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Regionalization and integration into the world economy:

The Latin American experience in trade, monetary and financial cooperation

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Acronyms and abbreviations

AEC	Economic Complementation Agreement
ADB	Andean Development Bank
ADR	American Depository Receipts
ALIDE	Latin American Association of Development Finance Institutions
BCEI	Central American Bank for Economic Integration
BEIA	Ibero-American Electronic Stock Exchange
IDB	Inter-American Development Bank
BLADEX	Latin American Exports Bank
BOLCEN	Association of Central American Stock Exchanges
CACH	Central American Clearing House
CACM	Central American Common Market
CAF	Andean Development Corporation
CARICOM	Caribbean Community
CET	Common external tariff
COSRA	Council of Stock Market Regulatory Authorities of the Americas
DICAs	Central American Import Rights
EAs	Enterprise for the Americas
EC	European Community
ECDC	Economic Cooperation among Developing Countries
ECLAC	Economic Commission for Latin America and the Caribbean
FIABV	Ibero-American Stock Exchanges Federation
FTA	Free trade area
GATT	General Agreement on Tariffs and Trade
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFC	International Finance Corporation

IMF International Monetary Fund

LACCs Latin American and Caribbean countries

LAIA Latin American Integration Association

LARF Latin American Reserve Fund

MERCOSUR Southern Cone Common Market

MIF Multilateral Investment Fund

MTLP MERCOSUR Trade Liberalization Programme

NAFTA North American Free Trade Agreement

PAECA Economic Action Plan for Central America

PAR Regional Tariff Preference System

PRADIC Regional Programme in support to Central American Development and Integration

RDC Central American Depository Receipts

SEC Securities and Exchange Commission

Summary and Conclusions

1. The experience of the Latin American and Caribbean countries (LACCs) 1/ in economic integration is important, not only for the revitalization of past agreements 2/ and the establishment of new schemes, but also because of the ability of these countries to open gradually their markets vis-à-vis third-country markets, and their initiatives to cooperate with other countries interested in a particular integration project (e.g. the recent agreements signed between the United States and certain Latin American countries or groupings).

2. The LACC experience provides, in itself, an instructive example of regional cooperation, for several reasons:

(a) Most of the countries have undergone important changes in economic policies since the early 1980s, culminating in a shift in trade policies to an export-oriented strategy with as its main elements elimination of trade barriers, adoption of more realistic exchange rates and the use of the price mechanism to allocate productive resources. As a result, most countries in the region have adopted or are committed to adopting relatively open trade systems.

(b) The region includes diverse economies, ranging from those which have rich commodity bases (Chile, Ecuador, Venezuela) to those with diversified production structures (Brazil, Mexico and Argentina). Based on potential complementarities, the region promotes regional integration through the renewal of past trade, monetary and financial agreements and the adoption of flexible and practical cooperation agreements (e.g. bilateral agreements and memoranda of understanding among some countries).

(c) Prior to the debt crisis, LACCs groupings had, perhaps more than others, gone the farthest in institutionalizing cooperation (for example, the numerous subregional, multilateral and bilateral agreements reached under the umbrella of the Montevideo Treaty - 1980 leading to the creation of the Latin American Integration Association - LAIA). While such institutions achieved considerable success in the 1960s and 1970s, in the 1980s they proved inadequate to the task of dealing with the debt crisis. This encouraged the revitalization of past integration agreements. Intraregional trade and other regional economic relations were impeded as a result.

(d) The debt crisis led to a redefinition of policy objectives in some of the economic groupings of the region and, to a qualitative change in policy formation. It is, therefore, not coincidental that the LACCs seem to have reinstated regional cooperation as part of their national and regional strategies for recovery from the debt overhang.

3. In the 1990s, the LACCs' integration efforts gained momentum with "deep integration", involving complementary areas of cooperation, and "wider integration", particularly enlargement of the agreements to include other countries or groups of countries.

4. Deepening is pursued with the realization that the expansion of trade among participant countries depends not only on the reduction of tariffs, elimination of non-tariff barriers and the introduction of more transparent

and simple customs procedures, but also because the new integration process implies agreements more open to the world and compatible with the reforms of the domestic economic policies. It is assumed that, given the outward-orientation of both national economies and their economic groupings, the various integration processes currently under way within the region should contribute to fostering Latin American regional integration as a whole and Latin America's integration into the world economy.

5. In addition, the current integration processes are viewed as a step towards the equal treatment of third countries or groups of countries. Most notably Latin America's drive towards regional integration is inspired by the same principles that underlie the region's sweeping economic reforms: the liberalization of price mechanisms and the opening up of the economies to international competition. In other words, it is widely accepted in the region that economic openness and expanded trade are the key not only to economic growth at the national level, but also to prosperity in the entire western hemisphere. In addition, there is a growing desire on the part of the private economic agents to participate actively in the negotiation and the enforcement of the new agreements.

6. The new integration strategy also includes measures and *ad hoc* means to harmonize trade policies with monetary, financial and fiscal policies, and facilitation of reciprocal investments and cooperation in other areas (e.g. enterprise associations, cross-border securities trading, environmental concerns, joint strategies to penetrate third markets, cooperation in labour policies, etc). These measures should be viewed as precursors to harmonization of national policies. Monetary and financial cooperation is thus no longer viewed as just a complementary channel issue but rather a primary one. Furthermore, a new form of cooperation is gathering momentum, that between domestic capital markets and regional capital markets, as a means of mobilization of regional resources.

7. In sum, the new integration efforts include the following objectives:

(a) Adoption of outward oriented integration arrangements and enhanced **trade policy coordination** in order to maximize the benefits from trade liberalization programmes at national levels. This includes the harmonization of tariff systems - and eventually the establishment of Common External Tariffs - CET - as well as coordination and cooperation in trade promotion, etc.

(b) The utilization of **economies of scale** through more efficient regional scale production and access to the broader regional market. This entails, for example: a strategy of exposing local enterprises to competitors in the region before exposing them to global competition, and joint collaboration on production; the establishment of networks of industries serving both regional and global markets; the setting up of marketing and distribution cooperation through more direct and frequent links among economic operators.

(c) **Strengthening the infrastructure network**, through transportation, communication and energy policies where cooperation has apparent advantages over nationally isolated policies.

(d) **Coordination of macroeconomic policies** to forestall beggar-thy-neighbour policies. This includes the coordination of policies on interest rates and exchange rates.

(e) Extending cooperation to monetary and financial areas so as to secure trade financing, to ease settlement, to remove as much as possible foreign-exchange risks involved in trade. Encouragement of **financial cooperation and mobilization of savings** through fostering regional capital markets. This effort, among others, serves the needs of several small countries which are too small to sustain individually viable securities markets.

8. As part of the process of widening the scope of cooperation, one can see emerging a proliferation of agreements at bilateral and multilateral levels and more recently, at hemispheric levels. This reflects the desire to undertake selective and practical associations whether formal or *de facto*. The new type of agreements are diverse. They may include, for instance, certain reciprocal Free Trade Areas - FTAs - without involving the adoption of CETs; customs unions (FTAs with CETs) or common markets (customs unions with free movement of labour and capital between countries, generally giving rise to the need to coordinate certain macroeconomic and migration policies).

9. The Montevideo Treaty mentioned above had established, under its umbrella, the possibility of concluding partial scope subregional and bilateral agreements without the participation of all countries (Arts. 3 and 7 of the Treaty). This implies progressive multilateralization of these agreements. In practical terms, this would entail setting similar deadlines for free circulation of goods among partners and, once complete trade liberalization has been achieved through the separate agreements, the expectation that tariff systems may be harmonized and CETs achieved.

10. A central issue on the 1990s integration agenda of Latin America is the necessary convergence (Art. 3 of the Montevideo Treaty) of those agreements and their compatibility with one another as well as with the umbrella agreement provided by the Montevideo Treaty. Progress in this field will depend on both the similarity of national economic policies and the political will to transform the Treaty into a regional network of compatible agreements. The former should be a natural outcome of the export-oriented and market-based reforms adopted by various LACCs. However, regional harmonization of economic reforms and structural adjustment policies are at an embryonic stage. If there are similarities, they would probably stem from the similar framework of programmes adopted in various countries of the subgroupings without necessarily an intention to harmonize them.

11. The region has recognized that LAIA should offer a forum for the coordination of different regional integration projects, the evaluation of their economic rationality and the search for common denominators on which to base eventual convergence and rationalization. Likewise, there is wide consensus about the need to adjust LAIA to the "new realities" of the region; among others, the completion of agreements with developed countries is a central topic.

12. In reviewing the experience of the LACCs, this paper examines in chapter I the recent initiatives to improve traditional regional cooperation schemes, the new efforts (Mercosur) and future strategies. It also reviews the recent move on the part of Governments to conclude a wide range of associative linkages, flexible and practical enough to meet the current international requirements. These linkages may not necessarily include all members of the subgroupings. Examples include the Group of Three (signed in June 1994 between Colombia, Mexico and Venezuela) and the bilateral agreements between various LACCs.

13. As a result of legal inconsistencies or implementation problems mentioned in this report, some groupings still face problems in need of solutions before the final objective of integration is achieved. In this sense, it seems difficult to envisage that all the subregional agreements would be able to reach regional trade liberalization.

14. Chapter II surveys the attempts to broaden cooperation to include other interested countries or groups of countries. A case in point is the recent North American Free Trade Area (NAFTA), between Mexico, the United States of America and Canada. The main guidelines of the "Enterprise for the Americas" (EAs) initiative are also discussed in chapter II.

15. Chapter III examines the evolution of Latin American monetary and financial cooperation (through trade, investment and other financing mechanisms) and the payments and clearing systems in support of economic cooperation. The Latin American Reserve Fund (LARF) is covered, in view of the important role played by the institution in support of the balance of payments adjustment programmes of member countries. The role of the Andean Development Corporation (CAF) in support of trade financing and technical cooperation activities is highlighted as well. Finally, this chapter reviews the efforts towards achieving regional monetary convertibility.

16. As an attempt to identify possible measures to enhance the Latin American integration processes, it is possible to conclude that further actions and increased mobilization of resources are required. Given the problems faced in obtaining external finance from traditional sources and the new flow of resources to selected countries of the region through non-debt creating flows, 3/ emphasis should be placed on new sources of financing. The improvement of trade, investment and other types of financing mechanisms, the strengthening of the role of the LAIA Payments and Clearing System and the establishment of regional capital markets seem to be feasible proposals. A further step would be to seek targeted support from international financing organizations for trade expansion and regional integration.

17. From chapter IV it is possible to draw some conclusions about potential new means of financing, i.e. through the development of regional capital markets, which is part of the process of deepening economic cooperation. In the regional context, a particular example in this direction is the attempt to foster domestic stock exchanges and establish regional capital markets. 4/

I. Recent initiatives of Latin American trade integration schemes

18. The integration groupings of the LACCs have experienced major changes since the mid-1980s as a result of the trade liberalization process and increased openness to the world. These changes were determined by new guidelines adopted by existing (and newly created) subregional, multilateral and bilateral schemes. For example, most integration schemes envisaged the eventual harmonization and coordination of macroeconomic policies. In this respect, the bilateral agreement signed between Brazil and Argentina in 1988 proved to be a trailblazer inasmuch as it has stipulated that objective for the final stages of their integration process. In 1991, this was confirmed by the newly created MERCOSUR (1991). This move has also gained momentum in the Andean Group, the Central American Common Market (CACM) and the Caribbean Community (CARICOM).

19. Following a review of the intraregional trade performance, this chapter goes on to discuss both the revitalized and the newly created subregional, multilateral and bilateral agreements.

A. Latin American and Caribbean intraregional trade

20. The trends in intraregional trade differ significantly if one compares traditional integration arrangements with the newly created MERCOSUR. The latter’s performance has been gaining strength in the 1990s. In 1992, intra-MERCOSUR exports expanded vigorously (by 40 per cent) while intra-exports share in total exports stood at 14.3 per cent (see table 1). According to estimates, this share had increased to about 19.9 per cent in 1993. The positive performance of this grouping is discussed in greater detail in section C of this chapter.

21. As regards the traditional regional cooperation agreements, thanks to efforts to revitalize them, intraregional trade started to increase in the early 1990s (see table 1 below). Taking a long-term perspective, it becomes obvious that most of the increase in the share of intra-grouping exports in total exports only compensates for the trade loss during the 1980s. The moderate long-term performance of most groupings can be explained by the residual impact of past import substitution policies, which called for the protection of domestic industries; it should be emphasized that the foreign competitors were, in many cases, from other countries within the region. Furthermore, the trade policies associated with this approach allowed the import of capital goods, generally from outside the region.

22. The results of traditional subgroupings are as follows. In 1980, intra-CACM exports reached their maximum level - around US$ 1 billion; in 1986 they declined to US$ 465.8 million. This deterioration was, to a great extent, a consequence of the debt crisis. In 1987, intra-CACM-trade started to recuperate and ever since, trade figures have fluctuated. In 1992, intra-grouping exports stood at 18 per cent (see table 1) of total exports. It has been estimated that a further increase took place in 1993.

Table 1
Latin American regional arrangements
Share of intraregional exports in total exports (percentage) 1980-1992

	No. of member countries	Share of intraregional exports in total				
		1980	1985	1990	1991	1992
CACM	5	24.40	14.70	15.30	16.80	18.20[e]
LAIA	11	13.70	8.40	12.10	13.50	16.70
of which: Andean Group	5	3.80	3.20	4.10	5.90	6.20
CARICOM	13	4.30	5.80	10.10	9.30	9.00
MERCOSUR	4	11.60	5.50	8.9	11.10	14.30

Source: IMF: DOT, 1993. UNCTAD Handbook 1992 and 1993.
[e]: Estimates

23. The value of intraregional exports from the Andean Group reached a peak of US$ 2.2 billion in 1992, up from US$ 1.8 billion in the preceding year. This spectacular rise may be explained largely by the increase in Venezuelan, Colombian and Bolivian exports which compensated for the decline in exports from Ecuador and Peru. The rising trend was also maintained in 1993 (according to preliminary estimates, exports stood at US$ 2.9 billion) and, as a result, intra-exports share in total exports stood at 10 per cent for the first time, compared with less than 7 per cent during the preceding year.

24. In 1992, total intraregional exports among LAIA member countries reached their highest level at US$ 19.4 billion, representing an increase of 28 per cent from the preceding year (US$ 15 billion). This growth was mainly attributed to the huge improvement in the Brazilian exports - around US$ 7.6 billion - followed by an expansion in exports from Argentina, Colombia, Chile, Mexico, Venezuela and Peru. LAIA’s exports represented 16.80 per cent of total regional exports in the same year (see table 1); according to estimates this share increased to about 19 per cent in 1993.

25. The progress achieved by *intraregional manufactured exports* (particularly machinery and transport) deserves some attention. These exports are dominated by Brazil, Mexico and Argentina - which account more for more than 80 per cent of total manufactured exports. While there has been an increase in absolute terms, from US$ 5.3 billion in 1986 to US$ 8.2 billion in 1990, the relative importance of intraregional markets decreased from 25 to 20 per cent during the same period, as shown in table 2. This was a result of, among other things, the foreign exchange problems confronting the region. Nevertheless, there is a considerable margin for the expansion of such exports intraregionally.

Table 2
Latin American intraregional exports in manufactured goods, 1970-1990
(As a % of exports to the World)

Years	Manufactured goods	Other goods
1970	26.09	16.25
1980	35.91	18.79
1986	25.41	14.72
1987	22.74	10.73
1988	19.16	10.58
1989	20.51	12.48
1990	19.89	10.81

Source: UNCTAD secretariat, November 1993

26. Intraregional trade in manufactured goods is important for all subregional groupings. As shown in the annex (table 1) in 1990, Latin American countries sold around 22 per cent of their total manufactured goods within the region. CACM countries export, on average, 32.5 per cent of their tradeable manufactures to other countries in the subregion; for the Andean Group the figure is 39.7 per cent, for MERCOSUR members, 24.3 per cent, while for CARICOM member countries it is 26.9 per cent.

