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Trade Policy Reform in Latin America and the Caribbean in the 1980s

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Most Latin American and Caribbean countries have undertaken far-reaching and fundamental reforms of their trade policies. These reforms have been undertaken unilaterally under extenuating economic conditions. Their success lies in bold and consistent implementation, complementary macroeconomic and exchange rate policies, and political will and resilience.

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This paper — a product of the Trade, Finance, and Private Sector Development Division, Latin America and the Caribbean Technical Department — is part of a larger effort in the department to disseminate lessons of policy reform in the Latin America and the Caribbean region. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Joy Troncoso, room I4-059, extension 37826 (February 1993, 25 pages).

Alam and Rajapatirana examine the wide-ranging and fundamental trade reforms undertaken in 16 Latin American and Caribbean countries in the 1980s. These reforms have dramatically altered the nature of the trade regimes in these countries and are particularly significant because they were undertaken during severe economic crisis and uncertainty.

Alam and Rajapatirana show that the average levels and the growth rates of imports and exports were substantially higher during the reform period. But imports did not show the surge many had expected, possibly because of low domestic demand. Domestic demand was low because of stabilization and structural adjustment policies, real exchange rate devaluations, and limited access to foreign loans.

All the trade reforms were preceded or accompanied by restrictive fiscal and monetary policies and by devaluations of the real exchange rate. The reform period also moved toward the unification and floating of exchange rates.

The trade reforms were associated with changes in the political regimes. In most countries, the reforms began under the auspices of democratically elected governments, despite resistance — belying the conventional wisdom that democratic leaders are particularly vulnerable to powerful special-interest groups and are thus less able to sustain reforms. Crucial to the success in implementing these reforms was the boldness with which the governments pursued them.

Alam and Rajapatirana point out that the success of the trade reforms lies in ensuring their domestic viability through macroeconomic stability and growth. A successful conclusion of the Uruguay Round of multilateral trade negotiations would also enable the countries to realize greater benefits from their trade reforms, making them more sustainable.

TRADE POLICY REFORMS IN LATIN AMERICA AND THE CARIBBEAN DURING THE 1980s

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1. INTRODUCTION

Latin American and Caribbean countries undertook wide-ranging trade reforms in the 1980s, even in the midst of severe economic crisis and uncertainty. These reforms dramatically altered the nature of the trade regimes in these countries and made them among the most open economies in the developing world. An examination of the nature of the reforms, the context in which they were undertaken, and their results provides insight into the reform process itself and offers lessons for other countries.[1]

This paper examines a sample of 16 countries in the region. The paper is divided into six sections. Following this Introduction, section 2 describes the nature of the trade reforms and their impact on the trade regimes, imports and exports in these countries. Section 3 analyzes the context in which the reforms were undertaken in terms of the macroeconomic situation, the accompanying macroeconomic policies, the behavior of exchange rates, and the political economy of the reforms. Section 4 draws lessons from this experience, section 5 identifies the challenges for the future, and section 6 provides a brief conclusion. Given the limitations of space, only aggregate statistics are provided. The relatively short period since the trade reforms also precludes discussion of the effects on output, savings, and investment.

Latin American and Caribbean countries experienced tremendous macroeconomic crises in the early 1980s. Although most of these countries had sporadic crises in the past, those of the 1980s were particularly harrowing for several reasons. The two oil shocks of the 1970s had raised import prices at a time when growth was already slow. The beginning of the debt crisis in 1982 further exacerbated the poor economic situation. These countries had undertaken heavy foreign borrowing to finance high import bills and to sustain a public sector investment boom. When interest rates rose in the early 1980s, this high burden of debt made structural adjustment inevitable.

An important ingredient of the overall adjustment these countries undertook was extensive trade reforms. These trade reforms were motivated not only by the debt crisis, which precluded further external borrowing for financing deficits, but also by the success of outward-oriented trade regimes in other parts of the world, an international environment that increasingly favored liberal trade policies, and domestic success with macroeconomic stabilization.

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[1] For earlier studies of trade reforms see, e.g., Michaely, Papageorgiou and Choksi (1991), Nogues and Gulati (1992), and Rajapatirana (1992).

The experiences of these countries with the trade reforms illustrates that the key ingredients of a successful reform strategy include boldness and consistency of policy implementation and complementary macroeconomic and exchange rate policies. However, these reforms will be sustainable only if they result in domestic macroeconomic stability and growth, and if the international environment is committed to open and liberal trade policies.

2. CHARACTERISTICS OF THE TRADE REFORMS

A. Pre-Reform Trade Regime

Table 1 presents the main characteristics of the trade regimes of these 16 countries at the start of the reforms of the 1980s. Most of these countries had high tariffs, foreign exchange restrictions, quantitative restrictions (QRs) on both imports and exports, export taxes, and multiple exchange rates.

TABLE 1: TRADE REGIME CHARACTERISTICS AT THE START OF THE TRADE REFORMS

	Year Reforms Started	High Tariffs	Foreign Exchange Restrictions	Stringent QRs on Imports	Export Tax and/or Other Restrictions	Multiple Exchange Rates
Argentina	1988	*	*	*	*	*
Bolivia	1985	*	*	*	*	
Brazil	1987	*	*	*	*	
Chile	1985	*	*			
Colombia	1985	*	*	*		
Costa Rica	1986	*	*	*	*	
Ecuador	1989	*	*	*	*	*
Guatemala	1986	*	*	*	*	*
Honduras	1986	*	*	*	*	*
Jamaica	1982	*	*	*		
Mexico	1985	*	*	*	*	*
Paraguay	1989	*	*			*
Peru	1989	*	*	*	*	*
Trinidad & Tobago	1989	*	*	*	*	
Uruguay	1987	*				
Venezuela	1989	*	*	*	*	*
No. of Countries	16	16	15	13	11	8

Source: World Bank (various reports)

Many of these trade barriers were raised during the early 1980s in an effort to respond to balance-of-payments crises. However, these barriers further reinforced, in varying degrees, the inward orientation that characterized these countries' trade policies for much of the postwar era.

B. The Trade Reforms

The trade reforms were aimed at replacing the inward orientation of the trade regimes with neutral incentives for imports and exports. Reforming import policy involved dismantling the tariff structures and eliminating non-tariff barriers such as quantitative restrictions, official reference prices, and foreign exchange allocations. Export policy reform entailed reducing or eliminating price and quantitative barriers to exports and introducing or improving measures for export promotion and diversification. These reforms were accompanied by complementary macroeconomic and exchange rate policies (discussed in section 3 below).

