may cause moral hazard and adverse selection, thereby increasing the risk behaviour of enterprises and banks?

A currency crisis is characterised by a sudden attack on a country's currency, which will devalue accordingly. Although currency crises may also occur under flexible exchange rates, the pegging of the domestic currency to a reserve currency (e.g. the US dollar) creates a higher potential for such crises since under flexible exchange rates investors directly bear the exchange-rate risk. The commitment of a government to defending the peg of its currency (falsely) signalises investors that exchange-rate risks are virtually non-existent. It is often believed that domestic money could always be exchanged for

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