27. The analysis of the direction of trade in the case of the LACCs may also benefit from a comparison of the importance of Latin American versus North American partners for each grouping. In this regard, beyond MERCOSUR, the main trading partner is the United States of America. As shown in the annex, (table 2) for MERCOSUR, Latin America is relatively more important than North America, that is, about 26 per cent of exports is traded within Latin America while 18 per cent goes to North America. In the Chilean case, the share for the two regions is fairly equal - between 17 and 18 per cent.

28. The remaining Latin American groupings (CACM, Andean Group and CARICOM) export more to North America than to other Latin American trading partners. In the case of CACM, 23 per cent of exports is sold to Latin American partners and 46 per cent to North America; in the Andean Group, 48 per cent of exports is traded with North America compared to 17 per cent with Latin America; LAIA member countries trade 18 per cent with regional partners compared to 44 per cent with North America. For CARICOM, trade with North America accounts for 49 per cent while trade with Latin America amounts to 11 per cent. It is worth mentioning that Mexico’s high concentration of trade

with the United States (72 per cent) is comparable to Canada's (77 per cent). Both Canada and Latin America as a whole are almost equally important trading partners for the United States: the former represents nearly 20 per cent and the latter represents 16 per cent of total United States exports (see annex, table 2).

29. These figures may hint at future agreements between the United States and some groupings and/or countries, as established under the Enterprise for the Americas (EAs) initiative. In this regard, the Latin American region can be divided in two groups. On one side, there are MERCOSUR and Chile. They depend relatively less on the United States and Canada (less than 20 per cent of exports). In the case of MERCOSUR, with its sophisticated hierarchy of preferences in trade policies, the grouping itself has a high share in total exports. Chile has expressed its preference for selective and practical arrangements within the region in accordance with its own unilateral trade policy.

30. On the other side are all the other Latin American groupings and Mexico, which are highly dependent on exports to the United States. This may push them into giving priority to a free trade agreement with the latter as soon as possible. Mexico has already done this with the conclusion of NAFTA. It is likely that those regions and/or countries with an important and/or dominant trade relationship with North American countries would be the most inclined to create regional trade liberalization schemes parallel to their unilateral trade liberalization, as proposed by the EAs initiative for the whole western hemisphere (cf. chap. II).

31. Aimed at examining the rationale for a trade bloc of Latin America and other countries, table 3 includes the geographical distribution of Latin American exports for 1990 to the main industrialized countries. For Latin American groupings, the most important partner is North America, namely the United States and Canada. This is followed, by a small margin, by Europe in the case of MERCOSUR (45.7 per cent to Europe compared with 47 per cent for North America). Europe is also relatively important for the Andean Group (28.5 per cent) and the Caribbean (28 per cent).

32. In view of the high concentration of trade with North America (90 per cent) in the case of Mexico and Central America, a trade bloc with the North would have a clear economic rationale. For the other LACCs, however, it is not feasible to identify one region among the industrialized countries for the potential establishment of a trade bloc. This approach, however, does not exclude the possibility of far-reaching trade and other agreements with countries in the North.

33. The revitalization of Latin American groupings would be better achieved if countries could count on a diversified export structure. It is worth mentioning that manifested *comparative advantages* are clearly missing in CACM, for which the main exports are food and partly manufactured goods (see annex, table 3).

Table 3

Distribution of Latin American manufacture exports to industrialized countries
1990
(percentages)

Importers

Exporters	**OECD Europe**	**North America**	**Japan**
Mexico	9.3	89.5	1.1
Brazil	42.3	50.9	6.8
Other MERCOSUR	45.7	47.0	7.3
Andean Group	28.5	63.0	8.5
Caribbean countries	28.0	66.0	6.0
Central America	9.7	90.3	0.0

Source: IDB: Economic and Social Progress in Latin America, Annual Report 1992. UNSO, data base: UN COMTRADE.

34. For CARICOM, the lack of complementarity is evident among the small Caribbean islands, Belize and Guyana. However the rest of the subregion has clear advantages over these food exporting countries. For example, Trinidad and Tobago is a major fuel exporter, while Barbados and Jamaica are exporters of manufactured goods (see annex, table 4).

35. LAIA (see Box 1) is composed of the Andean Group, MERCOSUR, Mexico, Chile and the Dominican Republic (the latter participates only in the LAIA clearing mechanism but is not a full member). In the case of MERCOSUR and the Andean Group, there are important comparative advantages to be exploited. For example, within MERCOSUR, Brazil, Argentina and Uruguay are exporters of manufactured goods including chemicals and machinery. Argentina, Uruguay and Paraguay export food items and agricultural raw materials, while Brazil also exports ores, metals and metal manufactures. In the Andean Group, Peru and Bolivia export ores and metals, Venezuela exports fuels, and Colombia and Ecuador trade both fuels and food.

36. As regards other LAIA member countries, Mexico, Chile and the Dominican Republic are a heterogeneous group. The main exports of the Dominican Republic are manufactured goods; for Mexico, exports are manufactured goods and fuels, for Chile, they are ores and food. See the annex, table 5, for the export structure of all LAIA member countries.

Box 1

The Latin American Integration Association (LAIA)

Creation: Treaty of Montevideo, 1980

Members: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela

Measures: Regional tariff preference; regional and partial scope agreements; differential treatment; support system for least developed countries; convergence with other countries; convergence with other countries and economic integration plans in Latin America; and cooperation with other economic integration areas.

The Regional Tariff Preference (PAR) system: The only agreement with multilateral implications - General tariff level, started at 5 per cent in 1984, increased to 10 per cent in 1987 and to 20 per cent (on average) in 1990, with flexible levels depending on each country's situation.

LAIA's Reciprocal and Credits Agreement - see Box 16

Recent initiatives: December 1991, the VI Council of Ministers adopted several decisions aimed at adapting the organization to the current stage of regional integration and to a system designed to provide information and support to foreign trade. Currently, LAIA member countries discuss the need to achieve a convergence of partial scope agreements signed by member States. Convergence is envisaged in the Treaty of Montevideo; it entails the progressive multilateralization of those agreements.

B. Revitalization of past integration schemes - CACM, Andean Group, CARICOM

37. In view of the past difficulties facing the Latin American groupings in their promotion of intraregional trade, particularly within economic groups with only slight comparative-advantage differences, such as CACM and, partly, CARICOM, a redefinition of the objectives of economic cooperation was required. This entailed using regional cooperation as a stepping stone to accruing potential comparative advantages so as to deepen and widen economic integration.

38. In 1990, CACM (see Box 2) launched the Economic Action Plan for Central America (PAECA) aimed at revitalizing the grouping and adapting it to the new economic context. It anticipated a consolidation of an FTA and a customs union leading towards an economic union. For this purpose, since 1992, four member countries have gathered under the "North Triangle" (see Box 2) to carry out targeted negotiations and to conclude agreements aimed at eliminating obstacles to free trade and to freer mobility of capital and human resources.

39. The Andean Group (see Box 3) launched its Plan for Strategic Design (Galápagos, 1989) aimed at creating a customs union by 1995. With that goal in mind, member countries approved, in 1993, the adoption of a CET. Furthermore, a clear decision was taken to harmonize economic policies within member countries with the ultimate goal of consolidating an enlarged market and opening the way for the establishment of a Latin American common market. In 1992, progress achieved in terms of intra-Andean exports was satisfactory: they reached the historic level of US$ 2.2 billion - of which around 83 per cent was exports of manufactured goods. According to estimates, this level was maintained in 1993.

Box 2

Central American Common Market (CACM)

CACM was created in 1960. Member countries are Costa Rica (1962), El Salvador, Guatemala, Honduras (re-entered in 1991 after more than 20 years absence) and Nicaragua. In June 1990 (Declaration of Antigua), member countries approved the Economic Action Plan for Central America (PAECA) aimed at fostering sub-regional integration based on the national economic reform programmes. The Plan includes the harmonization of tariff promotions for intra-group transport links, the regional coordination of trade promotion and the harmonization of economic adjustment programmes.

Main objectives of the grouping are: to establish an FTA, create a customs union and an economic union; to cooperate in monetary and financial areas; to develop an integrated infrastructure network; and to facilitate intraregional investments.

Instruments: Central American Uniform Tariff System, approved in 1986 but implemented in the first half 1993.

Recent Initiatives: In August 1992, within the context of the New Central American Tariff System based on the Harmonized System, CACM completed negotiations for the implementation of the CET. It will vary from 5 to 20 per cent and will include some exceptions.

In the Nueva Ocotepeque Agreement (May 1992), member countries of the North Triangle - El Salvador, Guatemala, Honduras and Nicaragua -, named as Group of 4 ratified their objective of establishing an FTA. Moreover, these countries signed bilateral agreements establishing the basis for the creation of a customs union and a further economic union among them.

The FTA was established July 1993 but it was operating *de facto* since April of that year.

Declaration of Guatemala (Guatemala, October 1993), followed by a Protocol: Central American member countries decided to strengthen efforts towards, *inter alia*, improving the FTA and the CET and to achieve a Customs Union. In addition, they decided to enhance the free mobility of capital and human resources within the grouping and to seek gradual monetary and financial integration.

Declaration of San Salvador (El Salvador, August 1993) and the Declaration of Santo Tomás (Escuintla, Guatemala, September 1993): the Group of 4 (Honduras, Guatemala, El Salvador and Nicaragua being the member countries) adopted several decisions aiming at accelerating the integration process as agreed in New Ocotepeque. They adopted common policies in the following areas: trade liberalization, facilities for migrations movements, infrastructure and communications, aspects of common social interest and regarding foreign relations.

The grouping has also carried out negotiations aimed at establishing a regional capital market, a regional stock exchange and to create a regional institution that will coordinate external assistance.

Box 3

The Andean Group

Created in 1969 by the Andean Treaty. Member countries are Bolivia, Colombia, Ecuador, Peru and Venezuela (1973).

Objectives: Gradual formation of a customs union; promotion of regional industrial cooperation; harmonization of macroeconomic policies.

Main Declarations:

Quito Protocol, 1988: Proposed a flexible tariff reduction programme; the liberalization of the treatment to foreign capital; the establishment of a framework to conclude bilateral agreements and to promote sectoral cooperations (technology, services and border exchanges).

The Galápagos Declaration, 1989: Presidents approved the Strategic Design for the orientation of the Andean Group. Main goals: strengthen the integration process and gradual openness to the world economy. The Group envisaged the creation of a customs union by 1995, the adoption of a CET, the harmonization of macroeconomic policies, and the establishment of a common agricultural policy.

The Act of La Paz, November 1990: decided, *inter alia*, to accelerate the programme of liberalization, and to strengthen the goal of attaining a common agricultural policy for the subregion.

The Act of Barahona (Cartagena de Indias), December 1991. Member countries ratified their intention to accelerate the FTA and the CET. Furthermore, they decided to gradually adopt harmonization of macroeconomic policies, to relax regulations to facilitate foreign investments and capital mobility within the sub-region; suppress quotas applicable to maritime transport and adopt an open-skies policy within the sub-region; eliminate visa requirements for nationals of Andean countries.

In March 1993, member countries (except Peru) approved (Decision 324) the CET, starting as of January 1994. In turn, Peru - which temporarily suspended its obligations with the Group - had signed bilateral agreements (1992-93) envisaging trade liberalization measures with each member country.

40. CARICOM (see Box 4) has made efforts to conclude a proposed CET and achieve a common market and a common economy. Moreover, the group shares with other subregional groupings the view of intensifying linkages with other subregions, and concluding cooperation agreements with other countries at regional (i.e. Venezuela, Colombia, Cuba, Dominican Republic and Mexico) and extraregional levels (establish framework agreements with the United States).

Box 4

The Caribbean Community (CARICOM)

CARICOM was created in 1973 by the Chaguaramas Treaty aiming at establishing a common market.

Members: Antigua and Barbuda, Bahamas (1983), Barbados, Belize (1974), Dominica (1974), Grenada (1974), Guyana, Jamaica, Montserrat (1974), St. Kitts and Nevis, St. Lucia (1974), St. Vincent and the Grenadines (1974), and Trinidad and Tobago.

Recent initiatives: In 1989 (the Grand Ansee Declaration) member countries ratified the three main instruments that would lead to the establishment of a common market and a common economy: a CET (the rank established *a priori* was 0-45 per cent), rules of origin and a harmonized system of fiscal incentives. The larger Caribbean countries (Barbados, Guyana, Jamaica and Trinidad and Tobago) adopted the CET ahead of schedule. In addition, member countries envisaged the harmonization of fiscal incentives, reaching agreements on double taxation among member countries, the establishment of the Caribbean Investment Corporation, promoting capital mobility among the subregion, the dismantling of trade barriers, and the coordination of macroeconomic and sectoral policies. In 1991, member countries presented a new integration strategy (Nassau Understanding Agreement) which made progress towards market liberalization and increased productive efficiency, oriented towards increasing both intra-group exports and exports to third countries.

Recent far-reaching measures: (a) the enlargement of the grouping to include other Latin American countries (Haiti, Dominican Republic, Venezuela); (b) the signing of a framework agreement with the United States in the context of the EAs; and (c) cooperation in other sectors, i.e. environment, transport and communications, entrepreneurship, and capital markets.

In 1992, in order to expedite integration, the CARICOM countries agreed to lower their maximum CET from 45 to 35 per cent (40 per cent for agricultural products); they intend to lower it to a range between 5 and 20 per cent by January 1998.

In July 1993 (in Nassau, Bahamas) member States agreed to establish a common market scheduled for 1994 and to achieve a monetary union by the end of 1995.

C. The potential for MERCOSUR

41. With a total population of 190 million and an annual GNP of approximately US$ 500 billion, the Southern Cone Common Market (MERCOSUR) (see Box 5) created in 1991 can be expected to become a sizeable economic community by international standards. MERCOSUR has the potential for vigorous intraregional trade (in 1992, this stood at 14.3 per cent - see table 1 - and in 1993, at about 19.9 per cent, according to preliminary estimates). Member countries differ in many dimensions and there is a strong political will to foster integration, making a classic case for comparative-advantage based trade. Furthermore, the idea of enlarging the group is already on the agenda: Brazil proposed in October 1993 the establishment of the South American Free Trade Area which will free approximately 80 per cent of goods by 2005.

Box 5

The Southern Cone Common Market (MERCOSUR)

MERCOSUR was established under the Treaty of Asunción on the 26 March 1991, by Argentina, Brazil, Paraguay, Uruguay. The Treaty was subsequently ratified by all members and entered into force on 29 November 1991.

The Treaty represents the culmination of economic integration and cooperation agreements started by Argentina and Brazil in 1986. The two countries signed an industrial complementarity agreement in 1988. In December 1990, a new agreement was signed consolidating all previous arrangements.

The main purpose is to establish a common market by January 1995. The Treaty commits member countries to: (a) a free circulation of goods, services and factors of production; trade liberalization programmes aimed at the elimination of tariff and non-tariff barriers by end 1994; (b) the establishment of a CET after 1995 aiming at stimulating member States' external competitiveness and a common trade policy vis-à-vis third countries and/or groupings; (c) the coordination of macroeconomic and sectoral policies; and (d) the harmonization of legislation in areas in which this could be feasible. These measures envisage liberalizing trade within the grouping and enhancing the external competitiveness of member countries.

The way has been left open for other LAIA member countries to join MERCOSUR after five years. Chile seems to be the most suitable potential new member.

In Las Leñas, Argentina (June 1992), member countries adopted a new agenda containing the following areas of work: trade, customs, technical regulations and fiscal and monetary policies related to trade, transport, industrial and technological policies, agricultural policies, energy policies, coordination of macroeconomic policies, labour, employment and social security and institutional issues.