The reforms adopted by each of these countries reflect the nature of the protectionist instruments that characterized their pre-reform trade regimes. For example, in Chile, the only significant trade restriction in place when reform was undertaken in 1985 was a uniform tariff rate of 35 percent. Trade reform, therefore, simply involved a reduction of this tariff level. In Peru, on the other hand, trade policy prior to the start of reforms in 1989 was characterized by high levels and dispersion of tariffs, extensive non-tariff barriers, an overvalued exchange rate, a multiple exchange rate system, fiscal and financial subsidies for exports, some export taxes and restrictions, and rampant use of discretion in the conduct of trade policy. Trade reform in Peru, therefore, involved the complete menu of reforms.

The process of trade reform, specifically the reduction of protectionist barriers to imports and the emphasis on export expansion, led these Latin American and Caribbean countries to seek GATT membership, both to lock in their own trade reforms and to seek to bind foreign trade regulations that impinged on their trade. In turn, GATT membership has reinforced and extended the reform process by forcing the adoption of GATT-consistent rules on anti-dumping, subsidies, and customs valuation. The countries have also sought a more active participation in the multilateral trade negotiations in areas critical to them, such as agriculture and textiles.

C. Impact on the Trade Regimes

The extensive and dramatic nature of the trade reforms in these countries is illustrated by table 2, which compares certain features of the regimes before and after reform. There are several common characteristics. First, nominal protection, as indicated by average tariff rates, was reduced dramatically. The reduction was more substantial in some countries, such as Brazil, Costa Rica, and Colombia, than in others. Second, the reforms substantially reduced tariff ranges, implying a reduced variance in protection. Third, most of the new tariff ranges include only a few tariff rates, which indicates a further reduction in the dispersion of protection. For example, the Central American countries have only four legal tariff rates, Jamaica has five, and Uruguay has only three. Nonetheless, only Chile has a uniform tariff rate. Fourth, the coverage of quantitative import restrictions has been dramatically reduced, and is negligible in almost all 16 countries for reasons other than health and public safety.[2] Quantitative restrictions on latter grounds are, however, quite significant in the case of Guatemala (29 percent of domestic manufacturing production before reform), and their implementation can be potentially restrictive. Fifth, the degree of openness, as measured by the sum of real exports and imports as a ratio of GDP, has increased significantly for all the countries, including the larger ones. The overall average for these countries has increased from a pre-reform level of 49 percent to a post-reform (1991) average of 58 percent. While this ratio reflects many factors, it does indicate the positive change induced by the trade reforms.

There have been significant differences between these countries in the extent and speed of the reforms, and also in their timing. Some countries such as Argentina, Chile, Colombia, Peru, and Uruguay, had initiated trade reforms in the 1970s and were forced to reverse them, at least partially, at some point during the early 1980s in the wake of the macroeconomic crises. Chile was among the first to start extensive trade reforms in 1974, and by 1980, it had a very transparent and open trading system with a low uniform tariff rate of only 10 percent and no non-tariff barriers. After a brief partial reversal of trade reforms in the early 1980s, Chile restarted the process of lowering its import barriers in 1985. While the remaining 11 countries started the reform process only in the 1980s, their reforms have been no less dramatic than those undertaken by the early reformers.

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[2] While QRs have fallen substantially, some other forms of non-tariff barriers remain significant in some countries. For example, Uruguay still has significant reference prices and minimum import prices, and Costa Rica has a prior deposit requirement of 30 percent of the c.i.f. value of imports. Some of non-tariff barriers are of a more sector-specific kind such as local-content rules that limit imports of automobile parts in Argentina, Chile, and Colombia, for example.

TABLE 2: SOME INDICATORS OF TRADE REGIMES BEFORE AND AFTER REFORM

COUNTRY (pre-reform year, post-reform year)	Average Unweighted Legal Tariff Rates (%)		Tariff Range (%)		Coverage of QRs on Imports (% of tariff lines, unless otherwise noted)*		Openness of Economy (Imports+Exports as % of GDP, 1980 prices)	
	Pre-reform	Post-reform	Pre-reform	Post-reform	Pre-reform	Post-reform	Pre-reform	Post-reform(1991)
Argentina (1987, 1991)	42 (p)	15	15-115 (p)	5-22	62 (of dom. prod.)	A few	38.57	54.32
Bolivia (1985, 1991)	12 (m)	8	NA	5-10	NA	Minimal	57.51	83.97
Brazil (1987, 1992)	51	21	0-105	0-65	39	Minimal	21.17	25.27
Chile (1984, 1991)	35	11	35	11	Minimal	0	44.96	56.34
Colombia (1984, 1992)	61	12	0-220	5-20	99	1	28.23	32.66
Costa Rica (1985, 1992)	53 (p)	15 (p)	0-1400 (p)	5-20	NA	0	58.66	78.97
Ecuador (1989, 1992)	37 (p)	18	0-338 (p)	2-25 (1)	100	0	48.73	50.84
Guatemala (1985, 1992)	50 (p)	15 (p)	5-90	5-20	6(of dom. prod.)(2)	0 (2)	31.31	35.56
Honduras (1985, 1992)	41 (p)	15 (w, p)	5-90	5-20	NA	0	62.82	61.76
Jamaica (1981, 1991)	NA	20	NA	0-45	NA	0 (3)	105.51	163.49
Mexico (1985, 1990)	24 (w)	13 (w)	0-100	0-20	92 (of dom. prod.)	20 (of dom. prod.)	22.63	34.31
Paraguay (1988, 1991)	NA	16	NA	3-86	NA	A few	51.01	63.14
Peru (1988, 1992)	NA	17	0-120	5-25	100	0 (3)	30.37	41.58
Trinidad & Tobago (1989,1991)	NA	41 (p)	NA	0-103 (p)	NA	A few (4)	124.89	141.21
Uruguay (1987, 1992)	32	18	10-55	12-24	0	0	38.04	45.10
Venezuela (1989, 1991)	37	19	0-135	0-50	40	10 (5)	49.25	53.29

p: including tariff surcharges w: production-weighted average tariff m: import-weighted average tariff

* Even where tariff line coverage is small, domestic production coverage may be significant.

1/ Ecuador also has a specific tariff of 40 percent on automobiles.

2/ Guatetmala has significant QRs for health and safety reasons; pre-reform, they covered 29 percent of domestic manufacturing production.

3/ Some QRs do exist for health and safety reasons.

4/ On agricultural products only

5/ Another 8 percent of tariff items are restricted because of health reasons; pre-reform, the number was 5 percent.

Source: World Bank (various reports, staff estimates, and ANDREX)

D. <u>Impact on Imports and Exports</u>

The trade reforms had a marked impact on both the average levels and the growth rates of imports and exports. However, the improved import performance cannot be attributed to import liberalization alone; economic recovery, which raised incomes and increased foreign borrowing, also stimulated imports.

