

The impact of lowering tariff and opening to globalization in latin america resea...

[Economics](#), [Trade](#)



Aside from political reform and development, the international community has also been busy in creating new means to stimulate growth and economic sustainability. Proposals such as reduced tariff, removal of trade barriers, and the introduction of free trade were pronounced by either developed or developing countries. In Latin America, free trade has been a fundamental aspect of the market reforms carried out in the region; however, the results have varied especially with the onset of globalization and the lingering effects of tariff reduction. Some believe that having trade reform to a growing and a potential economy such as Latin America can sustain its position as a crucial partner in the world economy. Others believe trade reform of any way may only restrict Latin American development and restrict its economic competitiveness with other countries. While the promise of free trade, economic reform (through the reduction of tariff) and opening up to globalization may present benefits for the still developing Latin American economies, there is a necessity for each Latin American government to consider the impacts of reform to the country prior to upholding such reforms as it may be seen by the public as an economic burden rather than economic progress.

Since the onset of globalization sometime around the 1970s to the 1990s, there was a growing clamor for economic reform in various parts of the globe. Baker (2003) stated that several surveys were conducted in the period showcasing that most Latin Americans were favorable for free trade and economic reform as seen in the 1998 Wall Street Journal Americas survey. Respondents to the survey stress that creating free trade agreements or the integration of Latin American countries into a

hemisphere-wide free-trade zone (Free Trade Agreement of the Americas, FTAA) would be beneficial for trade for the rest of the region. In 2001, the Latinbarometer survey revealed that 70% of the Latin Americans believed that economic integration would aid their country, especially in Brazil due to the devaluation of the Brazilian currency. Experts believe that this conception of the Latin Americans to the idea of utilizing free trade and economic reform would enable the creation of new jobs and invoke continuous economic productivity .

In response to the calls for economic reform and the liberalization of trade in many of Latin America's top trading partners, the region had slowly applied reform to keep up with the changing world economy. Dijkstra (2000) stated that Chile first started their trade liberalization programs in 1974 while Mexico and Bolivia followed in 1985. Most of these countries have abolished trade quotas and reduced tariff. Export taxes had also been reduced to entice more investors and it was visible that productivity of each nation has increased. In Bolivia, for example, economic reforms enabled its manufacturing industry to increase in productivity after 1985. Chile had also showcased the improvement of its employment sector, but there were years wherein this process has slightly decreased or weakened in some instances. Nonetheless, there were also improvements in exports and imports as the years progressed, especially in Argentina, Chile and Mexico (but there were still restrictions to Mexico due to the strategies it has imposed) . Heidrich and Williams (2011) added that trade liberalization had also aided in the reduction of poverty of up to 2% as trade openness had provided the required changes for its structural development. Arable land, technology,

training and market information had been allowed through trade reform, allowing a decrease in unemployment and the proportion of salaries and labor market .

However, while the general impact of such reforms seem advantageous, experts see that the application of economic reform such as the lowering of tariff to Latin American goods and services and opening the region to globalization may present both advantages and disadvantages that can make or break Latin America's role in the world economy. On the one hand, support to free trade market reforms can open the region to new goods, services and policies that would ensure reform. According to Love and Lattimore (2009), having high tariff rates for imports influences the demand for imports and alter the prices of these products as people would be forced to purchase overpriced products. This is also the case for agricultural products, which Latin America takes pride in as tariff would restrict a country's import quota and would increase it drastically if the quota is met. If developing countries have high initial tariff rates, they would gain more once they reduce such rates. Both authors cite that countries that reduce tariff or abolish them would boost the world economy by \$173. 5 billion each year. Economists argue that trade reduction or elimination would ensure trade cost reduction and aid in creating welfare gains of almost 1. 37% of the annual GDP. Industry and agriculture contribute to a country's overall welfare gains and if tariff is reduced, it would increase the country's overall gains. Full liberalization would also influence motor vehicle industries, textile and clothing industry and processed agricultural products. Trade liberalization with the reduction of tariff would also establish the reduction of

trade barriers .