42. As shown in the annex (table 5) the differences in export structures are quite substantial. Food items represent more than 60 per cent of Argentina's exports but only 25 per cent of Brazil's. The share of agricultural raw materials in total exports is 48 per cent in Paraguay while it is less than 4 per cent in Argentina and Brazil. As far as manufactured goods are concerned, they represent 55 per cent of Brazil's exports, 40 per cent of Argentina's and only 11 per cent of Paraguay's.

43. As shown in table 4 below, for two small countries (Paraguay and Uruguay), intraregional trade is significant (accounting for more than 30 per cent of imports and exports). Brazil is the most important export market for both countries, followed by Argentina. This does not hold true, however, for the two larger partners; in 1992, intra-MERCOSUR trade accounted for only 19 per cent of total Argentine exports and 11.4 per cent of Brazilian exports. The expansion of intraregional trade may, therefore, go hand in hand with industrialization in the two large countries, particularly in Brazil, and with the general economic growth and purchasing power of the two smaller countries.

Table 4
MERCOSUR Trading Partners, 1992
(Percentage)

Exporters/ partners	World	MERCOSUR	Arg	Bra	Par	Uru	USA
MERCOSUR	100	14.3	6.6	4.2	1.6	1.8	17.1
Argentina	100	19.0	-	13.7	2.2	3.1	111.0
Brazil	100	11.4	8.5	-	1.5	1.6	19.7
Paraguay	100	37.5	9.8	26.1	-	-	5.3
Uruguay	100	33.6	15.4	17.5	0.6	0.0	10.7
United States of America	100	2.1	0.7	1.3	0.1	0.0	-

Argentina (Arg), Brazil (Bra), Paraguay (Par), Uruguay (Uru)
Source: UN COMTRADE. November 1993.

44. The potential areas of comparative advantage include both industrial and other sectors. They may be analysed in terms of the sectoral breakdown of exports for the year 1992 (see also annex, table 6):

(a) For Argentina, "Machinery and equipment", "Chemicals" and other manufactures seem to show potential for growth in intra-MERCOSUR trade, as these are the sectors which have above-average exports to MERCOSUR (44.5 per cent in machinery and transport equipment, 36.8 per cent in chemicals). However, Argentina’s most important export item, "Food and live animals", seems to be more oriented towards export to the rest of the world owing to the competition from Paraguay and Uruguay in MERCOSUR.

(b) The Brazilian case is more biased towards the manufacturing sector; machinery and transport equipment 23.8 per cent, basic manufactures 10.8 per cent and chemicals 20 per cent. While Brazil has the size and industrial base to be the major supplier of manufactured products within MERCOSUR, the growth in intra-MERCOSUR trade seems to hinge on the growth in demand of other countries, as well as some trade promotion efforts by the group as a whole.

(c) For Paraguay and Uruguay, agricultural products are important exports: 75 per cent of Paraguay’s animal, vegetable oil and fats exports as well as more than 20 per cent of food and live animals go to MERCOSUR. In the case of Uruguay, MERCOSUR trading partners are important for all its agricultural exports. These countries also have some room for growth in manufacturing goods, particularly in chemicals (Uruguay exports more than

80 per cent to MERCOSUR), and machines and transport equipment (Paraguay exports 83 per cent to MERCOSUR). In mineral fuels, the MERCOSUR market is of major importance for both countries (both export more than 80 per cent within the group).

45. Given the limited degree of export diversification in MERCOSUR, one might be led to believe that trade among these countries is bound to be restricted at present and in the future. However, it is possible to adopt a wider interpretation of the data, particularly in the light of the implications of the "new trade theory" regarding the inter-industry and intra-industry nature of world trade. 5/ According to the new trade theory, there are scale economies of different types, imperfections in the international and domestic markets, and dynamic comparative advantages in addition to static ones. These call for the implementation of joint programmes at the regional level to raise and diversify production. In other words, the benefits of an intra-grouping can be increased if these efforts are coordinated and if they are supplemented by regional industrial policies.

46. The ideas discussed above should be taken into consideration in the case of MERCOSUR. The industrialization processes being carried out by Brazil and Argentina offer some good future prospects for intra-trade, but the only sector already realizing the advantages of intra-industry trade is the car parts industry. Since the beginning of the 1980s, Argentina's and Brazil's car parts industries have recorded high intra-industry trade indexes and a growing trade volume. This is an example of effective intra-industry trade within MERCOSUR, albeit limited to the operations of just three multinational companies. For instance, Mercedes plans to build gearboxes in Argentina for trucks it assembles in Brazil. Other firms classified under "products for photography, film and other miscellaneous goods" also present high industry-trade indexes but of a less substantial trade volume. 6/

47. There is room for the deepening of intra-industry trade between Argentina and Brazil and the creation of intra-industry trade with Paraguay and Uruguay. Nevertheless, such expansion would depend on the success of product and export diversification, particularly in the two small member countries.

48. Tariff levels within MERCOSUR still differ. As shown (annex, table 7), Brazil and Paraguay have the highest maximum tariffs within MERCOSUR. As established in the Asunción Treaty, however, the MERCOSUR Trade Liberalization Programme (MTLP) (see box 6) started in June 1991 will allow for progressive, linear and automatic tariff reductions arriving at a zero tariff, accompanied by the elimination of all non-tariff restrictions or equivalent measures for the entire tariff area by the end of 2004.

49. Regarding progress towards the convergence of external tariffs, member countries decided (Montevideo, December 1992) to achieve the levels between 0-20 per cent and a maximum level of 35 per cent for a group of selected items. This maximum level should, however, be reduced to 20 per cent six years after the formal implementation of MERCOSUR. Convergence of tariffs may open the way for a CET scheduled to be adopted as of 1 January 1995. Furthermore, member countries have already switched their tariff nomenclatures to the new Harmonized System. 7/

Box 6

The MERCOSUR Trade Liberalization Programme (MTLP)
(Extract from Treaty of Asunción: United Nations General Assembly document A/46/155)

According to Article 3, as of the date of activation of the Treaty (1991), member States must begin a programme of gradual, linear and automatic tariff reductions compared to levels before June 1991, which must benefit products classified according to the tariff nomenclature used by LAIA, observing the following timetable for tariff reductions:
1991: 30 June 47 per cent and 31 December 54 per cent; **1992**: 30 June 61 per cent and 31 December 68 per cent; **1993**: 30 June 75 per cent and 30 December 82 per cent; **1994**: 30 June 89 per cent and 31 December 100 per cent.

The above tariff system consists of a percentage reduction in the most favourable duties and charges applied to imports of products coming from third countries not members of the LAIA. If one of the MERCOSUR members increases this tariff for imports from third countries, the established timetable would continue to apply at the tariff level in force on 1 January 1994. If tariffs are reduced, the corresponding preference would apply automatically to the new tariff on the date on which the new tariff is imposed.

50. A difficulty faced by MERCOSUR is that exchange rate regimes of member countries are not harmonized. Argentina applies an exchange rate basis fixed to the United States dollar on a one-for-one and has full convertibility of the peso. 8/ As of 1 July 1994, Brazil adopted a new national currency, the real, and established a fixed exchange rate to the United States dollar (1 real = US$ 1) but the real is not freely convertible to dollars. Paraguay and Uruguay still apply floating exchange rate regimes and maintain foreign exchange controls. Uruguay also maintains some restrictions but has a free foreign exchange market.

51. These exchange rate discrepancies make the settlement and calculation of intra-group trade difficult. Moreover, they result in the relative over-valuation of the only fully convertible currency of the region, the Argentine peso and, consequently, in distortions in mutual trade. To overcome these difficulties member countries have adopted in Las Leñas (1992, see box 5) a work programme aiming at, *inter alia*, coordinating macroeconomic policies.

D. Upsurge of bilateral and other types of agreements

52. Since the mid-1980s, there has been a proliferation of Memoranda of Understanding and Declarations of intent, bilateral agreements and negotiations involving subregional agreements and Latin American countries, all of them conceived in the context of LAIA. These may be an effective force in thrusting the region into a *de facto* FTA because of their flexibility and practical nature. 9/ Most of these agreements aim at the creation of an FTA, being more ambitious than multilateral cooperation schemes, but they also include some exemptions, especially in the implementation phase.

53. Unlike subregional agreements, the new wave of agreements discussed here do not provide for the adoption of CETs. Of course the subregional agreements have not insisted that the CET be applied by all of its member countries, as they are still pursuing unilateral liberalization at different speeds and the diversion of trade still entails costs - such as the cost of importing higher-priced products from a neighbouring country instead of similar goods from countries outside the subregion.

54. The direction of these agreements is shown in the recent tendency to update and deepen existing bilateral agreements (c.f. see box 7). Apart from the Economic Complementation Agreements (ECA) - signed by Mexico - Uruguay (1986) 10/, Argentina - Brazil (1990, that superseded the Agreement signed in 1986), Chile - Mexico (1991), Bolivia - Peru (1992) and Chile - Venezuela (1993) - that involve overall tariff reductions with some exceptions, the rest of the bilateral agreements envisage tariff reductions on a selected list of products. The most far-reaching agreements are those signed by Chile with other Latin American countries, as they include a liberalization programme involving practically all tariffs and the adoption of practical trade policies.

55. Other examples of formal understandings include the Group of Three (see box 8) signed by Colombia, Venezuela and Mexico in June 1994, aimed at establishing a FTA. An important aspect of the pact is that the signatories agreed to cooperate further with Central American countries on the basis of the principle of asymmetric reciprocity favouring the latter. Previous examples of cooperation with Central America were achieved through the Tuxtla Gutierrez Declaration (1991), a complementarity agreement between Central American countries and Mexico (see box 9) and the agreement between Venezuela and Central America (El Salvador, July 1991). Both establish the same principle of preferential treatment *vis-à-vis* the Central American partners. In addition, there have been recent negotiations on the part of Colombia and Venezuela with Central America and CARICOM (see box 9). In the case of the Venezuelan-CARICOM agreement, it formalizes the free access of products from the Caribbean countries to the Venezuelan market on the basis of a non-reciprocal treatment.

Box 7

Selected Latin American bilateral agreements

Argentina-Bolivia - Economic Complementation Agreement - ECA - (December, 1989): aimed at intensifying bilateral trade, implementing new projects on industrial complementarity and promoting investments among the two countries. A Programme of Trade Liberalization and a Protocol on Energy Integration were also adopted.

Argentina-Brazil: Programme of Integration and Economic Cooperation (1986). This agreement was the basis for the creation of MERCOSUR (1991).

Argentina-Colombia: ECA, 1988: to increase and diversify trade relations and the areas of cooperation between the two countries, including the creation of multinational regional enterprises. In 1990 the two countries agreed on the settlement of intra-debts. In 1991, both countries signed a new ECA.

Argentina-Venezuela, ECA, 1992: It aims at trade liberalization including the total elimination of tariffs between them by 1995.

Argentina-Chile, ECA, August 1991: Both countries originally agreed to achieve an enlarged market by 1995. The agreement goes beyond trade cooperation (e.g. both countries have committed themselves to promote mutual investments and foster joint projects) and calls for firm commitments to enlarge preferential treatment between the two partners (currently still in the stage of negotiations).

Mexico-Chile, ECA, September 1991: The agreement aims at establishing a programme of reciprocal trade liberalization, the elimination of non-tariff barriers for most goods starting on January 1992 and a gradual reduction of overall tariffs over four years (to bring down the maximum tariff rates to 10 per cent on most tariff categories). The agreement also provides for the liberalization of maritime and air transport. Regarding investment, the two countries are committed to extend most-favoured-nation status to reciprocal investments. In addition, it envisages an arbitration structure to settle disputes.

Chile-Venezuela, ECA, April 1993. The agreement aims at creating an FTA and the harmonization of trade policies, including the facilitation of the free movement of goods, services and factors of production. The agreement will gradually eliminate by 1997 tariffs on 90 per cent of tradeable goods. Some products will be exempted such as Venezuelan oil and Chilean agricultural and animal products. Regarding investment, the two countries are committed to extend most-favoured-nation status to reciprocal investments and to extend the same treatment as national investments. Chile has taken steps to negotiate similar agreements with Colombia, Uruguay, Costa Rica and Peru.

Chile-Bolivia: Bilateral tariff reduction agreement (April 1993). The agreement establishes a programme of trade liberalization, energy and investment cooperation.

Chile-Colombia: ECA, December 1993. Both countries agreed to dismantle all non-tariff barriers. They intend to create an enlarged economic space by 1999.

Bolivia-Brazil: February 1993. Petroleum enterprises of both countries are committed to carrying out energy and infrastructural cooperation activities.

Box 8

The Group of Three

Members: Colombia, Venezuela and Mexico.

The pact was signed in Cartagena de Indias on 14 June 1994 for entry into force on 1 January 1995. The Group was formally established in September 1990. It commits the three countries to establish a programme of trade liberalization in a 10-year period. It aims at establishing an FTA.

The agreement establishes, inter alia, the following: a programme of trade liberalization in which Colombia and Venezuela will benefit from the granting of asymmetric conditions; special treatment for most agricultural products (the Group of Three decided that regulations should be consistent with those agreed by Venezuela and Colombia in the Andean Group and with their national policies) and for the automobile sector, where large differences in size persist between Mexico and the other two partners; regarding the textile sector, Venezuela will be given a two-year period before it is compelled to dismantle textile tariffs.

Furthermore, the pact is expected to become an important element of political and economic support to foster development in Central America and the Caribbean. In this connection, emphasis is put on commercial matters - including the formation of a FTA by end 1994 (a Memorandum of Understanding defining the rules of the negotiations has been agreed upon) and the establishment of a common energy policy towards Central America.

To this end, the Group counts on its surpluses in gas and carbon. Other issues, such as transport, communications, culture, finance and tourism are also included in the agenda.

Box 9

Agreements of the Group of Three with Central America and CARICOM

The Tuxtla Gutierrez Declaration, Agreement of Economic Complementarity signed between Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) **and Mexico, January 1991**. The signatories committed themselves to an agreement by which a FTA would be initiated, including criteria for graduality and asymmetry favouring the Central American partners. It should be completed no later than January 1997.

Colombia-Venezuela and **Central American countries** (1993): Trade and Investment Agreement aimed at: (i) intensifying the economic complementarity between the parties; (ii) establishing a Programme of Trade Liberalization which aims at furthering Central American countries' trade liberalization process; it is based on an asymmetric reciprocity principle favouring these countries. According to this principle, products originating in Central America sold to the two other partners would benefit from tariff reductions during a 5-year period, while access of products originating from Colombia and Venezuela to Central America will be eased over a 10-year period; (iii) strengthening investment promotion within the group.

Venezuela - CARICOM (1992): Framework agreement including non reciprocity of granted concessions. It establishes that Venezuela will guarantee, by 1997, free trade for the bulk of the tariff items originating from CARICOM although this group of countries is not committed to free trade in favour of the former partner.

Colombia - CARICOM: Both partners aim at establishing a broader free trade market. In contrast to the Venezuela-CARICOM agreement, CARICOM's member countries agreed to some openness of their markets for goods, services and factor movements.

II. The need for a new dimension of cooperation: enlargement of the scope of cooperation in the Americas

56. The renewed strength of LACCs, the intensification of integration as a product of the liberalization process, and the new framework for strengthened cooperation and regional integration as a means of more actively penetrating world markets have encouraged a process of widening Latin American integration. The main expression of this strategy was Mexico's conclusion of NAFTA in 1993 after the establishment of the FTA with the United States and the announcement of the Enterprise for the Americas (EAs).

A. The North America Free Trade Agreement (NAFTA)

57. NAFTA (see box 10) joins Canada, Mexico and the United States of America in a huge trading bloc, with a combined total population of 365 million (as of 1991), total GDP of more than US$ 6.550 billion combined exports totalling nearly US$ 600 billion (see annex, table 8) as of 1991.

58. This trade agreement, the first free trade pact involving, on the basis of reciprocity, both developed countries and a developing country is part of a new trend towards establishing economic groupings in a broader context, often including countries with different levels of development. The diversity in levels of development between Mexico and its two extraregional partners are evident from such indicators as GDP per capita (almost four times higher in Canada and the United States as compared to Mexico), inflation rate, export levels, etc.