The average level of real imports during the reform years (through 1991) for these countries was 6 percent higher than during the pre-reform period (see appendix table A.1). Real imports were higher for 10 of the 16 countries. For 9 of these, import levels were more than 10 percent higher than during the pre-reform period, and Costa Rica, Jamaica and Paraguay had import levels more than 50 percent higher. Although real import levels were lower, on average, during the reform years for Argentina, Colombia, Guatemala, Peru, Trinidad and Tobago, and Venezuela, all of them except Venezuela had higher levels when the comparison is made to the year immediately preceding the trade reforms.

The picture is more uniform in terms of import growth rates (see appendix table A.2). The overall average growth rate for these countries increased from -1.1 percent during the pre-reform period to 7.2 percent during the reform years. All 16 countries had increased import growth rates, except for Venezuela which started its trade reforms only in 1989, and whose import growth rate has begun to rise, increasing by over 50 percent in 1991. Six countries had average annual <u>increases</u> in the import growth rate of over 10 percent. The average annual increase in the import growth rate was highest in Mexico, where it rose 24 percent. Both Argentina and Chile showed an average increase in excess of 15 percent. For some other countries, such as Colombia, Honduras, and Jamaica, the increase was more modest, at around 2 percent.

While real imports have increased significantly, they have not shown the surge many expected for three main reasons. First, in all the countries trade reforms were introduced in conjunction with stabilization and structural adjustment policies which kept domestic demand low during this period, with many countries experiencing negative growth rates. Since domestic demand is a major determinant of import demand, this kept import levels low. Second, as we discuss below, in several instances the trade reforms were preceded or accompanied by major real devaluations which kept imports depressed. Third, foreign borrowing was no longer as readily available as before the debt crisis of 1982.

The average level of real *exports* is also higher in the reform years than during the pre-reform years. In fact, real exports were almost 38 percent higher in the reform years (see appendix table A.3). Only Guatemala and Peru had lower average export values in the reform years, but in both countries real exports were higher than during the year immediately preceding the trade reforms. The average increase in real export growth rates during the reform period is 5 percent (see appendix table A.4). Eleven of the 16 countries had increased export growth rates, with 4 showing average annual increases in excess of 10 percent. Only Mexico, Ecuador, and Trinidad and Tobago had significant declines in the export growth rate (four other countries show negative changes in growth rates, but these changes were less than 1 percent). Exports showed strong growth in Trinidad and Tobago in 1990 but stagnated in 1991. Ecuador's export growth rate picked up after 1989.

E. Sequencing the Elements of Trade Reform

Concern over the sequencing of trade reform has normally focused on the timing of other policy measures involving macroeconomic stabilization or capital account liberalization. However, it is also necessary to examine the sequence of the various elements of the trade reform package itself. In this regard, two issues arose for these countries: What was the sequence to be followed, if any, in the reform of import and export policy? And what was the sequence to be followed, if any, in reducing tariffs and quotas on the import side?

With respect to the first issue, the concern was that a simultaneous reduction of both export taxes and import tariffs would reduce government revenues at a time when a relatively steady level of public expenditure was needed to stabilize the economies. Several countries considered raising export taxes to offset the decline of import tariff revenues resulting from a reduction in tariff rates. There was, of course, concern that raising export tax rates would increase the bias against exports, but both the large devaluations and the reduction of tariff rates were already working to reduce the bias against exports. Moreover, it was felt that the devaluations had provided exporters with short-run rents that needed to be recovered by increased export taxes.

In the end, only 6 of the 16 countries - Argentina, Bolivia, Brazil, Colombia, Costa Rica, and Guatemala, - increased export taxes at the start of the trade reforms, as indicated by the implicit export duty[3] (see appendix table A.5). The case of Argentina demonstrates the use of higher export taxes to offset the loss in government revenues from tariff reform. In Argentina, the implicit export duty rose from 2.95 percent in 1988 to 14.94 percent in 1989 (see appendix table A.5) while the implicit import duty[4] declined during the same period from 16.08 percent to 7.02 percent (see appendix table A.6). For the other countries for which information is available, the implicit export duty was 1 percent or less prior to the reforms and diminished even further as the reforms progressed. In 5 countries, there were no export taxes following the reforms.

Thus, raising export taxes prior to reducing tariffs was not a common practice despite the concerns of countries over losing public revenues. Moreover, this concern proved to be unfounded, as trade tax revenues rose in most cases due to the replacement of QRs by import tariffs, import and export growth, and the valuation of trade flows at depreciated exchange rates.

The second issue with respect to sequencing that arose for these countries was the order in which quantitative restrictions and tariffs were to be reduced. Like the first issue, this also involved fiscal concerns. The norm has been to reduce QRs first by converting them into tariffs, which has the advantage of raising tariff revenues prior to any tariff reductions and thereby undermining revenue-based opposition to such tariff cuts. Reducing QRs and tariffs simultaneously works to neutralize the possible negative effects of tariff cuts on tariff revenues, while also providing a stronger signal of the direction of government policy. Note that these arguments presume that tariff reductions lead to revenue losses, but the removal of inordinately high tariffs or import surcharges would not reduce revenues if those rates were prohibitive and precluded imports.[5]

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[3] The implicit export duty is the ratio of export duties collected to the f.o.b. value of merchandise exports; implicit export duties are used instead of the nominal export tax rates because the latter are not uniformly available.

[4] The ratio of the total import duties collected to the c.i.f. value of merchandise imports.

[5] In fact, tariff revenues may actually *increase* if imports are stimulated by the lower tariffs, following a Laffer curve. However, evidence for this is not available because of lack of adequate time series data on tariff rates.

The countries made different choices on the sequencing of reductions in QRs and tariffs. Argentina, Bolivia, Colombia, Ecuador, Honduras, and Peru reduced both simultaneously. Reductions in QRs preceded tariff cuts in Brazil, Jamaica, and Mexico, while tariffs were reduced before QRs in Costa Rica and Venezuela. Chile, Guatemala, Paraguay and Uruguay had low or insignificant QRs prior to reform, and so their reforms involved only tariff cuts. Trinidad and Tobago cut QRs only. Costa Rica felt the need to increase minimum tariffs by 5 percent in 1990 and later to impose a tariff surcharge of 10 percent, from January to August of 1991, in order to raise fiscal revenues; it can be argued that had reductions in QRs come first, there would have been no need for these tariff increases.

The evidence suggests that reductions in the legal tariff rate lead to reductions in the implicit import duty. This is borne out by the example of three countries that posted tariff cuts only with no reduction in QRs: Chile, Paraguay, and Uruguay. For Chile, the implicit import duty shot up in 1985, the first year of the reforms, because tariff cuts were introduced only in July 1985 and their impact was not fully reflected in that year's implicit import duty (particularly since nominal tariffs had been raised from 10 percent to 35 percent in 1984). Chile's subsequent tariff cuts reduced the implicit import duty thereafter. Paraguay and Uruguay had decreasing implicit import duties during the reform years. In Bolivia, the implicit import duty jumped in the first year of the reforms when QRs were completely eliminated, even though tariffs were also reduced; thereafter, as tariffs alone were cut, the implicit import duty fell. An exception to this rule was Guatemala, where implicit import duty did not fall with cuts in the legal tariff rates. This can be explained by the simultaneous elimination of tariff exemptions which may have reduced import volumes and increased tariff revenues.