The reduction of tariff had brought several changes to Latin America as it enabled new opportunities. The World Bank (1995) reported that around the early years of trade liberalization in Latin America, tariff reduction had enabled the Latin American economies to get the attention of international investors to invest in the region. Tariff reductions had also triggered reforms to counter currency depreciation and regulate the exchange rate, allowing a 30% increase in the exchange rate. Capital has increased since the 1970s similar to the increases in GDP for Asian economies in the same period. As of 1993, Latin America recorded a capital flow of 3.3% in the GDP of each country. Employment rates have also skyrocketed due to the reduction of tariff, allowing more investors to enter the country with their goods and services no longer hampered by tariff. Agriculture and manufacturing sectors have attracted most of the investors for Latin America. Infrastructure had also been triggered by tariff reductions, allowing further access to the Latin American regions . In recent years, Haltiwanger, et al (2004) reported that tariff reduction for Argentina, Brazil, Chile, Colombia, Mexico and Uruguay had decreased drastically after 1985 by up to 10-25%. They also applied uniform tariff structures to allow each government to change the tariffs each year depending on the shifts in economic orientations of each country. Mexico had reported a high increase in jobs especially after signing the NAFTA or the North American Free Trade Agreement to sustain the growing industries demanding for workers .

As far as globalization is concerned, Suarez-Orozco and Qin-Hillard (2004) stressed that globalization cycles have long been proven to provide immense

opportunities and means for human productivity to improve due to the growing desire for better living conditions. Productivity go hand in hand with globalization because of the long-term benefits of economic reform and openness to the world market despite the possible losses that may occur in the process. In Central Mexico, citizens moved to the more fertile lands to build their haciendas to restart the country's agricultural production. Agricultural productivity had been improved through the open ties of both the US and Latin America, allowing new crops to be produced in the newly tilled lands of the region such as wine grapes, wheat, cacao and tropical fruits. Globalization had also ushered an increase in GDP for Latin American countries due to the increase in foreign investment in the region . Price (2011) adds that Latin America is needed to enter the globalized market in order to reach their prospect partners - China, Japan, South Korea, Eastern USA, and Western Europe. Local and foreign investors had to file \$2. 5 trillion to sustain the economies of the region; however, it is not enough to ensure that capital would continue to flow from international markets. Without globalization being a subject of discussions and priorities, presidents would have to try swaying support. Opening up to globalization would allow Latin American economies to sustain their position as a potential market for new investors. If Latin America would not join in the globalization process, there is a possibility Latin America falls behind with other countries in development . Contrary, on the other hand, to the benefits of economic reform on tariff reduction and acceptance to globalization, there are some very dangerous impacts these two factors can bring to Latin America that may cripple their capacity to compete with the international community. Trade reforms are

dangerous for Latin America considering the long-term impacts it would have to overall capability and economic-related issues. In terms of tariff reduction, Wigeborn (2010) stress that while reform may be beneficial, it would only expose the domestic industry to foreign competition that may disable the domestic producers to compete in the international market. Mexico, for example, had signed NAFTA between the US and Canada (and later on shared with other Latin American countries) and made it difficult for Mexico's agricultural sector as they had to compete with the much powerful and heavily financed US agricultural sector. Despite the NAFTA's policies of free trade and equal benefits, Mexican's farm exports to the US may have tripped but had reduced in price as compared to those imported to Mexico. With this example, it is visible that some firms in Latin America may find it difficult to continue their business and would be forced to close down. Restructuring would be difficult to do for many industries, especially in Latin America once trade reforms are in place. Unless reform has the capacity to sustain a program that would ensure both efficiency and order, Latin America would find it difficult to sustain their lowered tariff as an influx of foreign goods would challenge the local producers .

Open trade also has some disadvantages especially for Latin America as only a few groups can benefit directly from these reforms. Teichman (2001) stressed that Latin America's enthusiasm to impose economic reforms is due to the desires of a few groups. In the Chilean market reform, for example, the top three conglomerates in the country - Cruzat-Larrain, the Mortgage Bank of Chile and the Edwards Group - had controlled almost 71% of the country's financial sector and owned privatized public enterprises. Although

Chile had already switched their government to civilian rule in 1990, conglomerates still have an upper hand in determining reform. The same problem is seen in Mexico as the country's leading party determines the country's market reforms. In both countries, the conglomerates benefit from the taxes and goods brought in to stimulate trade. Conglomerates and some politicians benefited from these trade reforms, especially cronies such as Carlos Slim, who acquired Mexico's telecommunications industry, is a friend of former Mexican president Carlos Salinas. With these groups controlling the economy, the society had to pay for the taxes and debts they have incurred with their reckless deals and debts. If this is the case, it could be said that Latin America would have to both ensure policies are placed and enforced and manage the country's debts.