59. An additional novelty of NAFTA is that the treaty is accompanied by side agreements on environmental concerns, labour standards and safeguards signed in September 1993. These agreements may improve the environmental situation and labour conditions in the developing country partner. It should be mentioned that, although the establishment of supranational laws or bodies is not allowed, member countries have agreed to cooperate on such aspects.

60. Intra-NAFTA trade is centred around the United States which is a major partner for both Canada and Mexico. As shown in the annex, table 2, in 1992 more than 70 per cent of Canadian and Mexican exports were to the United States. Canada and Mexico are top trading partners for the United States (Canada 20 per cent and Mexico 9.3 per cent). In contrast, Canadian-Mexican trade remains marginal for both countries; for Mexico, Canada accounts for 3 per cent of exports; for Canada, Mexico accounts for half a per cent of exports.

61. NAFTA member countries should benefit from increased efficiency and growth in trade. For Mexico, the agreement reinforces the extensive market-oriented policy implemented since 1985. This policy has entailed dismantling most protectionist measures and initiating a large privatization programme. Mexico also benefits from an enlarged market. Although risks of trade diversion can arise on the Mexican market in favour of North American suppliers for individual products 11/ (e.g. textiles and clothing, agricultural products, iron and steel products, electrical apparatus,

appliances, telecommunications apparatus, electric motors, and some industrial products) it is expected that these effects would be spread out over a certain period.

Box 10

The North America Free Trade Agreement (NAFTA)

NAFTA negotiations were launched in June 1991 when the United States congress granted the United States Administration "fast-track" negotiation authority and were completed in August 1992. On 17 December 1993, the United States, Canada and Mexico signed the trade accord. It entered into force 1 January 1994. Side agreements on environment, labour and safeguards were signed on 15 September 1993.

Main objectives: to eliminate barriers to trade; to promote conditions of fair competition; to increase investment opportunities; to provide adequate protection for intellectual property rights; to establish effective procedures for the implementation and application of the Agreement and for the resolution of disputes; and to further trilateral, regional and multilateral cooperation.

Main provisions of the NAFTA:

(a) Gradual elimination of all tariffs and non-tariff barriers over a period of 10 years, with certain extensions of up to 15 years. Tariffs would be phased out from the applied rates in effect on 1 July 1991. All three countries will also eliminate prohibitions and quantitative restrictions applied at the border, such as quotas and import licenses. (b) application of special rules to sensitive sectors and by Mexico. Special rules apply in the case of some sensitive items, in particular agricultural products and textiles and clothing, for the elimination of quantitative restrictions; (c) a series of arrangements and disciplines are set out relating to key sectors (automotive, textiles and apparel, energy and agriculture); (d) rules and procedures are set out governing domestic measures (standards-related measures, sanitary and phytosanitary measures, and government procurement); (e) provisions relating to the administration of specific national rules for review and dispute settlement in anti-dumping and countervailing duty matters; (f) provisions to facilitate transparency through publication, notification and administration of laws; (g) NAFTA removes significant investments barriers, ensures basic protections for NAFTA investors and provides a mechanism for the settlement of disputes between such investors and a NAFTA country. All NAFTA partners are committed to provide national treatment to investments from any other partners (with the exception of some sectors, such as petroleum and railroads in Mexico, cultural industries in Canada, and commercial air transport and broadcasting stations in the United States); (h) NAFTA sets out specific commitments to protect intellectual property rights; compulsory licensing or mandatory linking of trade marks are eliminated, and patents have a minimum duration of 20 years; (i) Environment: The signatory Governments are committed to implementing the agreement in a manner consistent with environmental protection and to promoting sustainable development.

62. As a result of its traditional links with the United States and the expected gains from pursuing a comprehensive liberalization policy both domestically and towards foreign countries, Mexico had encouraged the idea of creating NAFTA and has remained its most enthusiastic supporter. The capital, technology and advanced practices of the United States and Canada are expected eventually to spread to its economy; its growing industries hope to capture a larger share of the United States and Canadian markets. Furthermore, it is expected that the elimination of trade barriers will increase Mexico’s foreign direct investments, both from North America and countries outside NAFTA.

63. It is worth noting that, since NAFTA does not commit member countries to any CET, Mexico is free to support other regional economic cooperation processes. Indeed, it has been and continues to be an enthusiastic supporter of these processes, as seen in the case of the bilateral agreements established with other countries, and the recently concluded Group of Three (see chap. I).

64. For the United States and Canada, the incorporation of Mexico into the North American economy will contribute somewhat to improving the overall allocation of resources in the enlarged market, increasing reciprocal trade and investment flows, and perhaps above all, securing the economic reforms and growth prospects of Mexico.

65. For the United States, NAFTA should enhance an already important export market. It is worth mentioning that as a result of Mexican tariff reductions and the elimination of non-tariff barriers, the United States was able to turn its huge trade deficit with this country into a trade surplus. 12/ In the short- and medium-term, the United States is expected to keep or even further to increase this surplus if tariffs on its Mexican exports are totally dismantled.

66. United States suppliers of intermediate goods, capital goods, and high-technology products may continue to reap large benefits, as primary suppliers to the growing Mexican market. Over time, it is expected that NAFTA should induce industrial reorganization along regional lines, with firms taking best advantage of each country's ability to produce components and assemble products, thus enhancing competitiveness in the global marketplace.

67. For Canada, the NAFTA reinforces and in some cases strengthens its FTA preferences in the United States market. Canada achieved many of its specific objectives in the negotiations, such as clarifying the method used to calculate the regional content of automobiles and retaining the Canada-United States FTA provision that exempts Canadian cultural industries from external competition. In addition, the NAFTA improves Canada's access to the Mexican market. Although Mexico is a relatively small export market for Canada (under US$ 1 million worth of trade), NAFTA will expand export opportunities for Canadian firms in several key sectors, such as financial services, automobiles, and government procurement.

68. Other Latin American countries have expressed interest in joining NAFTA and Chile is often mentioned as a possible candidate for an enlargement of the membership. NAFTA includes an accession clause that is open to all countries. A principal reason for interest in NAFTA is that it represents an investment-led integration process unlike other Latin American integration schemes which were policy-led. 13/ Through NAFTA, future investment flows will play a key role in rendering this scheme of significant practical use to its participants.

69. A core issue regards the implications of NAFTA for the LACCs in the medium term. NAFTA could serve to catalyze further important domestic reforms in the region and revitalize subregional integration processes. According to a less enthusiastic view, there is likely to be some diversion of trade (although moderate) and investment into Mexico and away from the rest of the LACCs. The amount of trade and investment diversion would depend in large

part on how NAFTA develops. If it prevails as an open scheme and if it fits into the hemispheric integration trends, trade diversion would be minimum and offset by trade creation.

B. The Enterprise for the Americas (EAs)

70. In 1990, the United States administration unveiled plans to strengthen economic relations with other LACCs and to support their new commitments to democracy and market-oriented reforms through the EAs. As a first step towards that goal, the United States has signed framework agreements - non-preferential - with most Western Hemisphere countries excepting Cuba, Haiti and Suriname. 14/ By joining NAFTA, Mexico was the first Latin American country to join the projected free trade hemisphere zone. The way has been left open for other LACCs whose strategy seems to be, as a first step, the conclusion of separate trade and cooperation agreements with the United States. These separate agreements all concord with the goal, envisaged by the EAs, of attaining free trade throughout the Western Hemisphere.

71. The initiative is comprised of three different but interrelated aspects:

(i) Trade issues - the strategic objective is the creation of a FTA embracing all American countries. As the former President Bush announced, it linked " ... in particular with groups of countries that have associated for the purposes of trade liberalization". The Western Hemisphere FTA would contain the following elements: (a) gradual elimination of tariffs; (b) removal of all non-tariff measures; effective protection of and compulsory respect for intellectual property rights; (c) improved and increased movements of goods, services and investment between countries; and (d) procedures for impartial and quick dispute settlements.

(ii) Investment promotion - 21 member countries of the Inter-American Development Bank (IDB) signed an agreement in 1992 (established formally 11 January 1993 after ratification by five of the signatory countries) to create the Multilateral Investment Fund (MIF). 15/ The Fund is administered by the IDB and has a dual purpose: to support the process of modernization and to ease the human and social costs that such adjustments may entail. It approved its first operations during 1993.

(iii) Debt issue - the United States administration proposes to create an EAs facility to be administered by the United States Treasury Department; the facility would be used to support debt reduction programmes on the following conditions: (a) conclusion of agreements with the IMF and the IBRD; (b) adoption of investment reforms; and (c) negotiation of a satisfactory financing programme with commercial banks involving debt and debt service.

III. Financial Cooperation and New Methods of Financing

72. Parallel to the improvement of the integration schemes and the completion of new ones, in the present decade, the region has intensified efforts towards consolidating new financing modalities and promoting the mobilization of resources within the region. The revitalization of the LAIA clearing and payment mechanism is an example of this recent trend. The improvement of the investment climate in the region in response to the economic reforms adopted by most LACCs has been crucial in this area of cooperation.

A. Recent events in trade - investment and other financing mechanisms

73. Latin American regional trade financing has been carried out traditionally by four main institutions: the Latin American Export Bank (BLADEX), the Central American Bank for Economic Integration (BCEI), the Andean Development Corporation (CAF), the Latin American Reserve Fund (LARF) and the IDB. Of these institutions, BLADEX (see box 11) specializes solely in trade financing. 16/ The others include investment financing as well as other fields.

Box 11

Latin American Exports Bank (BLADEX)

BLADEX is a specialized multinational bank that initiated operations in 1979, in Panama, to promote exports from LACCs to buyers outside and within the region.

Objectives: The Bank aims to provide short term pre- and post-export financing at competitive rates mainly to shareholders banks for their use in on-lending to exporters. BLADEX's credit activities also include the financing of imports originated in countries of the region as well as from outside the region, if they contribute to generate future Latin American exports.

Shareholders consist of central banks or their designated official institutions, Latin American and international commercial banks, and the International Finance Corporation (IFC) of the World Bank.

Lending Policies: BLADEX grants credits denominated in United States dollars to its Latin American shareholders - mainly Central Banks and commercial banks - and occasionally to State-owned exporting institutions.

Funding: to supplement its own capital and reserves, the Bank funds its activities with inter-bank deposits, short-term credit facilities and term obligations issued in regional and international markets. Suppliers of funds to BLADEX include central banks of Latin America and Europe, State-owned and private Latin American banks, international banks as well as governmental and international agencies.

The IDB has an arrangement with BLADEX whereby they purchase acceptances created by the latter. The purpose of this arrangement is to assist in the development of a market for regional bankers acceptances.

74. In spite of the unfavourable financial situation, linked to the economic crises of the Central American region, the BCIE (see box 12) has maintained its lending operations and disbursements since its establishment in 1961. Recently, the Bank's financial situation was strengthened thanks to external support and the inclusion of two new extraregional partners, China and Venezuela. The Bank will also benefit from the recent international initiatives in support of the Central American subregion, particularly from the European Union (European Community) and the IDB. Based on these efforts,

the institution would be able to keep its financing programmes for investment and other credit modalities by using other sources of funds such as the Special Fund for Export Promotion supported by the European Union. From its inception until the end of 1992, the Bank had lent US$ 1,731 million.

Box 12

Central American Bank for Economic Integration (BCIE)

Members: Costa Rica, Guatemala, El Salvador, Honduras and Nicaragua

The Agreement creating the BCIE was signed on 8 May 1961. The Bank aims at promoting economic integration and balanced economic development in the member countries. In pursuance of this objective, the Bank supports infrastructure projects that complete sub-regional systems or resolve particular problems hindering the balanced economic development of the subregion. Among its tasks are projects to create economic complementarity and to expand intra-subregional trade.

BCIE's export finance programmes include the following types of credit: programme of support to the export supply in Central America (PAECA), programme of support to productive sectors, special programme to support the export sector of Honduras and Nicaragua (FEPEX), and co-finance direct credits.

75. The Andean Development Corporation (CAF) (see box 13) established in the 1970s has provided financial support to the Andean Region. In 1993, the institution committed loans of US$ 2.1 billion, distributed through project loans, trade financing through its autonomous agency, the Andean System for Trade Financing (SAFICO) and the Mechanism for Confirmation and Financing of Letters of Credit and Imports (MECOFIN), and technical cooperation. This amount represented an increase of 18.0 per cent over the preceding year. Of this amount, US$ 1.7 billions was disbursed, which represented an increase of 6.6 per cent from the year before. It can be attributed to the fast growth of technical cooperation and long term activities. Similarly, in 1993, CAF launched its programme of share participation in private enterprises of member countries and the guaranteeing of bond issues.

76. The IDB (see box 14) provides financial support to LACCs at a national and regional level, in their efforts to open their economies, to achieve fuller integration into world markets. Between 1960 and 1992, the IDB has approved 43 export financing loans of a cumulative total portfolio of US$ 1.6 billion. These loans were granted both from the Bank's ordinary resources and from the Venezuelan Trust Fund.

77. The IDB has recently launched a "Proposal for the establishment of a Regional Network of Export Credit Rediscount Facilities ECRF's to provide pre- and post-shipment export financing for the short, medium and long term". 17/ The proposal aims at providing a complementary financial mechanism that will involve: (a) establishing a credit mechanism to enable Latin American exporters to offer trade-financing under competitive financial terms; (b) establishing a market-driven trade-financing mechanism enabling Latin American countries to refinance their credit operations in international markets; (c) on the basis of available resources, contributing to increasing

the share of Latin American countries in world trade and encouraging both interregional and intraregional trade; and (d) contributing to efforts carried out by the IDB to promote the role of the private sector in the Latin American economies.

Box 13

Andean Development Corporation - CAF -

CAF is a multilateral, supranational, financial institution whose shareholders are the member countries of the Andean Group as well as Mexico and Chile (extrasubregional members) and several private commercial banks of the Andean Region. Operations started in 1970. In August, 1992 Chile, one of the original CAF subscribers - the Agreement establishing this grouping were adopted on 7 February 1968, re-entered the institution.

CAF's purpose is to foster and promote economic integration and development within the Andean region by the efficient use of financial resources in conjunction with both private and public sector entities. CAF's primary lines of business include project finance, foreign trade finance and regional development banking and promotion. Within the Andean Region, CAF provides significant facilities both to strengthen trade and to assist companies with access to world markets, through SAFICO, an export finance system and MECOFIN, a mechanism for financing and confirming documentary credits.

Total paid-in capital and reserves were US$ 660 million and net income - CAF does not distribute dividends - was US$ 38 million for the year ending 31 December 1992. The institution applies commercial standards for credit approvals and has comprehensive risk assessment and credit policy procedures. To fulfil the financial requirements, CAF obtains long- and short-term funding from a variety of sources such as the commercial banks, export credit agencies and the IDB which are located mostly in OECD countries and within the Andean Region. It has traditionally been known for its loan-loss record and its timely payments with respect to its own obligations.

Box 14

Inter-American Development Bank (IDB)

The Inter-American Development Bank was established in December of 1959. It aims at helping the economic and social development in Latin America and the Caribbean. The Bank's original membership included 19 LACCs and the United States. Subsequently, eight other Western Hemisphere nations, including Canada joined the Bank. Belize became the most recent member (since 1992). From the beginning, the Bank developed links with various industrialized countries on other continents and in 1974 the Declaration of Madrid was signed to formalize their entry into the Bank.

In 32 years of operation, the Bank has become a major catalyst in mobilizing resources for the region. Its principal functions are to utilize its own capital funds raised by it in financial markets and other available resources, for financing the development of the borrower member countries; to supplement private investment when private capital is not available on reasonable terms and conditions and to provide technical assistance for the preparation, financing, and implementation of development plans and projects.

78. The effective implementation of this network would depend on: (a) a clear definition of eligibility criteria (level of industrial development) for potential borrowers, which may determine the likelihood of their obtaining short-, medium- or long-term credits; (b) the financing resources of the IDB; (c) the strengthening of the role of LAIA's payments and clearing arrangements, as an alternative to or complementary mechanism in support of export-financing operations.