But the remaining countries present ambigious evidence about the relationship between the import duty ratios and the sequencing of the import policy reforms. This may be expected for those countries where QRs and tariffs were reduced simultaneously, but the picture remains unclear even where QR reductions preceded tariff cuts. An exception is Mexico, which started off its reforms in 1985 with a reduction in QRs and saw its implicit import duty rise; however, as Mexico thereafter also introduced tariff cuts, the import duty ratio began to fluctuate.

3. THE CONTEXT OF THE TRADE REFORMS

A. Initial Macroeconomic Conditions

As table 3 shows, trade reforms were implemented during a period of widespread economic crises for most of the countries, which were suffering under large debt overhangs, declining output, balance-of- payments problems, falling foreign exchange reserves, and high inflation. Of course, the intensity of each of these problems varied across these countries. For example, in the year immediately before the start of the reforms, inflation rates in Bolivia were in excess of 1,000 percent, while they were about 60 percent in Ecuador. In the five years preceding the reforms, real output in

TABLE 3: THE EXTENT OF ECONOMIC CRISIS AT THE START OF THE TRADE REFORMS

	BoP Problems (1)	Declining Foreign Exch. Reserves	High Inflation (2)	Economic Decline (3)	Debt Problem (4)
Argentina	•	•	•	•	•
Bolivia	•		•	•	•
Brazil	•		•		•
Chile	•			•	•
Colombia	•	•		•	•
Costa Rica	•	•		•	•
Ecuador	•	•	•	•	•
Guatemala	•			•	•
Honduras	•	•			•
Jamaica	•	•		•	•
Mexico	•		•	•	•
Paraguay	•	•			•
Peru	•	•	•	•	•
Trinidad & Tobago	•	•		•	•
Uruguay	•		•	•	•
Venezuela	•	•			•
No. of Countries	16	10	7	12	16

1/ increasing or consistent large current account and/or balance of payments deficits
2/ inflation in the year preceding reforms in excess of 50 percent. Bolivia had the highest rates, in excess of 1,000 percent, with Peru following with 667 percent, Brazil with 145 percent, Argentina with 131 percent and Ecuador, Mexico and Uruguay between 50 and 80 percent.
3/ negative or decreasing real GDP growth rates.
4/ debt problem said to exist if a country had fallen back on debt payments and/or had to reschedule or refinance debt.

Source: World Bank (various reports)

Bolivia had fallen by 12 percent while it had risen by 17 percent in Venezuela. The diagnosis and extent of the economic crisis is highlighted by the fact that all 16 countries were characterized by at least three of the five symptoms listed and that three countries suffered from all five.

B. Complementary Macroeconomic Policies

For these Latin American and Caribbean countries, the profligacy of the 1970s inevitably gave way to the austerity of the 1980s, as the debt crisis foreclosed the option for foreign borrowing that had financed much of the public-sector investment and import booms of the 1970s. All the trade reforms under study were either preceded or accompanied by restrictive fiscal and monetary policies, which by reducing real expenditures, facilitated the improvements in the balance of payments that enabled the trade reforms to proceed. Tight fiscal policies also ensured that the accompanying real devaluations of the exchange rates (discussed below) were noninflationary.

C. Exchange Rate Policy

Several elements of exchange rate policy are relevant to the trade reforms. First, there is a need to unify multiple exchange rates so as to help reduce dispersion in the effective rates of protection, which results from multiple rates. Exchange rate unification also reduces the discretionary element of governmental action. The evidence from these countries is nearly uniform: of the eight countries with multiple exchange rates, all but one (Ecuador) unified their rates during the period of the trade reforms. Second, realistic exchange rates need to be adopted by making appropriate devaluations or by floating the currency. Third, both theory and practice suggest that trade policy reforms, at given real exchange rates, lead to an excess demand for tradeables which needs to be offset by an increase in the price of tradeables relative to nontradeables - that is, by a depreciation of the real exchange rate. The exchange rate policy, therefore, needs to be directed to this end.

The evidence on real exchange rate movements is that the trade reforms were always preceded by, or associated with, significant depreciations of the real exchange rate. The *nominal* exchange rate was devalued substantially for all the countries (see appendix table A.7). In eight countries (Bolivia, Chile, Colombia, Ecuador, Guatemala, Paraguay, Uruguay, and Venezuela), these devaluations brought about a *continuous* depreciation of the real exchange rate for the entire duration of the reforms (see appendix table A.8). For six of these countries (Chile, Colombia, Ecuador, Guatemala, Paraguay, and Venezuela), the devaluations preceded the trade reforms. For the other eight countries

(Argentina, Brazil, Costa Rica, Honduras, Jamaica, Mexico, Peru, and Trinidad and Tobago), the magnitude of the nominal devaluations was insufficient to *continuously* offset the inflation differentials between the country and its trading partners. But of these, Argentina, Costa Rica, and Trinidad and Tobago had real depreciations both prior to and upon the start of the reforms. Four other countries - Brazil, Honduras, Jamaica, and Mexico - had significant real depreciations sometime during the reform years or in the years leading to the reforms. Only in Peru were trade reforms not aided by real depreciations (despite substantial depreciation of the nominal exchange rate). The appreciation of Peru's real exchange rate during this period may be attributed to other reasons, such as the rise of Peru's coca economy (which may be as large as one-third of official exports), large capital inflows attracted by the relatively high real interest rates due to tight monetary policy, and the weakness of import demand.

The period of reform has also seen a movement toward floating exchange rates. Just one country, Uruguay, had floated its exchange rate prior to the reforms, but nine more countries had done so by 1991. Other countries have demonstrated greater flexibility in managing their fixed or crawling exchange rate regimes. This may indicate that the exchange rate will be used less often as a "nominal anchor" in the fight against inflation, which in turn, could enhance the sustainability of the trade reforms.

D. The Political Economy of the Trade Reforms

The trade reforms introduced in the 1980s were distinguished by the determination and boldness with which the governments initiated and pursued them. Not only have the reforms suffered no major reversal, in many countries, incoming democratic governments adopted austere economic policies, including the trade policy reforms, despite serious political opposition. Governments took such politically unpopular and risky steps largely because the economic crises had irrevocably discredited past macroeconomic and trade policies and they really had no alternative: drastic reform provided the only hope for improving the economic environment and thereby ensuring their own political futures. The conjunction of this "political" interest with the "national" interest facilitated bold action. However, to restore economic growth, countries first had to resolve their foreign debt problems and gain access to international lending, and hence there was a need for support from the IMF and World Bank. But in order to obtain this support, the countries had to satisfy IMF and World Bank conditionalities, which included trade policy reforms. Thus, the realization that drastic remedial measures were required, which emanated from the prevailing economic distress, was only reinforced by the IMF and World Bank conditionality.

