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Protectionism and Latin American Exports (Dialogue #99)

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PREFACE

Fabio Echeverry is the president of Colombia's most important private-sector group, the Asociación Nacional de Industriales (ANDI). During his thirteen-year tenure at ANDI, Mr. Echeverry helped balance the role the public and private sector play in determining national and foreign investment policy. Mr. Echeverry has been involved at the policy-making level, serving on the board of the country's export-promotion and financing authority, PROEXPO, for the last ten years under three heads of state. The prestigious Latin American business group, the Association of Latin American Industries, elected him as its president for the 1986-88 term.

These remarks were made at the 1987 Miami Congressional Workshop on Political, Economic, and Security Issues in the Western Hemisphere.

Richard Tardanico
Editor
Occasional Papers Series Dialogues

WORKSHOP PARTICIPANTS:

It is for me an honor to be before such a select audience, debating subjects of so much significance for our countries as are the various problems affecting exports from Latin America to the United States, and in my particular case, affecting Colombian exports.

In the past twenty-five years the international economic order has changed substantially, as the economic supremacy of the United States and some European countries has made way for the economic development of countries in Southeast Asia; in turn, Latin American nations have higher levels of population, urbanization, literacy, industrialization (to a certain extent), and in general are in a somewhat better shape than they were twenty-five years ago.

The world's economic and political profile has changed considerably, bringing about a modification of the terms of interrelation between the various countries.

The relationship of the United States with the Latin-American countries is no longer one of absolute supremacy and total dependency, but rather one of economic, political and moral interdependency. This has added complexity to the overall dialogue and to the efforts towards resolving specific conflicts between the two parties.

As I said, the change in the world's economic profile has modified the interrelation between countries. The principles of no discrimination, multilateralism and freedom of trade, have

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Remarks by Fabio ECHEVERRY Correa, President of the Colombian National Association of Manufacturers (ANDI), on the occasion of the 1987 Miami Congressional Workshop Program on Hemispheric Political Economic and Security Affairs.

been replaced by the imposition of reciprocal and bilateral conditions, and multiple restrictive trade practices have emerged.

The United States Foreign Trade Act of nineteen seventy-four put an end to the golden period of foreign trade. The energy crisis, the decrease in the growth rate of several industrialized countries, the rise of inflation and unemployment, and the need to generate funds to pay for a higher oil bill, forced many countries to be on guard against the development of their import trade, which resulted in old-time protectionist attitudes being in vogue again. We the Latin American countries, have been coexisting throughout this period with a series of measures such as the Compensatory Rights Act, the Antidumping Statute, the Generalized System of Preferences with an exaggerated application of safeguards, the "voluntary limitations" to exports, and the market arrangement agreements, measures which in the majority of cases have made it impossible for strict comparative advantages to prevail.

The situation with sugar is a clear example. Both the European Economic Community and the United States have been creating a series of subsidy mechanisms to ensure the consumption of sugar produced internally, even though the comparative advantages of the sugar-cane counterpart from tropical countries are immense. Artificial prices and assigned quotas eliminate competition, thereby canceling the effect of the comparative advantages of the various countries and the possibility of having an efficient market.

Another instance are textiles, which have had great significance in my country's economic history. Since nineteen seventy-four, an international agreement regulating the textile trade and the manufacture of certain materials is being applied among more than fifty countries within the GATT framework. The restriction imposed by this agreement evidences the bargaining leverage of the industrialized countries vis-a-vis the underdeveloped ones. In accordance with this agreement, the countries subscribed bilateral agreements where the preponderant factor has been the imposition of quotas, and the constant has been that whoever is retaining the market imposes the access conditions by defining the product categories it is willing to accept. As a general rule, these categories comprise products which are of no interest to the exporting country, and therefore the quotas are never filled. On the contrary, for categories of products which are of real interest to the exporting country, the quotas are always insufficient. In the light of this imposition of quotas by category, it is argued that we lost our textile quota because we failed to fill it. But the fact is that we can export only those products in which we are really competitive.

In nineteen eighty-four a petition was filed for the application of compensatory rights, which culminated with the signature of a Suspension Agreement in March nineteen eighty-five. This agreement contemplated the limitation of the Colombian Tax Reimbursement Certificates (CERT), a mechanism for the reimbursement of indirect taxes (nine point six percent for textiles and six percent for clothing). Also, these two sectors are denied access to the preferential credits granted for exports, both short and long term. It also denies the tax exemption for the importation of capital goods, a measure which is really unexplainable.

The commitments arising from the signature of the agreement have direct incidence on the facilities which the Colombian Government might grant to exporters in order to promote a process of technology renewal and an increase in productivity. Leather clothing exports are subject to the same conditions.