79. In March 1991, the Andean Reserve Fund (ARF), a regional credit fund which had been providing financial assistance to Andean Pact member countries, was opened to all Latin American Countries and renamed the Latin American Reserve Fund (LARF) (see box 15).

Box 15

Latin American Reserve Fund (LARF)

(formerly Andean Reserve Fund (ARF))

The Latin American Reserve Fund (LARF), established as per the Articles of Agreement signed in Lima, Peru on 10 June 1988, began operating on 12 March 1991 and is open to all LAIA members. Once the LARF Agreement has been in effect for 10 years, the Assembly of Representatives will consider the possibility of admitting other Latin American countries as members.

LARF's objectives are: (a) To support member countries' balance-of-payments by granting credits and providing backing for them to obtain loans from third parties; (b) To support member countries in harmonizing their foreign exchange, monetary and financial policies by helping them to fulfil their commitments within the framework of the Cartagena Agreement and the Montevideo Treaty of 1980; (c) To enhance the liquidity of their international reserves investment.

LARF loans in support of balance-of-payments are granted for a maximum of four years, with a one-year grace period, at interest rates comparable with those offered by commercial banks. The principal benefit that member countries derive from using LARF's resources is probably that of rapid access to a source of financing and to a greater amount of resources than they can put in.

The main source of LARF's resources are its own assets and the deposits made by the member countries' central banks. In return, LARF offers a higher rate of return compared to that available in international financial markets. For the central banks, LARF represents an attractive investment alternative for their international reserves. In addition, it also helps finance exports from the Andean subregion by means of discount lines on banker's acceptances from CAF and BLADEX.

80. Overall, the Fund has been able to achieve most of the goals set. The main one is to provide balance-of-payments credits for the financing of the member countries' adjustment policies. To this end, total financial support amounting to US$ 3,694.8 million was extended over the period 1978 to 1991 in the form of short- (six months) and medium-term (four years) credits (see table 5), with access to the medium-term credits being subject to the completion of adjustment programmes.

Table 5

Utilization of the LARF credit facilities, 1985-1990 (millions of US dollars)		
Member countries	Balance-of-payments credit support (1978-1991)	Short-term credits (1983-1993)
Bolivia	152.5	594.1
Colombia	229.0	425.0
Ecuador	296.7	549.9
Peru	635.5	518.5
Venezuela	271.0	22.6
Total LARF countries	1 584.7	2 110.1

Source: LARF.

81. In addition, the institution established, in March 1992, a facility which offers credit lines that can be used by commercial banks for export financing to member countries. This facility, together with the Discounting of Banking Acceptances - through financing intermediaries (regional private banks, BLADEX, CAF, etc.) allows LARF to support trade finance operations originating in the subregion (exports and imports among member countries) and, since September 1993, it can also be used by non-LARF member countries. The new facility also strengthens LARF through portfolio diversification. It is based on market conditions and competitive market interest rates. It finances exports both for pre- and post-shipment of up to 180 days.

82. Between 1988 and March 1994, LARF granted a total amount of US$ 2,029.9 million in export finance to member countries. Of this amount, US$ 1,395.8 million was for credit lines to commercial banks under the new credit facility that started operations in May 1992 while US$ 634.1 million corresponded to the total amount of discounting of bankers acceptances to CAF and BLADEX.

B. Latin American clearing and payment arrangements

83. The effectiveness of a payment and clearing system hinges on several factors: (a) there must be a substantial demand for the use of the system in intraregional trade settlements, (b) there must be an effective system to minimize problems of arrears, and (c) the majority of member countries should not be in a permanent debtor-creditor position. In Latin America, the LAIA Reciprocal Payments and Credit Agreement (see box 16) is the only one that fulfils these conditions. In addition, it is the only one still performing payments arrangements in the region.

Box 16

LAIA's Reciprocal Payments and Credits Agreement

LAIA's Payments Arrangement was initially supported institutionally by the Montevideo Treaty (1960) which created ALALC - replaced by LAIA in 1980 - and had been signed on 22 September 1965. It was subscribed on 25 August 1982 by the Central Banks of Argentina, Bolivia, Brazil, Colombia, Chile, Dominican Republic, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

Operating procedures: international payments derived from direct transactions among residents of the countries of the region are processed and cleared at four-month intervals. At the end of each four-month period (clearing period) only deficits or surpluses of the overall balance of the central bank of each country with respect to the others are transferred or received.

Main features of the payments and clearing system:

(1) A Multilateral Payments Clearing Mechanism - Guarantees the transitory financing of balances derived from multilateral clearing. The Automatic Settlements Programme - This programme was established in March 1991 with a view to supporting lack of liquidity situations which might arise for reasons of *force majeure* with respect to any of its member's central banks and impeding their ability to cover their debts during multilateral clearing.

(2) Transactions covered: payments derived from direct transactions - i. e. settlement of bilateral transactions among two member countries.

(3) Channelling of interregional payments through the Agreement: in some countries (Chile, Ecuador, Mexico, Peru and Venezuela) this is mandatory and thereby automatic.

(4) Instruments accepted: payment orders, letters of credit, documentary credits, letters endorsed by banks, nominal drafts, promissory notes derived from commercial transactions.

(5) Payments mechanisms: each central bank establishes with each of the others within the system a reciprocal credit line expressed in US dollars. Channelling of transactions and clearing: on due date of a transaction, the exporter has to be reimbursed by its commercial bank (or authorized institution) against presentation of valid documentation (instruments). In turn, the exporter's commercial bank obtains reimbursement from his country's central bank and the latter enters a credit in his favour and a debit to be charged to the importer's central bank, on whose account it has settled the amount due. Multilateralization operates through a primary assessment of bilateral balances at the close of the "four-month period" at which time bilateral positions are cleared, resulting in a single debit or credit balance for each central bank, to be transferred or received as the case may be. The Central Reserve Bank of Peru and the Federal Reserve Bank of New York are the agent and common correspondent, respectively, through which debit and credit balances are settled.

Other aspects of the Payments Mechanism: (a) Multilateral use of the Credit Line Margins Mechanism: it allows a better use of the credit lines available to each central bank; (b) Instrument discount mechanism (triangulation): it facilitates a better use of the resources available to the commercial banks (authorized institutions) of some of the member countries, so that they may be channelled, through authorized institutions of other member countries, in the financial support of transactions in intraregional trade.

84. Since 1986, the LAIA payments arrangement has been recovering from the debt crisis and the consequent financial squeeze of the 1980s. Several attempts have been made to revitalize the arrangement. LAIA's intra-trade has experienced recovery during this period (c.f. comments in chap. I) except for 1993, when the volume of transactions channelled through the system contracted slightly (see annex, table 9) and it has been accompanied by a significant increase in transactions channelled through the clearing system.

85. As intra-group imports have grown faster than transactions through the system, the ratio of the latter to the former had decreased from 91 per cent in 1989 to 69 per cent in 1992. Regarding savings in convertible currencies, in 1993, only 29 per cent of the channelled transactions required settlement in hard currency. The ratio of settlement in hard currency has fluctuated between a high of 35 per cent in 1990 to a low of 16 per cent in 1986. Compared with these extremes, 1993 proved to be an average year.

86. As in previous years, four countries (Argentina, Brazil, Chile and Uruguay) accounted for most (77 per cent) of the transactions in 1993. In most member States, LAIA clearing debits and credits were close to balanced (with differences not exceeding one third), except in the case of major debtors such as the Dominican Republic, Ecuador and Peru, and major creditors, such as Paraguay and Venezuela.

87. The most important types of payment instruments used in 1993 by member countries were payment orders and letters of credit that together covered 90 per cent of the flows registered in the system. Furthermore, based on the improved liquidity situation of member States, the volume of voluntary anticipated payments in 1993 had increased from US$ 2,206.3 million to US$ 3,293 million. Brazil, Argentina, Peru and Chile were among the most important payers. Brazil also figured among the most important recipients of the scheme, followed by Venezuela and Uruguay. Such instruments have a similar impact on intra-trade as a trade-financing scheme for improving ways of financing exports.

88. As part of the recent efforts to improve the payments system, LAIA clearing house rules were amended by the introduction of a two-tier Automatic Payments Programme for the transitory financing of balances of multilateral compensation approved in 1991. 18/ The programme offers central banks automatic access to the credit or debit status of other central banks as well as a short-term credit facility which extends the settlement period for central banks having difficulties in the liquidity position.

89. In addition, as a means of enlarging the scope of eligible transactions through the system, in 1991 LAIA authorized member countries to channel payments which originated from triangular trade. 19/ Thereby the commercial bank of the exporter may anticipate the reception of funds and continue to offer financing to other customers. Moreover, the commercial bank of a third member country can place available credit funds in a convenient manner. In 1993, the transactions through the triangular trade scheme amounted to US$ 68.5 millions. In most cases, Uruguay acted as intermediary and the transactions originated from Argentina and Brazil.

90. An additional mechanism introduced by LAIA is the financial discounting of trade documents originated in transactions previously channelled through the system. The mechanism provides funding for exporters with the guarantee of the LAIA Payment Arrangement. It is incorporated into the internal regulations of selected member countries but is not applied by other members. The estimated amount of transactions through this mechanism amounted to US$ 1.1 billion in 1993. The major sources of financing were Uruguay and Chile while the major recipients were Argentina, Brazil and Peru.

91. In the Central American Clearing House (CACH), the most important developments included the revitalization of the clearinghouse in December 1990 and then, the repeated suspension of its operations in July 1992. At the end of 1990, the members of the CACH had reached an agreement on the arrears problem and started to revitalize the clearinghouse. This was facilitated by the support of the European Union in the form of a credit line of ECU 256.5 million and a technical assistance programme. 20/ The new clearinghouse, having learnt from past experience, implemented special safeguards against the accumulation of arrears. Since July 1991, net debtor positions in the clearinghouse have had to be settled in full in foreign exchange. The practice of automatic credits was also abolished. While the crisis of the CACH in 1987-1990 was owing to imbalances and a decline in intra-grouping trade 21/ which led to the accumulation of intra-Central American debt, the suspension of activities in 1992 resulted from the unsatisfactory level of savings in hard currency.

92. The ongoing liberalization of exchange rate systems in member countries made the maintenance of a clearing mechanism less attractive. In addition, member countries were not satisfied with the low level of savings in hard currencies. Table 9 in the annex shows that only a small part (21 per cent) of intra-group trade was channelled through the renewed system in 1991, in contrast to the high percentages in the early 1980s. Also, because of the imbalances in intra-group trade, a high proportion of transactions through the system had to be settled in hard currencies.

93. As a result of the accumulation of intraregional arrears by one member country, the CARICOM Clearing Facility suspended activities after six years of operation in 1983. No solution was found to settle the intra-grouping debt amounting to approximately US$ 100 million. Thus, the mismanagement of one country has deprived all the others of the use of the clearing mechanism. As the clearinghouse remains non-operational, member States now use instead a system of bilateral agreements established in 1987 to settle intraregional payments.

C. Efforts towards regional convertibility

94. An important aspect of regional cooperation is attaining a degree of even limited convertibility. 22/ Unless member countries make efforts to harmonize their monetary policies, to guarantee limited convertibility of their regional currencies and to open up their markets, the attempt to foster intraregional trade seems to be doomed to fail. All clearing and payments arrangements aim at, *inter alia*, the promotion of the use of member States' national currencies and/or a regional unit of account/currency for subregional trade and other transactions. The functioning of a clearinghouse always implies important modifications in the convertibility context of the subregion concerned.

95. There have been various attempts to strengthen convertibility; it is worth mentioning that the issuing of Central American Import Rights (DICAs), has been replaced by the Central American peso. In view of the deep crisis of the clearinghouse characterized by declining trade within the system, member States were pressed to create, in 1986, an additional payment instrument for intra-grouping trade. 23/ Having resolved the arrears problems and revitalized the clearinghouse function, the Central American peso, a

regionally convertible currency, was expected to play an important role in facilitating the flow of trade. However, this outcome could not be sustained for various reasons. First, the renewed clearing system, with which its use would have been linked, proved to be short-lived. Secondly, the relative importance of intra-grouping trade, for which this instrument had been created, did not recover its high levels of the early 1980s. Finally, the general financial liberalization in member countries was accompanied by a perception that regional instruments had faded in importance compared to access to global financing.

96. Another attempt to establish a regional convertible currency is the Andean peso 24/ created by LARF in December 1984. It was based on the LAIA Clearing Arrangement's aim to enhance the regional convertibility of trade transactions to facilitate trade flows. The Andean peso's functions are twofold. First, it is a means of payment of restricted use - by authorized holders only; secondly it is an interest-bearing asset serving to settle foreign-exchange debt between its holders. It provides the central banks of LARF member countries with a means of increasing liquidity and paying their debts in an orderly way. The main restriction is, however, that users must replenish their original Andean peso holdings with foreign exchange, which turns the operation into a short-term credit mechanism.

97. In the present circumstances, although the Andean peso actually increases regional liquidity, it cannot completely replace other currencies as an intraregional payment instrument. The issue, which so far is equivalent to US$ 80 million, is small compared with the amounts required to sustain intraregional trade. Most member countries central banks (except Colombia) used Andean pesos during the period of 1985 to 1990, but since then the role of this instrument has been rather overshadowed by the preference of member countries for hard currencies. For bolstering its role as an international reserve asset, it has been argued that it would be necessary to change the method of setting its value, diversify its use and achieve a sustained, financially solvent performance by the issuer.

98. The enlargement of the LARF also marked the end of the debate over a regionally convertible Latin American currency. Having acknowledged the diversity of LACCs, monetary cooperation has been and remains concentrated on cooperation among central banks; more far-reaching convertibility plans will be on the agenda in the future.

99. Argentina will face pressure to devaluate its currency in real terms while the fixed dollar exchange rate and the requirement of 100 per cent backing make devaluation impossible. If the Law on Convertibility remains unchanged, it will be necessary for the Argentine economy to maintain a balanced payments posture, implying a substantial increase in net exports and non-reversal of recent capital inflows. Moreover, the circulation of the peso in neighbouring countries will push the creation of sizeable stock of Argentine external liabilities which will limit the freedom of action in monetary policy. In the long run, it would be preferable to have the same level of convertibility throughout the LAIA region.

IV. Renewed access to international capital markets and the scope for cooperation among capital markets

100. An important aspect of the current context of regional integration is the mobilization of resources at the subregional/regional level. The emergence of capital markets in Latin America may have important effects on the mobilization of resources; the most significant would be the improvement in the financial credibility of selected countries of the region in the eyes of financial operators in national and international markets.

101. Two cases can be highlighted among the Latin American countries. On the one hand, there are the so-called **emerging markets** 25/ that have staged a return to voluntary sources of financing and, on the other hand, there is the case of the countries in the region, less developed in terms of stock markets, that may benefit from the former's conditions and experience, and may gather force with them to foster cooperation among their capital markets. Both cases are to be addressed in a context of regional capital markets.

102. The emerging markets category merits particular attention. After being absent from international markets in the 1980s, and having relied on debt restructuring and other modalities, most of which were involuntary in nature, some Latin American countries have recently mobilized voluntary sources of financing. The new context of external openness and an export-oriented approach, fiscal austerity and the careful management of monetary policy, as well as of reduced public regulation of markets, seems to be growing in importance. This has contributed to strengthening the credibility of Latin American countries and thereby, to attracting new capital flows into the region.

103. The effects of the fall in international interest rates - particularly dollar interest rates - and the high rate of return on investments in a number of Latin American countries, particularly since 1991, has given rise to a massive net inflow of capital. This totalled US$ 39 billion in 1991, 62 billion in 1992 and 55 billion in 1993. Thus, the net transfer of financial resources to LACCs (net movement of capital minus net payments of profits and interest) was positive for three years in a row (1991-1993), after nine consecutive years of negative transfers (1982-1990). 26/ It remains to be seen how these inflows are used and, in particular, whether they will increase domestic investment and find long-term employment in these countries.