A change in the political regime in all 16 countries also directly introduced or invigorated the trade policy reforms. Furthermore, in 15 of these countries, the trade reforms began under the auspices of democratically elected governments. The exception is Chile, where the military administration of General Pinochet initiated the reforms. This is not to suggest, however, that democratic governments have a greater proclivity to introduce successful trade reforms than autocratic regimes; earlier episodes of reform have had autocratic governments taking bold steps towards trade reforms. What has been crucial to the success of reforms is the boldness with which governments pursue them. The success of democratic governments in implementing these reforms is noteworthy in that it belies the conventional wisdom that democratic leaders are particularly vulnerable to powerful special interest groups, and therefore less able to sustain the reforms.

4. LESSONS FROM THE TRADE REFORMS

Five important lessons can be derived from the experience of the trade reforms in Latin America and the Caribbean during the 1980s.

(1) *Trade reforms are successful if they are bold and extensive.* Bold and extensive reforms send a powerful signal of the direction of government policy and liberate policy from parochial and vested interests. In these Latin American and Caribbean countries, the boldness of the reforms has been accentuated by the extenuating economic circumstances under which the reforms took place and the extensive nature of the reforms has been demonstrated by the complete menu of measures implemented and the substantial reduction of trade barriers that has resulted. Several factors contributed to making the reforms bold and extensive, including the urgent need for drastic measures to improve the economy in the face of economic crises, the discrediting of past policies, changes in the political regimes, and IMF and World Bank conditionality.

(2) *The success of the reforms requires a supporting macroeconomic environment.* Trade reforms in all the countries were initiated and maintained in the context of tight monetary and fiscal policies. These are necessary not only to reduce real expenditures, and thereby improve the balance of payments, but also to ensure that the accompanying real devaluations are

noninflationary. For example, in both Chile and Mexico, prudent fiscal adjustment has been crucial to the success of their trade reforms and to their strong recent growth.

(3) *Trade reforms should be preceded or accompanied by a depreciation of the real exchange rate.* Real devaluations ensure the sustainability of the trade reforms by offsetting the excess demand for tradeables that the reforms induce. Such devaluations should always precede or accompany the trade reforms. While the real exchange rate is not a policy variable *per se*, nominal devaluations and restrictive macroeconomic policies can effectively influence it. This also means eschewing the use of the exchange rate as an anti-inflation instrument, which was common during the pre-reform, import-substitution days.

(4) *Trade reforms are successful despite different sequencing of the elements of trade reforms.* Brazil and Mexico reduced their quantitative restrictions on imports before engaging in tariff cuts, while Costa Rica and Venezuela followed the reverse sequence, and yet their reforms were very successful. Likewise, the sequencing of reductions in import tariffs and increases in export taxes have also not impinged significantly on the trade reforms.

(5) *Democratic governments can and do resist popular pressures and powerful interest groups to work in the national interest.* To the extent that trade reforms were implemented in conjunction with painful economic stabilization measures, these attracted resistance in many countries. Also, in many countries, moves towards more open trading policies meant challenging the powerful military-industrial complex which had benefited most from the erstwhile protectionist trade policies and therefore had the most to lose. But democratic governments have overcome these to successfully introduce the trade reforms.

5. CHALLENGES FOR THE FUTURE

While the trade reforms in Latin America and the Caribbean have been pathbreaking and successful, their continued success lies in ensuring that they are not reversed. The experiences of these countries suggest that the best way to do this is to promote and maintain a stable macroeconomic environment through prudent fiscal management, economic deregulation, financial sector reforms, and greater competition. Many of these countries have already achieved success on this front. Some, like Brazil, still have a long way to go.

The trade reforms have been accompanied by significant moves towards regional integration. Several past initiatives have been reinvigorated - such as the Andean Group, the Central American Common Market, and the Caribbean Community - and a new arrangement, MERCOSUR, was created in 1991 by Argentina, Brazil, Paraguay, and Uruguay. While these recent efforts towards regional integration are distinct from earlier efforts in that they are motivated by the need to open markets and expand trade rather than to protect regional markets, they still face tremendous challenges in ensuring that: (1) their net effect is trade creation and not trade diversion, (2) the regional trading arrangements complement the multilateral trading arrangements and are not permitted to become substitutes for it, and (3) these arrangements adhere to GATT's Article XXIV ensuring that regional trading arrangements promote trade and are not used to restrict market access by third countries.

A successful conclusion of the Uruguay Round of multilateral trade negotiations would facilitate the sustainability and the deepening of the trade reforms as the Latin American and Caribbean countries stand to gain tremendously from it. These gains would come from increased market access worldwide, reduced agricultural subsidies in the industrial countries, liberalization of the Multi-Fibre Arrangement, and improved rules of behavior. Such transparent, significant, and tangible benefits will undermine the protectionist voices within these countries and strengthen the voices of reform and openness.

6. CONCLUSIONS

The 16 Latin American and Caribbean countries studied here have undertaken far-reaching and fundamental reforms of their trade policies which have significantly moved them towards outward-oriented trade regimes. These reforms have been undertaken unilaterally under extenuating economic conditions and in the face of continued stalemate in the multilateral trading negotiations. Their success was due to bold and consistent implementation, complementary macroeconomic and exchange rate policies, political will and resilience, and support of the IMF and World Bank. Their future success lies in ensuring their domestic viability through proper macroeconomic stability and growth.

APPENDIX TABLES

TABLE A.1: REAL IMPORTS OF GOODS AND NONFACTOR SERVICES (billions of 1980 US dollars)*