Latin American governments are also restricted with the lack of flexible policies and power to intervene directly in the economy, especially on the labor market. In Chile, the military had full control over their labor market. Argentina had a 1990 law that tried to impose regulations for workers in public companies and privatized companies, however, it was blocked by the House. The conglomerates had this much power because of the market reforms because their assets and economic power would be utilized by the state to improve the country's weight in the international market. Once liberalization for trade is achieved and is now creating immense changes for country, they do not step down to allow the government to handle the changes. Instead, they remain as the country's major actors on economic issues, especially on trade agreements and the like. With their influence unstoppable in both domestic and international means, Latin American

conglomerates also trigger the onset of corruption and trade burdens that prevents benefits to go to society . Reform also presents false promise, as reported by Perez, Schlesinger, and Wise (2008) because developing countries such as the Latin American countries, remain as an underdog to the strong developing countries that dominate in almost all sectors of economy. If developing countries would start opening its trade routes and remove barriers with these developed countries having a strong grip in the world economy, goods and services from developing countries would have to contend with the strong markets of developed countries. There is also a possibility that developing countries cannot easily contend to these other countries and may be dominated by other countries. Latin America's top agricultural countries - Brazil, Argentina and Paraguay - are currently losing their respective markets on cotton, rice, wheat, sugar, maize and oilseeds because of the presence of other notable suppliers. It is also perceived that open trade without tariff restrictions and the like would also restrict prices and poor reform programs. Liberalization, if not done correctly, may cause an increase of cheap imports and cheap prices and may cause an increase of poverty and pull the market down for the lack of efficiency.

Suarez-Orozco and Qin-Hillard (2004) argued that globalization had caused the immense suffering of many societies from the past to the present despite the eventual gains it would bring. Some societies had to endure the problem for generations, leaving all those who have worked to attain globalization to miss the day their hard work paid off. Globalization had also forced Latin American economies to embrace open and market-oriented strategies that they were not prepared for, especially with the high rates of growth as seen

in Chile in the 1980s. There were also a long line of problems for Latin America when they first opened to globalization in the early times such as problems on human and environmental issues such as the unhealthy proliferation of settlements, massive pollution and deforestation, and the unregulated use of non-renewable resources. Exploitation had also been common throughout Latin America as seen in Mexico and Bolivia as citizens had been forced out of their homes due to heavy constructions and programs, and the lack of job opportunities and compensation. Lumpier investments had also been a problem to Latin America due to globalization as the labor market remains unable to sustain the needs of the region, as well as the lack of trained workers to keep up with the economic spurts . In another study, market reforms on the basis of globalization had also been unsuccessful in bringing Latin America in the 21st century except Chile with an annual growth rate of 7. 5% since the Asian Crisis in 1997. Chile had managed to save itself from the losses incurred by the other Latin American economies due to its high social spending to reduce poverty and its complex economic policy that enabled both private and public firms to expand without the fear of corruption. Chile's economic and anti-poverty campaign varied greatly from the World Bank sanctioned poverty reduction program; however, it was still criticized due to the decline of economic growth. Back to the remaining Latin American nations, embracing both trade reform and globalization had caused an increase in poverty from 1980 to 1990 of up to 46%. In Argentina in 1995, unemployment rate had soared to 18. 5% and wages had stagnated in the process. In Mexico, almost 43% of its population were living in the poverty line or over 43 million people in 1995 alone .

With the world market constantly changing as a result of the steady shifts in supply, demand and innovation; the economy of each country must be able to keep up with these changes and open up their markets to introduce more investors and economic opportunities. On the one hand, exercising free trade reforms such as trade liberalization and accepting globalization can present freer trade, the growth of job opportunities and improve developing markets. On the other hand, these reforms can depreciate goods and services, decline of economic growth and the onset of further losses that may affect society. For Latin America, economic reform must be taken critically prior its enforcement as some markets may not be able to keep up with the economic changes and serve as a burden to the economy's growth. Governments must ensure that the reforms will be applicable to the economy and would deliver its promise of economic reform as possible setbacks may disable Latin America from competing with the rest of the world.

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