104. The restoration of access to capital markets was mainly reflected in the spectacular growth of new international bond issues 27/ and other sources of non-debt creating flows - i.e. a reduction in the accumulation of interest arrears as countries have regularized their debt service with banks and official creditors; privatization of public enterprises that reached spectacular levels; foreign direct investments; and time deposits in local banks.

105. The inflow of capital benefited, *inter alia*, local securities markets which served as one of the channels of capital movements. The recent performance of Latin American stock markets could be summarized as follows (see also the annex, table 10):

(a) In 1992, in terms of market capitalization 28/ and value traded in shares, almost all Latin American emerging markets experienced growth. In certain markets, such as Brazil, Argentina and Uruguay, the number of listed companies decreased. Nevertheless, market capitalization and trading volumes continued to increase;

(b) In spite of the growth described above, most Latin American capital markets remained small in size compared to those in developed countries and to the East Asian markets. Trading in corporate stocks, in particular, is poorly developed, as indicated by the large differences in value traded in shares per company between developed and Latin American markets. The average market capitalization (annex, table 10, column 10) of a company traded in a developed market stands at US$ 535 million while the average of a Latin American enterprise stands at US$ 141 million. 29/ Nevertheless, Latin America fares better than other emerging regions if the average size of trading per company is taken into consideration. In 1992, this small size was reconfirmed by the low share of emerging Latin American markets - about 2.7 per cent in the global market capitalization, including both emerging and developed markets. Although it still plays a marginal role, it is expected that cross-border equity flows will be concentrated in areas of emerging growth, including Latin America.

A. Progress in cooperation among Latin American capital markets

106. Taking advantage of the conditions and experience gained by the Latin American emerging markets, measures to establish and foster cooperation among *capital markets* are an important topic during the current process of revitalization of LACCs’ integration groupings. This is in line with the process of broadening of the regional/subregional integration process and not just exclusively focused on commercial integration.

107. Aimed at developing this new aspect of regional integration, the Division for Economic Cooperation among Developing Countries (ECDC) has carried out extensive research intended for promoting cooperation among capital markets. 30/ UNCTAD’s involvement in this area is mandated by the Cartagena Commitment (UNCTAD VIII). Under this Commitment, countries have engaged in collective efforts aimed at improving coordination between the concerned private and public sectors at the regional level. This coordination may lead to establishing or strengthening domestic capital markets as a step towards the creation of regional capital markets.

108. Latin American attempts to coordinate capital markets are very recent and can be characterized by two major initiatives of private regional cooperation schemes 31/ (the Caribbean Stock Exchange and the Ibero-American Electronic Stock Exchange (BEIA) project), the recent measures adopted by the Association of Central American Stock Exchanges (BOLCEN) and other initiatives undertaken by Governments and regional institutions. They are summarized below.

109. The Caribbean Stock Exchange (see box 17), operational since 1991, is a cooperation mechanism among the existing stock exchanges of the Caribbean Community (CARICOM) integration group. Member countries agreed to extend special treatment to residents of the grouping participating in cross-border

stock exchange transactions. The importance of this Stock Exchange rests on its activities of both cross-border trading through correspondent broker relationships and potential cross-border listing.

Box 17

The Caribbean Stock Exchange (Caribbean Community)

The integration of capital markets in the CARICOM was mandated in Clause Nº 5 of the Grand Ansee (Grenada) Declaration, issued at the 10th Heads of Government Conference in 1989.

The term "*Caribbean Stock Exchange*" refers to the integration of operations among the three existing stock exchanges of the Caribbean community (CARICOM): *Barbados, Jamaica and Trinidad and Tobago*. It does not imply trading concentrated in one physical place (participant stock exchanges have kept their separate trading floors) or a new physical organization. The Caribbean Stock Exchange consists of two elements: (1) Since 1 January 1991, any company incorporated in any of the three participant countries may apply for listing on any of the three stock exchanges, on condition that it meets the listing requirements of the stock exchange in question; (2) Since 8 April 1991, any citizen of these three territories has been allowed to trade in any shares in any of the three stock exchanges mentioned.

110. The BEIA project (see box 18) was launched in 1990 by members of the Ibero-American Stock Exchanges Federation (FIABV) which includes the major Latin American stock exchanges as well as those of Portugal and Spain. BEIA's final aim is to process electronically trading in major regional enterprises. Intraregional trading will be facilitated by settlements through central banks. However, for the time being, as regards feasibility the BEIA project still faces bottlenecks caused by such economic policy measures as legislative divergences concerning equity markets, foreign exchange regulations and taxation.

Box 18

The BEIA Project

The Rio de Janeiro Stock Exchange presented at the 17th General Meeting of the Ibero-American Stock Exchanges Federation (FIABV) held in Bilbao, Spain, in 1990, its project, the Latin-American Electronic Stock Exchange (BELA). With the inclusion of Spanish and Portuguese stock exchanges, the project was renamed Ibero-American Electronic Stock Exchange (BEIA) in the same year. BEIA intends to handle trading in the securities of major enterprises in the Ibero-American region, therefore creating a broader market for raising of funds for these companies. In the BEIA network, all transactions are processed electronically and settlements are made via the central banks of the countries involved in the transaction.

Phases for the implementation of the BEIA project: (a) the signature of bilateral agreements between members of the stock exchanges and the establishment of a unified information and intercommunication network; (b) domestically listed companies may apply for listing in the BEIA network; (c) BEIA will become a multilateral electronic trading system backed by the telecommunication services of LATINET - a subsidiary of Consultoría, Métodos, Assessoria e Mercantil Ltda (Brazil).

Participants: besides the stock exchanges interested in the project, central banks, local Securities and Exchange Commissions (SECs), Cajas de Valores (organizations of custody, clearing and settlement), brokers and investors of interested countries, as well as an enterprise of telecommunications services - in the case of BEIA, this role is played by LATINET, a long-term associate of the Rio de Janeiro Stock Exchange.

111. The first cross-border listing under the framework of the BEIA project was the flotation in August 1993 of an issue of shares worth US$ 100 million of the Argentine oil company Yacimientos Petrolíferos Fiscales (YPF) in the Brazilian capital market, organized by the Sistema Eletrônico de Negociação Nacional (SENN). YPF's shares were listed on the Bolsa de Valores de Saõ Paulo, in Brazil.

112. Central America's attempt to establish intra-grouping projects in the area of capital markets is led by BOLCEN (see box 19). At the ordinary assembly held in 1992 in Panama, proposals were presented for the creation of Central American Depository Receipts 32/ and for the harmonization of listing requirements. Participants decided to facilitate their electronic interconnection and the mutual use of their Centrales de Valores for purpose of protecting each other's deposits. The statutes of BOLCEN were reviewed in order to adapt them to new members of the board of directors and to include a code of basic principles of transparency and fairness of markets. In addition, Central American countries are examining the feasibility of a Central American currency market. As proposed by the Bolsa de Valores de Panamá and accepted by the Costa Rican business community, the first currency to be traded in this market will be the Costa Rican colón.

Box 19

Association of Central American Stock Exchanges (BOLCEN)

BOLCEN was established on 8 January 1991, by the stock exchanges of Guatemala, El Salvador, Honduras, Costa Rica and Panama.

Purposes: to promote, develop and contribute to an adequate performing of the Central American stock exchanges, including in Panama. In this regard: to incorporate both the private and public productive sectors; to promote programmes and seminars at national and regional level aimed at improving the human capacity involved in the stock exchange; to promote the establishment of systems and mechanisms related to stock exchange activities. Among the latter, to interconnect electronic mail and the use of stock exchanges as deposit custodians of other Central American countries.

The Association counts on the support of the Federation of Private Entities of Central America and Panama (FEDEPRICAP).

113. Concerning *public actors* dealing with stock exchange activities, it is important to mention the role played by central Governments, central monetary authorities, domestic supervisors and regional groupings in the development of regional capital markets. Central Governments have participated both as agents that create the general economic framework for securities trading, domestic and cross-border, and as players in regional capital markets, with the sale of bonds in other countries in the region. For example, at the beginning of 1993, US$ 150 million worth of Venezuelan government bonds were issued and sold on the Colombian stock market.

114. Launched on 5 March 1993, this was the first experiment of a bond issue placed within the regional context. The issue was listed in the Bolsa de Bogotá, the Bolsa de Medellín and the Bolsa de Occidente in Cali, Colombia, and on the Luxembourg Stock Exchange. The Colombian market has been chosen because of its relative stability and favourable international rating.

115. Another example is that of MERCOSUR members which have given intra-grouping preferences on a mutual basis. Although certain restrictions (limitation to spot market, trading in listed stocks and intra-MERCOSUR settlement) apply, and certain tax limits are held, intra-grouping securities trading is rather liberal (see box 20).

Box 20

Regulation of investment on Brazilian stock exchanges by MERCOSUR residents

Since 29 January 1992, individuals and/or legal entities domiciled or headquartered in Argentina, Brazil, Paraguay and Uruguay (countries signatories of the MERCOSUR treaty) have been permitted to invest freely on each other's stock exchanges.

In Brazil, investors from countries outside the MERCOSUR area are allowed to invest on the local stock market only through investment funds or portfolios. They face foreign exchange control measures, licensing requirements and restrictions for physical persons. In contrast, as stipulated in CMN (National Monetary Council) Resolution Nº 1901 of 29 January 1992, individuals and legal entities of other MERCOSUR countries can invest on the Brazilian stock market without having to resort to investment funds or portfolios or face the controls applied to other foreign investors.

Restrictions on investment in domestic securities by MERCOSUR residents are that: (a) transactions must be carried out only on the spot market; (b) only registered stocks can be traded for MERCOSUR investors; (c) investors must reside and be headquartered in the country of origin of their investment; and (d) transactions must be settled on the financial markets of the countries of the parties involved in the transaction.

Investments may be made in US dollars, the currency of the country of origin of investment or the currency of the country receiving the investment.

The major obstacle still left to investment in Brazil is that physical persons residing in other MERCOSUR countries are obliged to pay 25 per cent taxes on dividends and on capital gains, in contrast with the tax exemption of institutional investors.

116. Central monetary authorities may play a key role in the regulation of settlements for cross-border transactions. For example, in MERCOSUR, intra-grouping transactions are treated liberally, leading to *de facto* regional capital account convertibility. For the BEIA project mentioned earlier (box 18), the central monetary authorities are viewed as agents of transaction settlements that link domestic securities clearing and settlement schemes.

117. From among the domestic public agents, domestic supervisors (securities and exchange commissions) as well as tax and legislative authorities are crucial both in cross-border harmonization of rules and in the discretionary treatment of intra-grouping investors/companies.

118. Among the initiatives to coordinate supervisory authorities in a regional context, in March 1993 in Lima, Peru, domestic supervisory authorities and those of the stock exchanges of the Andean Group countries discussed possible ways of harmonizing their capital markets, aimed at increasing cross-border capital flows between member countries. The standards of operation and the tax treatment in these markets were among the topics high on the agenda.

119. As far as the whole American region is concerned, the Council of Stock Market Regulatory Authorities of the Americas (COSRA) was established in Cancún, Mexico, in 1992, to create uniform accounting and taxation standards.

B. Actions required to foster subregional/regional coordination among capital markets

120. The creation of regional capital markets entails specific actions on both the private and public levels aimed at establishing and/or strengthening domestic capital markets. The main requisites are summarized in box 21.

Box 21
Requisites for strengthening and/or establishing domestic capital markets

At private level:
1. Adaptation of the institutional framework
2. Technological progress
3. Adequate custody, settlement and clearing system

At public levels:
4. Stable political-economic environment
5. Adjustment of the legislative and regulatory context (supervision,taxation,etc) and adoption of international standards
6. Policies increasing the supply of shares (private pension funds, privatization)

121. At the private level, there is a need for an adequate institutional framework, i.e. an effective system of intermediaries including brokers, dealers and underwriters. Initially these activities may be performed by banks but they should be made independent as soon as this step is financially viable. Furthermore, the institutional framework entails adequate communication facilities and an institutional system for transmitting information related to price, markets and companies. It would also require effective financial institutions and channels for the marketing of securities and communications with practising corporate lawyers, audit firms and reporting accountants.

122. The process of capital market development would also require a framework for the creation of an institutional investor market, including the development of insurance companies, unit trusts and provident funds. These large investors play an important role in the development and maturation process of securities markets.

123. Regulation 33/ is an important feature in the development of capital markets. It may involve the following: (a) *Regulation of markets by government authorities* (a securities commission, a government ministry, or a central bank), backed by law, sometimes in the form of direct government controls or management of the markets that apply particularly to new issues (primary market); and (b) *Self-regulation* by the markets themselves, typically

through the stock exchange, with the Government's role confined to overseeing. This applies particularly to secondary trading in relatively developed markets.

124. The views of most of the regulators converge on the need for practical measures, and a right balance between government and self-regulation. This consensus is reflected in the current systems adopted by emerging markets. These allow a certain degree of self-regulation in secondary trading but introduce the element of strong government supervision over all other market segments. The implementation of regulations requires the existence of a clear legal framework (such as a securities trading law), accompanied by other laws (for example, company laws) and decrees that unambiguously specify the rules of securities trading.

125. A new tendency, in terms of regulation, in the emerging markets is a gradual liberalization vis-à-vis foreign investors. In this regard, the introduction of the American Depository Receipts (ADRs) 34/ is intended to facilitate direct investment by international investors in domestic securities. Chile's telephone company was the first Latin American enterprise to issue ADRs; Mexican enterprises have also been very active in this market. Argentina, Brazil, Colombia and Venezuela have used this instrument with positive results. Since September 1993, Latin American enterprises have collected US$ 3.2 billion through this mechanism.

126. The establishment and/or strengthening of regional capital markets aimed at mobilizing regional resources would encompass the following elements:

(a) Strengthening of both regional and global currency convertibility and improving the payment and clearing arrangements at regional level;

(b) Implementing automation in stock exchanges that allows increased efficiency through prompt information distribution and the sharing of expensive electronic clearance and settlement equipment, and enhances global competitiveness through improved operations;

(c) Establishing a supervisory and control system that offers security for the regional investor; it should regulate the basic aspects of foreign capital movements, reinvestments and profit repatriations;

(d) Adopting various means of cooperation in the field of stock markets, such as listing each other's country funds in stock exchanges, followed by cross-listing and trading on the other members' stock exchanges, and finally linking these stock markets through a harmonized system;

(e) At the banking system level, allowing branches of banks from other member countries to be established, and adopting cross-border cooperation agreements and mergers as a way of improving financial services;

(f) Creating such regional instruments as warrants and depositary receipts which might be attractive for risk-averse investors, both intra- and extraregional. Among the instruments, there should be a particular focus on projects envisaging regional and regional "*country funds*". 35/

127. Finally, it is evident that a minimum level of harmonization among national monetary and fiscal policies would be necessary. Monetary and fiscal harmonization within a zone should be based on more liberal domestic attitudes towards interest rates, savings, investment and resource allocation. Such cooperation usually involves five main policy areas:

(a) Adoption of a market-determined exchange rate regime and a basic convergence on policies towards regional convertibility;

(b) Harmonization of monetary and credit policies;

(c) Harmonization of fiscal measures, especially in relation to domestic credit;

(d) Harmonization of laws dealing with security trading and the elimination of restrictions on cross-border securities flows; and,

(e) Harmonization of the design and implementation of monetary and fiscal adjustment programmes to ensure that they are compatible with the objectives of subregional integration.

Notes

1/ In this text the terms Latin American countries and Latin American and Caribbean countries (LACCs) are both used. The latter category intends to emphasize the achievements of the Caribbean subregion as well and comprises all the countries of the region.

2/ Central American Common Market (CACM), Latin American Integration Association (LAIA), Andean Group and the Caribbean Community (CARICOM) are the traditional groupings of the region.