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	Period Averages Pre-Reform**	Reform	% change
Argentina	13.93	12.59	7.26	6.91	7.34	6.28	7.42	8.07	6.90	5.72	5.73	9.91	8.73	7.06	-19.04
Bolivia	0.84	1.16	0.73	0.76	0.63	0.90	0.88	0.95	0.85	0.95	1.00	1.03	0.83	0.94	13.40
Brazil	26.56	23.28	21.87	18.06	17.53	17.53	22.56	21.89	21.65	23.58	25.95	27.34	21.05	24.08	14.38
Chile	7.44	8.61	5.48	4.65	5.42	4.82	5.29	6.19	6.94	8.69	8.74	9.49	6.32	7.17	13.42
Colombia	5.21	5.46	5.90	5.36	5.15	4.81	5.01	5.27	5.62	5.46	6.05	5.69	5.42	5.42	-0.04
Costa Rica	1.78	1.31	1.07	1.24	1.38	1.46	1.71	2.02	2.04	2.36	2.56	2.38	1.37	2.18	58.65
Ecuador	2.98	2.71	2.89	2.18	2.13	2.28	2.28	2.63	2.36	2.47	2.50	2.58	2.49	2.51	0.85
Guatemala	1.96	1.88	1.49	1.19	1.28	1.11	0.95	1.41	1.46	1.55	1.48	1.59	1.49	1.41	-5.32
Honduras	1.13	1.00	0.77	0.78	0.91	0.91	0.96	0.98	1.06	1.09	1.06	1.08	0.92	1.04	13.32
Jamaica	1.41	1.49	1.46	1.36	1.89	2.18	1.99	2.31	2.66	3.08	2.78	2.73	1.45	2.24	54.42
Mexico	25.27	29.75	18.49	12.24	14.42	16.00	14.02	14.72	20.26	24.10	29.63	35.22	20.03	21.99	9.79
Paraguay	1.31	1.30	1.09	0.84	0.98	0.98	1.14	1.36	1.48	1.69	1.76	2.20	1.17	1.88	61.54
Peru	4.01	4.76	4.83	3.59	2.89	2.67	3.30	3.65	3.17	2.71	3.09	3.86	3.65	3.22	-11.88
Trinidad & Tobago	2.43	2.22	2.89	2.73	2.26	3.42	3.71	2.74	2.51	2.38	2.58	3.04	2.77	2.63	-5.05
Uruguay	2.08	2.10	1.81	1.45	1.24	1.23	1.59	1.84	1.84	1.87	1.82	2.12	1.64	1.90	15.48
Venezuela	15.13	16.87	19.69	9.29	14.35	13.82	13.75	14.93	18.37	12.41	11.77	17.90	15.13	14.02	-7.33
Average													5.90	6.23	5.76

* FOB imports in 1980 US dollars, converted at IFS "rf" exchange rate.
** Average import levels in the pre-reform years since 1980.

Source: World Bank (ANDREX)

TABLE A.2: GROWTH RATES OF REAL IMPORTS OF GOODS AND NONFACTOR SERVICES (percent)*

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	Period Averages: Pre-Reform**	Period Averages: Reform	Increase in Average Growth Rate
Argentina	-9.62	-42.38	-4.74	6.14	-14.42	18.13	8.72	-14.45	-17.09	0.14	72.92	-5.45	10.38	15.83
Bolivia	37.73	-37.61	4.58	-16.68	41.68	-2.32	8.27	-10.73	12.77	4.97	2.73	-3.00	9.56	12.56
Brazil	-12.36	-6.03	-17.43	-2.94	0.00	28.68	-2.94	-1.13	8.94	10.06	5.37	-1.68	4.06	5.74
Chile	15.71	-36.33	-15.12	16.50	-11.00	9.66	17.01	12.22	25.16	0.59	8.52	-4.81	10.36	15.17
Colombia	4.90	7.97	-9.07	-3.96	-6.62	4.06	5.34	6.55	-2.82	10.81	-6.04	-0.04	1.88	1.92
Costa Rica	-26.34	-18.11	15.81	10.66	6.00	17.58	17.58	1.03	15.88	8.66	-7.11	-2.40	8.94	11.34
Ecuador	-9.26	6.87	-24.56	-2.41	7.32	-0.23	15.38	-10.15	4.42	1.32	3.13	-2.13	2.96	5.09
Guatemala	-4.10	-20.99	-19.86	7.13	-12.89	-14.40	47.57	3.77	6.29	-4.45	7.69	-2.51	3.32	5.83
Honduras	-11.34	-23.58	2.35	15.92	0.38	5.62	2.23	7.46	2.82	-2.55	1.96	-0.47	1.68	2.15
Jamaica	5.67	-1.90	-7.32	38.97	15.50	-8.86	16.44	15.01	15.98	-9.78	-2.05	5.67	7.20	1.53
Mexico	17.71	-37.85	-33.80	17.80	11.00	-12.41	5.04	37.61	18.97	22.92	18.87	-9.03	14.57	23.60
Paraguay	-0.96	-16.50	-22.59	16.82	-0.54	16.63	19.43	8.65	13.98	4.26	25.24	2.62	14.49	11.87
Peru	18.73	1.47	-25.64	-19.53	-7.75	23.81	10.44	-13.13	-14.39	13.76	25.04	-1.45	8.14	9.59
Trinidad & Tobago	-8.63	30.25	-5.52	-17.48	51.76	8.40	-26.27	-8.08	-5.25	8.14	17.80	3.05	6.90	3.85
Uruguay	1.01	-13.60	-20.13	-14.32	-1.05	29.36	15.80	0.05	1.40	-2.74	16.94	-3.12	6.29	9.41
Venezuela	11.47	16.75	-52.83	54.46	-3.70	-0.53	8.59	23.05	-32.45	-5.17	52.09	7.16	4.82	-2.34
Average												-1.1	7.2	8.3

* FOB imports in 1980 US dollars, converted at IFS "rf" exchange rate.
** Average import growth in the pre-reform years since 1980.

Source: World Bank (ANDREX)

TABLE A.3: REAL EXPORTS OF GOODS AND NONFACTOR SERVICES (billions of 1980 US dollars)*

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	Period Averages Pre-Reform**	Period Averages Reform	% change
Argentina	10.58	11.16	11.56	12.45	12.36	13.92	12.79	13.11	15.57	16.29	19.01	19.43	12.24	17.57	43.57
Bolivia	1.04	1.00	1.02	1.02	0.99	0.93	1.08	1.05	1.12	1.39	1.61	1.62	1.02	1.26	23.76
Brazil	21.27	25.80	23.43	26.79	32.67	34.96	31.26	37.28	42.15	44.30	42.11	42.66	28.02	41.70	48.80
Chile	6.29	5.73	6.00	6.04	6.45	6.89	7.57	8.23	8.74	10.15	10.87	12.27	6.10	9.25	51.54
Colombia	5.42	4.78	4.70	4.66	5.14	5.88	7.09	7.65	7.67	8.31	9.70	9.88	4.94	8.02	62.50
Costa Rica	1.28	1.42	1.34	1.33	1.48	1.42	1.47	1.78	1.93	2.22	2.39	2.51	1.38	2.05	48.92
Ecuador	2.95	3.09	2.94	3.01	3.39	3.79	4.12	3.45	4.52	4.38	4.63	4.92	3.47	4.64	33.64
Guatemala	1.75	1.50	1.37	1.22	1.18	1.22	1.05	1.11	1.17	1.34	1.47	1.56	1.37	1.28	-6.45
Honduras	0.93	0.96	0.86	0.87	0.86	0.93	0.94	0.97	0.96	0.99	0.99	0.98	0.90	0.97	7.93
Jamaica	1.41	1.41	1.26	1.25	1.64	1.83	1.96	2.16	2.41	2.42	2.56	2.66	1.41	2.01	43.05
Mexico	20.85	23.26	28.33	32.18	34.01	32.50	34.22	37.88	39.76	40.97	43.11	46.19	27.73	39.23	41.50
Paraguay	0.70	0.72	0.79	0.67	0.83	0.96	0.92	1.26	1.34	1.67	1.83	1.69	0.91	1.73	90.25
Peru	4.63	4.67	4.95	4.44	4.85	4.99	4.32	4.11	3.69	4.57	4.21	4.27	4.52	4.35	-3.76
Trinidad & Tobago	3.15	3.10	2.81	2.74	2.98	5.14	5.07	4.84	5.34	5.16	5.84	5.80	3.90	5.60	43.59
Uruguay	1.54	1.63	1.46	1.68	1.66	1.76	1.96	1.79	1.96	2.16	2.39	2.36	1.67	2.13	27.71
Venezuela	19.97	18.85	17.13	16.61	19.23	18.44	20.69	20.42	21.23	22.41	25.27	25.40	19.18	24.36	27.03
Average													7.4	10.4	37.6