Since the inception of the Multifiber Arrangement, Colombia has negotiated three bilateral agreements with the United States and the European Economic Community. The last bilateral agreement expired last year, and at the same time the Multifiber Arrangement was extended till nineteen ninety-one. Colombia opposed a new extension of the bilateral agreement with the United States, because they intended to impose more onerous conditions. Notwithstanding, the United States Chamber of Representatives approved last month a bill (H.R. eleven fifty-four) establishing overall import quotas for all textiles, textile products and shoes. The bill would restrict the increase of textile and clothing imports to one percent per year above the nineteen eighty-six records, and would freeze the shoe imports at last year's levels. Such bill is not in accord with the General Agreement on Tariffs and Trade (GATT), the Multifiber Arrangement and the bilateral agreements subscribed by the United States.

Colombian exports which could benefit from the General System of Preferences were two hundred and one point eight million dollars in nineteen eighty-six, representing only thirteen point nine percent of our total exports. From that amount, only ninety-four point eight million dollars really benefited from the tariff preference. This is equivalent to forty-seven percent of the export possibilities within the General System of Preferences, and only six point five percent of the total Colombian exports. Products are excluded from this preference list on the grounds of "competitive need" and "administrative reasons". To get an idea of the significance of the system in the United States, we see that while about one hundred and sixteen billion dollars are imported each year, only fifteen billion dollars are covered by the General System of Preferences.

With respect to the export of flowers to the United States, there are two applicable instruments in the Trade and Tariffs Act. On the one hand, there is a suspension agreement since January nineteen eighty-three, renewed in December nineteen eighty-six, against exporters of roses and other fresh flowers, except mini-carnations. Among the conditions imposed to avoid the application of the Compensatory Rights Law, Colombian exporters are committed not to accept the rebates earned through the CERT's, nor any similar rebate which may be granted by the Colombian government in the future. Also, Colombian exporters must waive their right to the financing granted by PROEXPO, both short and long term. Moreover, they are required to waive their right to the so-called Plan Vallejo drawback for the importation of capital goods.

On the other hand, exporters of standard carnations, chrysanthemums and pompons have been burdened with a four point four percent antidumping tax since the end of nineteen eighty-six.

With respect to nontariff barriers not contained in the Act, as is the case of the phytosanitary regulations, we foresee a serious battle coming due to the country's great prospects for the export of tropical fruits, and the countless obstacles found for this trade. This is due, among other things, to the meticulous inspections which many times cause partial or total destruction of merchandise and/or substantial delays in deliveries to buyers.

Up to now, these have been, in general terms, the conditions of our trade. However, the new conditions of the international economic order bring with them the worsening of protectionism and the increase in subsidies to producers inside the United States, factors which are additional obstacles to inter-American trade.

The prospects of a new trade act impose the need for debate regarding the possible implications which this act could bring about in the economic, political and social environment.

It seems that the exports from our countries are doomed to face a stage of higher protectionism. Even if the new bill is not approved, the existing act has highly discretionary components allowing it to be even more restrictive. There is a generalized anticipation of a gradual and progressive locking up of the United States market as a result of corrective measures made imperative by a trade and budget deficits of gigantic proportions. What seems neither logic or fair, is that the heaviest and most painful load be borne by the poor Latin-American neighbors rather than by the wealthy nations of Europe and Southeast Asia.

We must prepare our markets and condition our products to the new régime which is approaching. It is our duty to promote a healthy and intelligent debate, and to press for an awareness of our governments and exporters. This is imperative, since the measures which may be coming soon, will no doubt strike a new blow which, added to the foreign debt problems and political and social difficulties, will make it almost impossible to live in Latin America within a democratic framework.

It seems necessary that we learn to fight and coexist with the imminent worsening of a protectionism which will be a major problem for each and every one of our countries. However, the United States cannot ignore that we all live in an economically and politically interdependent world, and that they cannot expect to solve their growth problems by impeding our own growth; and that the weight of the corrective measures required by their present deficit should <u>not</u> be evenly distributed between the countries which caused it, and ourselves who have nothing to do with it. It is impossible to treat the Latin-American foreign debt problem on one side and the Latin-American export problems on the other side, since these are two elements having the same center. The possible solutions to the debt crisis are subject to the conditions of international trade, and therefore a joint action is necessary.

We must make a conciliatory effort between the interests and needs of Latin America and the United States; it is indispensable that we develop a clear awareness of our problems and of the interdependency of those problems.

It is true that the United States market is of vital importance for Latin America, but it is also true that the growth, progress and peace in Latin America are indispensable for the stability and progress of the United States market.

The United States must be clearly aware of the fact that cases such as Cuba, Nicaragua, El Salvador or Haiti do not spring up overnight, nor by spontaneous generation. Their present situation is due not only to internal but also to external factors. By helping now to prevent the development of problems in their neighborhood, the United States would be contributing significantly to ensuring a peaceful future for the entire hemisphere.