3/ Non-debt creating flows take the following forms: official bilateral grants, private direct investment, private portfolio investment. The latter two are normally channelled through institutionalized capital markets, either in developed (international) centres or in emerging capital markets.

4/ See K. Kalotay and A.M. Alvarez, "Emerging markets and the scope for regional cooperation", Feburary 1994 (UNCTAD discussion paper No. 79).

5/ As explained, for example in the works of Krugman (1981), Helpman and Krugman (1985), and Krugman (1990), economies-of-scale arising from specialization lead to intra-industry trade which now accounts for a considerable proportion of international trade. The new trade theory predicts that intra-industry trade will take place primarily between countries at similar levels of development whereas inter-industry trade will take place mainly among countries at different levels of development. Obviously, for intra-industry trade, a necessary condition is the existence of industries particularly engaged in manufacturing. In Latin America, potential intra-trade includes elements of inter- and intra-industry trade.

6/ Based on data about all branches that at least once in 1975, 1980, 1985 or 1987 reached intra-country trade indexes of no less than 40 per cent and total transactions of over US$ 20 million simultaneously. Of the eight sectors achieving such performance, only two did so on more than one occasion: autoparts and products for photography, firm and other goods. See UNIDO: Trade Integration and Industrial Restructuring. The case of MERCOSUR. 28 January 1993.

7/ The Harmonized Commodity Description and Coding System was adopted by the Customs Cooperation Council, Brussels, in its International Convention, June, 1983.

8/ The Argentine national currency (until 1991, the austral, and since 1992, the Argentine peso as described in Law 23.928 of March 1991, is freely convertible at a fixed rate to the key currency (currently the US dollar) and therefore globally convertible. The Government is obliged to intervene to maintain the peso/dollar rate within a 0.2 per cent range. The most important safeguard of the law is the obligation of the Government to back 100 per cent of the monetary base by gold, hard currencies or assets convertible to hard currencies.

9/ During the 1985-1990 period 33 agreements were concluded; of these, 27 were approved and 6 are to be implemented in 1994-1998. Among these, Colombia and Venezuela’s agreements have concentrated on agreements with partners within their Andean Pact integration scheme and with Central America and CARICOM while Mexico and Chile have agreements with a wide array of partners, including extra-regional ones, as in the case of NAFTA.

10/ Uruguay has a positive list of Mexican products eligible for reduced import duties, whereas Mexico has a negative list of exceptions.

11/ For details please refer to UNCTAD: "Follow-up to the recommendations adopted by the Conference at its eighth session: evolution and consequences of economic spaces and regional integration process." (TD/B/40(1)7, July 1993).

12/ In 1987, the United States exported US$ 14.6 billion to Mexico and imported US$ 20.5 billion (a deficit of US$ 5.9 billion) from Mexico. By 1992, United States exports to this country had almost tripled, to US$ 40.6 billion, while imports increased to US$ 35.9 billion only (a surplus of US$ 4.6 billion).

13/ For details see Commission on Transnational Corporations: Country and Regional Experiences in attracting foreign direct investment for development. (UNCTAD secretariat, E/C.10/1994/6, 11 February 1994).

14/ Of the US-LACCs framework agreements, 14 are bilateral and two were signed with CARICOM and MERCOSUR.

15/ The MIF was conceived as a part of the broader EAs. The IDB has taken a leading role in implementing the investment and debt-reduction components of the initiative. The MIF contracts the technical and administrative resources of the Bank but relies upon separate capital subscriptions. Contributions pledged by the 28 current signatories and adherents to the Fund’s agreement totalled over US$ 1.2 billion over 5 years. In addition to Japan and the United States, which have pledged US$ 500 million each over that period, signatories and adherents include 5 European countries and 21 LACCs. In December 1993, the MIF’s Donors Committee approved the Fund’s initial three operations, for a total of US$ 7 million.

16/ According to latest figures, during the period 1979-1989, BLADEX provided export financing of more than $13.7 billion. At the end of 1989, its stock of outstanding loans stood at US$ 860.9 millions.

17/ See comments on the mechanism by the Latin American Association of Development Finance Institutions (ALIDE) (LXXII Reunión del Comité Directivo, Washington, September 1993).

18/ It replaced the "Multilateral Credit Agreement to Alleviate Temporary Shortage of Liquidity" (Santo Domingo Agreement, approved in 1969, amended in 1981). The Santo Domingo Agreement administered a fund for supporting the clearing system of the Mexico Agreement, a fund for helping member central banks in case of a liquidity shortage, and a natural disaster compensation fund. See "Payments, clearing and credit arrangements among developing countries: assessment and policy options". (Report by the UNCTAD secretariat, 1988, UNCTAD/ST/ECDC/40).

19/ Protocolo Modificatorio del Convenio de Pagos, March 1991.

20/ The Economic Cooperation Programme between Central America and the EC, which assisted the reestablishment of the CACH, has been operational since 1987.

21/ According to IMF Direction of Trade Statistics, in 1989, some 39 per cent of the intraregional trade was carried on between El Salvador and Guatemala, 19 per cent between Costa Rica and Guatemala, 15 per cent between Costa Rica and El Salvador and only 27 per cent in the other given combinations. While Guatemala is a persistent net exporter, El Salvador, Honduras and Nicaragua are invariably importers.

22/ Convertibility refers to an arrangement that promotes the free exchange of currencies among countries that are geographically and historically close and engage in a large trade volume. Unlike global convertibility, limited convertibility does not have specific criteria regarding the countries involved.

23/ See Olivier Castro Pérez, "Estrategia para incrementar el comercio intracentroamericano y notas sobre la adopción de una moneda común latinoamericana" (Integración Latinoamericana, No. 139, pp. 12-20).

24/ The LARF's Board of Directors, by means of Agreement No. 83 of 17 December 1984, authorized LARF to issue obligations denominated in Andean pesos. One Andean peso is equivalent to one United States dollar. In addition to the central banks of member countries and LARF, the Junta del Acuerdo de Cartagena (JUNAC), the CAF, the Andean Parliament and the central banks of Chile and Argentina were also authorized to hold Andean pesos. Through Agreement 108 of 20 September 1986, the Board of Directors extended authorization to hold Andean pesos from other central banks and Latin American institutions outside the Andean area, on condition of subscription to agreements for that purpose.

25/ The term *emerging markets* is commonly used in the literature to denote the capital markets of all the developing countries, except Hong Kong and Singapore that have become major international centres of capital market activity and are thus considered to be part of the developed markets. As a result of the differences among *emerging markets*, it is difficult to find universally shared characteristics or to formulate generally applicable proposals.

26/ For further details, see ECLAC: Preliminary overview of the economy of Latin American and Caribbean economies, 1993.

27/ During the first six months of 1993, the Latin American countries issued US$ 10.7 billion worth of bonds, exceeding the total for the entire previous year, which in turn was almost triple the US$ 3.5 billion placed in 1991.

28/ *Market capitalization*: Market value of all listed companies at the end of the period. The market value of a company is usually defined as the share price times the number of shares outstanding.

29/ Within this average, the Mexican ratio reaches US$ 946 million (almost the level of developed markets), followed by Venezuela (US$ 187 million), Brazil (US$ 147 million) and Chile (US$ 126 million). In contrast, the average company traded in Uruguay, Costa Rica and Peru does not reach the level of US$ 10 million.

30/ For details, see "The role of capital markets in enhancing resource mobilization and in promoting their efficient use". (UNCTAD/ECDC/126), (forthcoming).

31/ Economic agents involved in the regulation and operation of domestic and *regional capital markets* are diverse. They may be categorized as private, public, domestic and regional (and international) actors. In Latin America, all these agents have taken initiatives.

32/ The project on the Central American Depository Receipts (RDCs), certificates issued by a trust fund ("fideicomiso") giving title to a number of shares in given Central American companies, was conceived by the Bolsa de Valores de Panamá, the Corporación Privada de Inversiones de Centroamérica and the Federación de Entidades Privadas de Centroamérica y Panamá. The shares in question have been deposited and are kept in custody while the certificates are traded among foreigners. RDCs are designed to stimulate trading in US dollars on the secondary market for Central American securities denominated in local currencies.

33/ Regulation has many facets. The most important regulatory issues of securities markets which directly affect cross-border activities are related to taxation, legislation (basic laws), the design of supervisory agencies and capital account liberalization.

34/ ADRs are negotiable certificates issued by United States banks, which represent a packet of shares of foreign companies. They are used by enterprises that lack sufficient market recognition to issue stock directly.

35/ *"Country funds"* are the best instruments for separating country risk from company risk. There are two reasons for this: (a) investors can choose the most attractive and best-performing enterprises of the countries of the region; and (b) *"country funds"* pool risks associated with individual companies, i.e. the good performance (high yield) of certain companies in the fund's basket may compensate the eventual failure of others. These funds may sometimes be floated on international financial centres but there may also be locally traded ones at the disposal of extraregional investors with little experience in intraregional individual enterprises. *"Country funds"* may be promoted by both private actors (stock exchanges, interested companies) and public regulators who may participate in the setting up of criteria and actual selection.

ANNEX

Table 1

Major export partners for Latin American manufactured goods, 1990 a/
(Percentages)

	OECD				Developing countries			
	USA	Canada	EEC9	Japan	Latin America	Africa	West Asia	South-East Asia
Argentina	15.7	1.5	19.6	2.7	40.8	1.0	2.5	8.0
Brazil	28.5	2.1	21.3	4.1	19.5	4.1	3.0	11.0
Paraguay	28.8	0.6	27.2	0.3	37.5	0.2	0.0	4.1
Uruguay	17.7	1.8	19.3	0.9	49.2	0.1	0.1	1.7
TOTAL MERCOSUR	25.9	2	21	3.7	24.3	3.4	2.8	10.1
Bolivia	25.4	0.2	33.0	3.3	32.4	0.0	0.0	4.8
Colombia	29.3	1.2	15.7	6.1	45.7	0.1	0.1	0.8
Ecuador	28.6	0.9	8.1	3.4	55.9	0.4	0.0	0.3
Peru	42.8	5.2	24.2	3.9	14.1	0.2	0.2	0.3
Venezuela	35.1	0.6	10.1	2.1	42.2	1.3	0.6	6.9
TOTAL ANDEAN GROUP	33.7	1.5	14.6	4.0	39.7	0.6	0.3	3.3
Chile	26.6	1.2	20.8	3.6	42.4	0.2	0.2	2.3
Mexico	76.5	1.4	7.0	1.0	10.2	0.4	0.4	1.1
TOTAL LAIA	42.8	1.7	15.8	2.9	22.0	2.1	1.7	6.3
Costa Rica	66.9	1.1	4.0	0.2	27.6	0.0	0.0	0.1
El Salvador	34.5	0.7	6.8	0.2	57.3	0.0	0.0	0.2
Guatemala	55.4	0.5	14.3	0.1	29.5	0.0	0.0	0.0
Honduras	93.0	0.0	7.0	0.0	0.0	0.0	0.0	0.0
Nicaragua	1.1	0.2	10.1	0.0	88.1	0.0	0.0	0.2
TOTAL CACM	58.3	0.7	8.1	0.1	32.5	0.0	0.0	0.1
Antigua-Barbuda	7.1	0.0	60.3	0.0	30.5	0.0 .	.	
Bahamas	72.2	5.5	14.5	4.1	2.0	0.0	0.0	0.5
Barbados	27.0	2.4	6.9	0.6	61.5	0.0	0.0	0.0
Belize	81.5	0.0	12.0	0.0	6.5	0.0	0.0	0.0
Dominica	10.0	0.0	5.0 .		90.0	0.0 .	.	
Grenada	48.8	0.0	10.2	0.0	40.2 .	.	.	
Guyana	2.4	0.2	4.4	0.0	93.1	0.0	0.0	0.0
Jamaica	51.2	1.5	14.8	0.2	32.1	0.0	0.0	0.2
Montserrat	32.3	0.0	29.0	0.0	38.7 .	.	.	
St. Kitts-Nevis	68.2	0.0	0.6	0.0	30.7	0.0 .		0.0
St. Lucia	65.7		0.3	4.0 .	31.1	0.0 .		0.0
St. Vincent-Grenadines	49.3	0.0	14.1	9.9	4.9 .	.		16.9
Trinidad-Tobago	33.9	2.4	17.3	2.8	36.4	2.0	0.7	1.1
TOTAL CARICOM	49.3	3.2	14.6	2.6	26.9	0.7	0.3	0.7
Dominican Rep.								
Haiti								
Panama								
TOTAL DEVELOPING AMERIC/	43.3	1.7	15.9	2.8	22.2	2.0	1.6	5.9
WORLD	15.0	3.7	40.2	3.8	4.0	2.4	3.0	11.4

Source: United Nations Statistical Office (UNSTAT)

a/ Exports of all Manufactured goods: SITC 5 to 8 less 687

Table 2
Latin American intra-regional exports, 1992 (percentages)

Exporter country:	Selected trading partners MERCOSUR	Andean Group	Chile	Mexico	Total LAIA (a)	CACM (b)	CARICOM (c)	Total Latin America (d=a+b+c)	North America: US (e)	Canada (f)	Total (g=e+f)	Rest of World (h)	TOTAL (i=g+h)
MERCOSUR *	14.3	4.5	3.2	2.8	24.7	0.5	0.2	25.5	17.1	0.9	18.0	56.5	100.0
Andean Group**	3.9	6.8	1.7	1.4	13.7	1.8	1.0	16.6	46.2	1.9	48.2	35.2	100.0
Chile**	10.3	5.6	0.0	1.0	16.8	0.4	0.1	17.4	17.1	0.8	17.9	64.7	100.0
Mexico *	2.5	2.0	0.6	0.0	5.0	1.8	0.6	7.4	68.6	2.9	71.5	21.1	100.0
LAIA total	8.7	4.6	1.9	1.6	16.8	1.1	0.5	18.4	36.3	1.6	37.9	43.7	100.0
CACM ***	0.1	0.9	0.3	2.6	3.9	18.1	0.7	22.7	43.7	2.5	46.2	31.1	100.0
CARICOM **	1.0	1.5	0.1	1.0	3.7	0.4	6.6	10.7	43.9	5.0	48.9	40.4	100.0
U.S. A. **	2.1	2.5	0.5	9.3	14.4	1.0	0.6	16.0	.	19.6	19.6	64.4	100.0
Canada *	0.5	0.6	0.1	0.5	1.6	0.1	0.1	1.8	77.4	.	77.4	20.8	100.0

Sources: * COMTRADE
** MBS and IMF: Direction of Trade Statistics, 1993
*** COMTRADE and DOT.
UNCTAD secretariat. IMF Direction of Trade Statistics, 1993
Bradford, Colin Jr.: Strategic options for Latin America in the 90s,OCDE, Paris, 1992

Table 3
Export Structure of CACM member countries

Country	year	Item: / SITC:	All food items 0+1+22+4	Agricult. raw mat. 2-22-27-28	Fuels 3	Ores & metals 27+28+68	Manufac. goods 5 to 8-68	of which: Chemicals 5	of which: Machinery 7	Unallo-cated -
El Salvador	1991		55.4	1.0	0.5	2.6	40.5	10.1	3.0	0.0
Costa Rica	1991		60.9	4.9	0.5	0.7	24.0	5.2	3.5	9.0
Guatemala	1991		64.2	5.6	2.0	0.3	27.9	11.1	1.5	0.0
Nicaragua	1989		70.4	12.2	1.8	1.1	14.5	5.4	0.3	0.0
Honduras	1990		77.5	7.0	0.0	3.7	11.3	0.2	0.5	0.5