* FOB exports in 1980 US dollars, converted at IFS "rf" exchange rate.
** Average export levels in the pre-reform years since 1980.

Source: World Bank (ANDREX)

TABLE A.4: GROWTH RATES OF REAL EXPORTS OF GOODS AND NONFACTOR SERVICES (percent)*

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	Period Averages: Pre-Reform**	Period Averages: Reform	Increase in Av.Growth Rate
Argentina	5.50	3.52	7.73	-0.72	12.60	-8.13	2.56	18.75	4.58	16.71	2.23	3.30	10.57	7.27
Bolivia	-4.05	2.19	-0.24	-3.27	-5.89	16.10	-2.48	6.09	24.62	15.54	0.88	-1.35	9.14	7.79
Brazil	21.32	-9.19	14.33	21.95	7.03	-10.58	19.24	13.08	5.09	-4.93	1.30	7.48	6.76	-0.72
Chile	-8.95	4.72	0.63	6.79	6.88	9.81	8.79	6.13	16.15	7.18	12.86	0.80	11.30	10.50
Colombia	-11.83	-1.56	-0.89	10.31	14.35	20.71	7.79	0.25	8.40	16.74	1.85	-0.99	11.68	12.67
Costa Rica	11.12	-5.46	-1.31	11.27	-3.99	3.63	21.03	8.78	15.00	7.57	5.09	2.33	10.18	7.85
Ecuador	4.73	-4.96	2.44	12.53	11.98	8.60	-16.14	31.00	-3.18	5.69	6.21	6.27	2.91	-3.36
Guatemala	-14.41	-8.45	-10.88	-3.23	3.18	-14.10	6.15	5.63	13.95	10.11	5.92	-5.96	8.90	14.86
Honduras	2.85	-10.20	0.72	-0.43	7.53	1.80	2.42	-0.90	3.87	-0.62	-1.00	0.73	0.06	-0.67
Jamaica	-0.21	-10.69	-0.79	31.69	11.51	7.06	10.21	11.53	0.37	5.86	4.12	-0.21	7.09	7.30
Mexico	11.58	21.78	13.58	5.70	-4.45	5.30	10.68	4.97	3.04	5.23	7.14	13.16	4.56	-8.60
Paraguay	2.57	9.30	-15.34	25.11	15.56	-4.13	36.69	5.96	25.14	9.26	-7.31	9.46	9.03	-0.43
Peru	0.85	6.12	-10.34	9.12	2.92	-13.38	-4.81	-10.37	23.89	-7.90	1.43	-2.49	5.80	7.29
Trinidad & Tobago	-1.55	-9.19	-2.69	8.73	72.70	-1.34	-4.45	10.26	-3.32	13.02	-0.68	6.34	3.01	-3.33
Uruguay	6.17	-10.52	15.45	-1.64	6.05	11.49	-8.47	9.15	10.33	10.49	-1.02	4.50	4.10	-0.40
Venezuela	-5.59	-9.17	-3.02	15.80	-4.14	12.24	-1.31	3.97	5.53	12.78	0.50	1.10	6.27	5.17
Average												2.8	7.7	4.9

* FOB exports in 1980 US dollars, converted at IFS "rf" exchange rate.

** Average export growth in the pre-reform years since 1980.

Source: World Bank (ANDREX)

TABLE A.5: IMPLICIT EXPORT DUTIES *

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Argentina	0.00	0.00	5.06	10.91	11.30	15.32	12.38	4.58	2.95	14.94	NA
Bolivia	0.00	0.00	0.00	0.00	0.00	4.16	0.93	3.71	0.50	0.43	0.00
Brazil	0.00	0.00	2.76	6.33	4.61	2.01	0.49	1.91	2.29	0.62	0.13
Chile	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	NA	NA
Colombia	7.29	6.33	3.13	1.56	0.77	2.49	2.94	0.80	0.70	0.59	NA
Costa Rica	6.64	8.57	9.95	9.34	7.03	6.03	6.92	8.66	9.57	9.20	6.20
Ecuador	3.07	2.60	1.95	0.89	0.86	0.94	-0.03	0.04	NA	NA	NA
Guatemala	9.85	5.57	4.37	NA	2.51	0.98	10.70	6.11	3.85	1.74	NA
Honduras	7.73	7.49	NA	NA	NA	NA	NA	NA	NA	NA	NA
Jamaica	0.00	0.00	NA	0.00	0.00	0.00	NA	NA	NA	NA	NA
Mexico	38.34	41.11	35.35	5.50	0.05	0.07	0.47	0.06	0.07	0.16	0.11
Paraguay	1.03	0.84	0.86	0.92	0.97	0.01	0.00	0.00	0.00	0.00	0.00
Peru	10.92	8.44	5.23	2.00	0.74	1.76	1.99	0.00	0.86	1.17	NA
Trinidad & Tobago	0.00	0.00	NA	NA	NA	NA	NA	NA	NA	NA	NA
Uruguay	0.00	0.02	0.05	5.27	2.11	0.92	1.01	0.54	0.51	0.52	0.71
Venezuela	0.00	0.00	0.00	0.00	0.00	0.00	0.00	NA	0.00	0.00	NA

* Export duties/FOB value of merchandise exports.