Country	Year	Selected groups:	Cereals 04	Fertili-zers 271+56	Crude oil 331	Petroleum products 332	Pharma-ceuticals 54	Textile fibres 26+65+84	Metals & manufact. 67+68+69	Non-electr. machinery 71	Electrical machinery 72	Transport equipment 73
El Salvador	1991		0.7	0.1	0.0	0.5	4.0	14.9	4.7	1.2	1.8	0.0
Costa Rica	1991		0.4	0.4	0.0	0.5	2.2	4.8	2.3	0.6	2.8	0.1
Guatemala	1991		1.4	0.2	1.6	0.3	5.1	7.2	2.8	0.5	0.8	0.2
Nicaragua	1989		1.2	1.8	0.0	1.8	0.2	11.2	5.2	0.1	0.0	0.1
Honduras	1990		0.0	0.0	0.0	0.5	0.0	1.7	2.7	0.0	0.0	0.0

Correlations coefficients a/

	El Salvador	Costa Rica	Guatemala	Nicaragua
Costa Rica	93.3%			
Guatemala	95.9%	98.1%		
Nicaragua	87.6%	95.9%	96.1%	
Honduras	84.3%	96.1%	94.7%	98.5%

Source: UNCTAD Handbook of Intrenational Trade and Development Statistics 1992 TD/STAT.20

a/ High levels of correlation imply that the countries have restricted room for comparative advantages

Table 4

Export Structure of CARICOM member countries

Major export items	Country	Year	Item: / SITC:	All food items 0+1+22+4	Agricult. raw mat. 2-22-27-28	Fuels 3	Ores & metals 27+28+68	Manufac. goods 5 to 8-68	of which: Chemicals 5	of which: Machinery 7	Unallocated -
Fuels; manufactures (chemicals)	Bahamas	1990		2.3	0.2	76.4	0.8	20.3	17.1	2.1	0.0
	Trinidad & Tob.	1991		5.9	0.1	65.3	0.1	28.5	16.8	1.0	0.1
Manufactures; food	Barbados	1990		27.3	0.1	27.5	0.1	43.3	11.9	12.3	1.7
	Jamaica	1991		22.1	0.3	1.0	11.1	65.4	54.1	0.4	0.0
Food; manufactures	St. Lucia	1990		54.3	1.0	7.2	0.1	36.8	0.7	8.3	0.6
	Dominica	1990		49.1	0.0	0.0	0.0	36.4	21.8	0.0	14.5
	St. Kitts & Nevis	1989		38.4	0.0	0.0	0.3	53.3	0.3	17.2	7.9
	Grenada	1989		67.9	0.0	0.0	0.0	32.1	7.4	5.2	0.0
	St. Vincent & Gr.	1990		79.8	0.5	0.0	0.1	18.3	0.1	7.6	1.3
	Belize	1990		84.6	6.1	0.0	0.0	8.4	0.2	0.5	0.9
	Guyana	1990		32.5	8.1	0.0	29.2	25.0	3.5	6.7	5.3

Correlations Coefficients a/

	Jamaica	St. Kitts	Barbados	St. Lucia	Dominica	Grenada	Trinidad	Guyana	Bahamas	St. Vincent
St. Kitts	55.5%									
Barbados	59.1%	77.7%								
St. Lucia	41.2%	88.1%	74.8%							
Dominica	65.1%	78.5%	61.9%	86.3%						
Grenada	40.9%	78.9%	61.3%	97.0%	90.5%					
Trinidad	16.6%	1.2%	62.3%	7.8%	-3.2%	-5.5%				
Guyana	31.3%	60.9%	27.7%	67.8%	56.7%	69.1%	-31.5%			
Bahamas	1.9%	-14.3%	49.3%	-4.6%	-16.9%	-16.5%	98.4%	-40.8%		
St. Vincent	17.6%	65.7%	45.9%	91.2%	80.3%	96.6%	-13.2%	65.6%	-20.5%	
Belize	9.1%	53.1%	34.6%	84.3%	75.0%	92.3%	-15.8%	61.7%	-21.1%	98.4%

Source: UNCTAD Handbook of Intrenational Trade and Development Statistics 1992 TD/STAT.20

a/ High levels of correlation imply that the countries have restricted room for comparative advantages.

Table 5
Export Structure of LAIA's member countries

Major SITC Sections

Country	Year	Item: / SITC:	All food items 0+1+22+4	Agricult. raw mat. 2-22-27-28	Fuels 3	Ores & metals 27+28+68	Manufac. goods 5 to 8-68	of which: Chemicals 5	Machinery 7	Unallo-cated -
MERCOSUR										
Brazil	1991		24.9	3.4	1.4	14.3	54.9	6.2	18.4	1.1
Argentina	1991		60.1	3.8	6.3	1.7	28.2	5.9	6.9	0.0
Uruguay	1991		40.6	18.3	0.0	0.5	40.1	6.5	2.4	0.3
Paraguay	1991		40.8	47.7	0.1	0.1	11.3	3.4	0.2	0.0
ANDEAN PACT										
Peru	1990		22.4	3.9	10.9	42.6	18.4	1.8	1.1	1.8
Bolivia	1991		17.0	7.2	26.8	39.6	3.8	0.4	0.0	5.6
Colombia	1991		32.4	5.2	28.8	0.3	33.3	4.6	2.7	0.0
Ecuador	1991		55.2	1.7	40.4	0.1	2.4	0.5	0.3	0.1
Venezuela	1991		1.6	0.1	85.7	5.5	7.0	1.9	0.9	0.0
OTHER LAIA										
Mexico	1990		11.7	1.6	37.0	5.7	44.1	6.8	24.9	0.0
Dominican Rep.*	1989		22.0	0.5	0.0	1.5	70.4	1.0	3.3	5.5
Chile	1991		27.1	8.0	0.5	49.2	13.4	3.7	1.3	1.7

Selected SITC Groups

Country	Year	Cereals 04	Fertili-zers 271+56	Crude oil 331	Petroleum products 332	Pharma-ceuticals 54	Textile fibres 26+65+84	Metals & manufact. 67+68+69	Non-electr. machinery 71	Electrical 72	Transport equipment 73
MERCOSUR											
Brazil	1991	0.0	0.2	0.0	1.4	0.3	4.4	19.2	8.2	3.4	6.9
Argentina	1991	9.6	0.0	1.2	4.7	0.5	4.6	7.6	3.9	0.8	2.2
Uruguay	1991	11.0	0.3	0.0	0.0	0.9	32.3	1.0	0.3	0.4	1.7
Paraguay	1991	0.0	0.0	0.0	0.1	0.1	44.3	0.8	0.2	0.0	0.0
ANDEAN PACT											
Peru	1990	0.1	0.0	0.4	9.6	0.1	13.2	28.4	0.3	0.5	0.2
Bolivia	1991	1.6	0.0	0.6	0.1	0.0	2.9	12.6	0.0	0.0	0.0
Colombia	1991	0.5	0.0	15.7	4.4	0.3	11.8	3.4	1.2	0.8	0.7
Ecuador	1991	0.0	0.0	37.1	3.3	0.1	0.8	0.3	0.1	0.1	0.1
Venezuela	1991	0.0	0.3	85.3	0.0	0.0	0.3	6.4	0.3	0.2	0.3
OTHER LAIA											
Mexico	1990	0.1	0.4	33.4	2.3	0.4	22.6	2.0	0.5	4.6	0.8
Dominican Rep.*	1989										
Chile	1991	0.5	0.7	0.0	0.5	0.2	1.3	36.0	0.4	0.2	0.7

Correlations Coefficients a/

MERCOSUR	Brazil	Uruguay	Argentina	
Uruguay	62.9%			
Argentina	62.4%	76.6%		
Paraguay	16.4%	77.1%	47.5%	
ANDEAN PACT	**Colombia**	**Peru**	**Venezuela**	**Bolivia**
Peru	30.6%			
Venezuela	47.4%	-2.4%		
Bolivia	29.0%	80.7%	27.7%	
Ecuador	74.3%	16.0%	65.6%	35.6%
OTHER LAIA	**Dom. Rep.***	**Mexico**		
Mexico	61.0%			
Chile	9.2%	-6.3%		

Source: UNCTAD Handbook of Intrenational Trade and Development Statistics 1992

* Participates only in the clearing arrangements
a/ High levels of correlation imply that the countries have restricted room for comparative advantages

Table 6
MERCOSUR intra-exports: Commodity composition, 1992 (by SITC section)

	Exports from:	MERCOSUR		Argentina		Brazil		Paraguay		Uruguay	
	Exports to:	MERCOSUR		MERCOSUR		MERCOSUR		MERCOSUR		MERCOSUR	
		Value	Percentage a/	Value	Percentage a/	Value	Percentage a/	Value	Percentage a/	Value	Percentage a/
SITC											
	All Commodities	7 216 197	14.3	2 326 917	19	4 098 573	11.4	246 400	37.5	544 307	33.6
0	Food and Live Animals	1 413 767	10.9	873 058	16.2	306 892	4.5	29 601	24.6	204 216	33.5
1	Beverages and Tobacco	117 137	9.4	24 805	13.1	89 778	8.6	499	7.2	2 055	45
2	Crude Materials excluding fuels	410 296	6.6	90 223	8.2	154 805	3.3	148 337	38.7	16 931	14.2
3	Mineral fuels, etc	347 906	20.8	290 482	26.7	53 367	9.2	3 029	100	1 027	82.6
4	Animal, vegetable oil, fat	86 629	5.5	42 769	3.9	5 072	1.2	31 795	74.9	6 992	84.7
5	Chemicals	775 991	26.3	258 552	36.8	425 851	20	7 986	38.4	83 603	83.4
6	Basic Manufactures	1 438 286	12.2	259 181	17.9	1 054 023	10.8	21 325	31.2	103 757	21.3
7	Machines, transport equipments	2 247 516	26.6	409 158	44.5	1 779 814	23.8	1 013	82.7	57 531	93.2
8	Misc Manufactured goods	375 469	11.6	78 108	26.2	228 193	8.4	2 815	29.6	66 353	30
9	Goods not classified by kind	3 200	1	581	15.4	777	0.2	-	0	1 842	29

Sources: UNCTAD, UNSTAD, Comtrade

a/ Refers to the percentage of total exports of a particular commodity exported to MERCOSUR

Table 7
MERCOSUR trade and exchange rate regimes
Selected data

	Argentina	Brazil	Paraguay	Uruguay
	1993	1993	1992	1992
Tariff rates (percentages)				
Average	11.2	14	15.5	5.9
Min/Max	0 - 20	0 - 40	0 - 72	0 - 14
GATT codes:				
Antidumping	Implemented	Implemented	Non-signatory	Non-signatory
Subsidies	Non-signatory	Implemented	Non-signatory	Implemented
Customs valuation	Implemented	Implemented	Non-signatory	Non-signatory
Exchange rate regime	Fixed exchange rate Full convertibility	Fixed exchange rate a/ Foreign exchange controls	Managed floating Foreign exchange controls	Managed floating Free foreing exchange market

Sources: UNCTAD, Data base on Trade Control Measures; UNIDO: Trade integration and industrial restructuring: The Case of MERCOSUR. January 1993.

a/ As of 1 July 1994, Brazil adopted a fixed exchange rate to the US dollar.

Table 8
NAFTA member countries: comparative indicators, 1992

Economic Indicators	Canada	United States	Mexico
Population (millions)	27	255	85
Unemployment rate (% of labour force)	11.3	7.4	7.0
GDP growth at market prices	0.7	2.6	2.7
Real GDP per capita, (PPP$), 1990	19 232	21 449	5 918
Consumer prices growth (%)	1.5	3.0	15.5
GDP		Percentages	
by kind of economic activity, 1990			
Agriculture	3.0	2.0	8.0
Industry	22.0	24.0	27.0
Construction and Services	74.0	75.0	65.0
International transactions		(US $ million)	
Exports	133.30	440.14	27.52
Imports, fob	-125.12	-536.28	-48.19
Trade balance	8.18	-96.14	-20.67
Current account balance	-23.01	-66.38	-22.80
MEMORANDUM:			
Intra-NAFTA exports	104.47	130.75	34.83
Intra-NAFTA imports	-81.50	-137.18	-41.21
Intra-NAFTA balance	22.97	-6.42	-6.38

Sources: IMF, UNCTAD, UNDP, UNSTAD

Table 9

Latin American payments and clearing arrangements

Intra-group imports and level of transactions channelled/cleared
(in millions of US dollars)

Year	**Intra-group imports**	**Total transactions channelled through the system**	**Net settlement in foreign exchange**	**Ratios (percentages)**	
	(1)	(2)	(3)	(4)=(2/1)	(5)=(3/2)
CACH-					
1986					
1987	466.2	189.3	40.4	41	21
1988	526.2	29.3	...	6	...
1989	565.4	5.6	...	1	...
1990	599.3	1.6	...	0	...
1991	639.3	0.1	0.0	0	...
1992	675.0	140.7	60.0	21	43
(Jan.-July)	272.1	56.2	45.2	21	80
LAIA					
1986	7 674	6 673	1 066	87	16
1987	8 496	7 492	1 269	88	17
1988	9 914	8 753	1 458	88	17
1989	11 147	10 137	2 513	91	25
1990	12 381	10 020	3 469	81	35
1991	15 620	11 610	2 866	74	25
1992	19 960	13 772	3 845	69	28
1993	..	13 176	3 824	..	29

Source: UNCTAD estimates based on reports provided by the secretariats of the groups concerned. For CACH and LAIA, data on intra-group imports were communicated to UNCTAD by their secretariats.

ALADI: Evaluación del Funcionamiento del Sistema de Pagos de la ALADI en el año 1993 (ALADI/SEC/di 554/Rev.1, 2/5/1994).

Table 10

Overview of emerging capital markets
(as compared with other regions)

	Number of listed companies			Market Capitalization (market value of shares) (Billions of US $) (End of period)			Market trading value in shares (Billions of US $) (End of Period)			Market Capitalization/ company (10=5/2)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
	1990	1991	1992	1990	1991	1992	1990	1991	1992	
TOTAL OF EMERGING MARKETS	12 200	12 638	13 301	507.17	729.57	837.43	886.70	624.24	605.02	57.73
LATIN AMERICA	1 810	1 603	1 874	101.05	255.81	296.91	22.69	62.02	96.53	141.33
of which:										
Mexico	199	207	199	41.05	102.76	138.74	12.17	39.55	51.40	496.44
Brazil (São Paulo plus Rio de Janeiro)	612	598	590	30.24	87.69	90.68	5.84	11.77	23.06	146.64
Chile	216	223	244	13.64	27.99	29.60	0.76	1.88	2.06	125.51
Argentina (Buenos Aires)	179	169	170	3.62	18.64	18.62	0.78	4.58	15.85	110.29
Venezuela	57	60	62	8.36	11.21	7.60	2.23	3.24	2.63	186.83
Colombia	80	83	80	1.42	4.04	5.68	0.07	0.20	0.55	48.67
Peru	265	273	287	0.81	1.12	1.44 Oct	0.59	0.58	0.54 Oct	4.10
Jamaica	44	44	48	0.91	1.03	3.23	0.03	0.05	0.39	23.50
Trinidad and Tobago	30	29	32	0.70	0.67	0.52 Jun	0.18	0.14	0.02	23.10
Costa Rica	78 a/	82	79		0.31	0.48	0.00	0.00	0.00 Sep	3.79
Barbados	14	14	15	0.28	0.31	0.28 Jun	0.01	0.01	0.00	21.93
Uruguay	36	28	26	0.02 a/	0.04	0.04	0.00 a/	0.00	0.01	1.43
SOUTH AND EAST ASIA	8 869	9 241	9 727	342.39	421.72	490.14	849.82	547.37	492.46	45.64
WEST ASIA	924	944	1 015	34.05	22.69	26.65	8.42	9.27	10.64	24.04
SUB-SAHARAN AFRICA	265	292	311	5.15	4.68	2.72	0.08	0.11	0.06	16.02
EUROPE	332	351	374	24.53	24.67	21.01	5.71	5.48	5.32	70.28
DEVELOPED MARKETS	18 421	19 877	19 032	8 965.66	10 624.37	10 095.89	4 951.36	4 818.29	5 161.34	534.51

Source: UNCTAD, based on FIBV (1992b), IFC (1992) and national reports.

a/ 1989

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