Source: International Monetary Fund (Government Finance Statistics and International Financial Statistics)

TABLE A.6: IMPLICIT IMPORT DUTIES *

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Argentina	0.00	24.09	7.23	14.76	10.96	14.29	18.34	17.69	16.08	7.02	NA
Bolivia	0.00	0.00	0.00	0.00	6.49	12.44	8.82	8.61	9.64	7.87	6.40
Brazil	15.20	4.46	5.29	5.16	5.34	6.08	8.10	7.00	9.14	10.28	9.70
Chile	7.47	8.61	7.30	11.79	15.61	17.27	12.55	12.77	10.91	NA	NA
Colombia	11.34	10.55	10.94	10.95	9.88	14.42	18.00	19.33	18.21	16.71	NA
Costa Rica	6.21	3.42	2.98	4.24	8.75	9.69	11.05	11.26	19.14	16.08	10.11
Ecuador	16.27	16.85	13.49	16.64	17.65	22.13	16.89	11.38	13.98	NA	NA
Guatemala	7.00	6.23	5.61	NA	10.42	11.89	14.79	13.78	15.93	15.02	NA
Honduras	7.42	10.55	NA	NA	NA	NA	NA	NA	NA	NA	NA
Jamaica	2.18	3.47	NA	8.18	3.74	3.93	NA	NA	NA	NA	NA
Mexico	10.97	10.51	9.26	7.99	6.47	8.60	9.02	9.62	4.93	7.74	5.10
Paraguay	14.44	14.76	10.53	11.00	7.76	8.67	9.32	7.44	10.62	7.60	6.91
Peru	21.19	21.83	18.91	17.21	23.20	27.77	23.25	23.34	12.75	17.26	NA
Trinidad & Tobago	5.57	6.26	6.44	9.17	10.09	8.13	6.44	5.34	4.21	3.37	NA
Uruguay	19.09	19.15	18.12	10.25	12.11	13.50	16.75	13.80	13.34	11.68	12.96
Venezuela	8.86	9.85	12.60	12.92	8.03	10.23	12.77	11.18	11.41	8.40	NA

* All import duties/CIF value of merchandise imports

Source: International Monetary Fund (Government Finance Statistics and International Financial Statistics)

TABLE A.7: NOMINAL EXCHANGE RATES (period averages of local currency per US dollar)*

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Argentina	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.49	0.95
Bolivia	0.00	0.00	0.00	0.00	0.00	0.44	1.92	2.05	2.35	2.69	3.17	3.58
Brazil	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.04	0.26	2.83	68.30	406.61
Chile	39.00	39.00	50.91	78.84	98.66	161.08	193.02	219.54	245.05	267.16	305.06	349.37
Colombia	47.28	54.49	64.08	78.85	100.82	142.31	194.26	242.61	299.17	382.57	502.26	633.05
Costa Rica	8.57	21.76	37.41	41.09	44.53	50.45	55.99	62.78	75.80	81.50	91.58	122.43
Ecuador	25.00	25.00	30.03	44.12	62.54	69.56	122.78	170.46	301.61	526.35	767.75	1046.25
Guatemala	1.00	1.00	1.00	1.00	1.00	1.00	1.88	2.50	2.62	2.82	4.49	5.03
Honduras	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	4.11	5.32
Jamaica	1.78	1.78	1.78	1.93	3.94	5.56	5.48	5.49	5.49	5.74	7.18	12.12
Mexico	22.95	24.51	56.40	120.09	167.83	256.87	611.77	1378.18	2273.10	2461.47	2812.60	3018.43
Paraguay	126.00	126.00	126.00	126.00	201.00	306.67	339.17	550.00	550.00	1056.22	1229.81	1325.18
Peru	0.29	0.42	0.70	1.63	3.47	10.97	12.95	16.84	128.83	2666.00	187886.0	NA
Trinidad & Tobago	2.40	2.40	2.40	2.40	2.40	2.45	3.60	3.60	3.84	4.25	4.25	4.25
Uruguay	9.10	10.82	13.91	34.54	56.12	101.43	151.99	226.67	359.44	605.51	1171.05	2018.82
Venezuela	4.29	4.29	4.29	4.29	7.02	7.50	8.08	14.50	14.50	34.68	46.90	56.82

* IFS "rf" exchange rates.

Source: International Monetary Fund (International Financial Statistics)

TABLE A.8: REAL MULTILATERAL EXCHANGE RATE INDEX (with top 20 trading partners using 1980 trade weights) *

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	Depreciation: Pre-Reform	Depreciation: Start of Reform	Depreciation: Rest of period
Argentina	100.00	90.77	46.25	44.99	53.036	47.18	49.50	46.65	45.19	60.64	56.92	Yes	Yes	No
Bolivia	100.00	131.78	156.33	134.97	145.05	359.60	94.50	94.09	86.87	81.46	76.03	No	Yes	Yes
Brazil	100.00	115.02	123.82	99.48	91.83	90.53	92.26	99.73	107.87	129.68	152.73	Yes	No	No
Chile	100.00	118.78	109.45	89.25	88.13	71.52	62.76	60.94	57.67	59.93	61.74	Yes	Yes	Yes
Colombia	100.00	108.52	117.23	115.97	107.77	95.90	75.33	69.51	67.79	65.99	62.13	Yes	Yes	Yes
Costa Rica	100.00	54.31	56.02	66.66	67.42	66.25	61.11	55.08	58.12	70.00	77.75	Yes	Yes	No
Ecuador	100.00	109.85	109.36	110.24	101.80	120.30	79.52	69.33	59.32	56.82	56.97	Yes	Yes	Yes
Guatemala	100.00	108.38	107.03	109.20	112.48	130.53	107.86	68.00	72.16	78.47	54.12	Yes	Yes	Yes
Honduras	100.00	105.00	113.76	121.30	127.35	129.63	126.80	120.81	124.84	141.67	146.16	No	Yes	No
Jamaica	100.00	103.43	108.02	112.67	67.45	60.15	72.36	75.04	78.08	81.44	76.52	No	No	Yes
Mexico	100.00	114.14	84.56	75.06	88.17	93.48	70.23	66.27	82.17	88.23	92.06	No	No	Yes
Paraguay	100.00	122.64	108.20	100.90	94.91	82.03	82.61	66.45	68.83	52.42	50.94	Yes	Yes	Yes
Peru	100.00	115.76	120.43	111.41	110.74	91.70	120.71	174.37	232.76	240.34	250.25	No	No	No
Trinidad & Tobago	100.00	108.76	120.46	138.91	158.69	170.32	121.51	129.77	124.85	122.52	131.41	Yes	Yes	No
Uruguay	100.00	109.42	115.20	71.37	67.30	66.56	71.85	78.62	71.63	71.75	70.40	No	Yes	Yes
Venezuela	100.00	111.02	121.66	129.98	91.94	94.70	95.43	61.89	76.11	60.81	54.97	Yes	Yes	Yes

* The multilateral exchange rate is the average of the country's real exchange rate with its top 20 trading partners (chosen according to the 1979-83 average shares of trade) weighted by the 1980 share of trade. An increase in the index is an appreciation of the real exchange rate.

Source: World Bank calculations

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