U.S. Trade with Latin America: Consequences of Financing Constraints

It is by now well-known that the debt-servicing problems of Latin American countries have forced a severe reduction of their merchandise imports Perhaps not so fully appreciated is the extent to which the repercussions of the Latin American debt crisis have affected the U.S economy U S. exports to Latin America in 1983 will likely fall about 40 percent from their 1981 level Almost the entire range of exports has been adversely affected, the fall in sales of traditional manufacturing industries has been particularly drastic A loss of nearly 1/4 million U S jobs in 1982 can be attributed to the decline in exports to Latin America. This loss constituted the bulk of U.S jobs lost due to debt problems worldwide and was concentrated in some of our most depressed industries Additional employment losses this year have been nearly as high Service receipts from direct investment and tourism have also fallen sharply On the import side, U.S. purchases of Latin American goods remained steady in 1982 This year, import growth from Latin America in sectors such as chemicals and machinery has been very rapid and significantly faster than the growth of domestic production. Latin American exports, aided by more competitive exchange rates, can also be expected to provide stronger competition for U.S exports in third markets

These phenomena are a natural consequence of the acute shortage of foreign exchange prevalent throughout most of Latin America. The entire adjustment to reduced external financing in 1982 occurred through the reduction of merchandise imports and reserve losses This year, Latin America's trade surplus is expected to exceed $20 billion, from a position of deficit as recently as 1981 (Table 1) Given the possibility of a sustained period of reduced capital inflows and high interest payments on external debt, the region may continue to need to generate substantial trade surpluses A relevant question for future years is whether such surpluses will be generated by a continued compression of imports, or whether export expansion will permit a recovery of import growth The manner of adjustment to financing constraints will therefore affect not only the development path of Latin America, but also trading relationships with its major trading partners, in particular the United States

This article examines the trade implications for the United States of Latin America's financing difficulties Undoubtedly, the economic costs to Latin American countries with debt-servicing problems have been heavy, but these costs are not the subject of the present analysis

U.S. exports to Latin America

The initial effect of the Latin American (subsequently referred to as Latin) debt crisis has been felt most severely in the United States by exporters Although exports to Latin America accounted for only 17 percent of total U S exports in 1981, between 1978 and 1981 these exports had grown over 50 percent faster than U S exports to the rest of the world The decline in exports to Latin America since 1981 thus represents a particularly sharp reversal of past trends The nearly $9 billion drop in U.S merchandise exports to Latin America in 1982 (Table 2) accounted for over 40 percent of the total decline in our exports last year

The value of U S. exports to Latin America in 1982 fell at a rate even faster than the decline in total Latin

Table 1

Latin America: Current Account Balances*

In billions of dollars

Trade and current account	1978	1979	1980	1981	1982	Projection 1983
Exports (fob)	57 1	76 3	99 9	107 0	97 5	100
Imports (fob)	−60 4	−76 2	−100 6	−108 9	−88 6	−77
Trade balance	−3 3	0 1	−0 7	−1 9	8 9	23
Net service and transfers	−15 3	−20 4	−27 0	−40 2	−47 0	−42
(Gross interest payments)	(−12)	(−19)	(−27)	(−37)	(−42)	(−39)
Current account balance	−18 6	−20 3	−27 7	−42 1	−38 1	−19
Trade with the United States *†						
Exports to the United States	23 0	30 5	37 5	39 1	38 6	42
Imports from the United States	−22 0	−28 6	−38 8	−42 8	−33 2	−26

*Includes nonLatin developing countries in the Western Hemisphere
†Balance-of-payments basis
Sources for historical data International Monetary Fund, *World Economic Outlook* (May 1983) and *International Financial Statistics* U S Department of Commerce, *Survey of Current Business* (various issues) for trade with the United States Federal Reserve Bank of New York projections, estimates of interest payments, and adjustments for country coverage

Table 2

U.S. Exports to Twenty Latin American Republics

In billions of dollars, FAS value basis

Selected countries and commodities	1980	1981	1982	1982 First half*	1982 Second half*	1983 First half*
Total	36 03	38 95	30 09	16 63	13 46	10 93
Selected countries:						
Mexico	15 14	17 79	11 82	7 20	4 62	4 40
Venezuela	4 57	5 44	5 21	2 60	2 61	1 38
Brazil	4 34	3 80	3 42	1 78	1 64	1 25
Argentina	2 62	2 19	1 29	0 76	0 53	0 49
Selected commodities:						
Food and animals	4 52	4 70	2 80	1 49	1 31	1 68
Crude materials	1 75	1 60	1 33	0 80	0 53	0 63
Mineral fuels	0 84	0 77	1 69	1 09	0 60	0 42
Chemicals	4 85	4 47	3 67	1 94	1 73	1 62
Machinery	10 59	12 34	9 72	5 32	4 40	2 95
Transport equipment	4 56	5 42	3 26	1 98	1 28	1 07
Other manufactured goods	6 80	7 50	5 37	3 03	2 34	1 81

*Not seasonally adjusted
Source U S Department of Commerce, *Highlights of U S Export and Import Trade* (various issues)

Table 3

U.S. International Transactions with Latin America*

In billions of dollars, balance-of-payments basis

Goods and services	1978	1979	1980	1981	1982	First half 1983†
Exports	38.06	50.15	66.64	79.95	71.12	27.53
Merchandise trade excluding military	22.03	28.56	38.85	42.80	33.16	12.36
Services	15.96	21.53	27.72	37.09	37.78	15.10
Travel and passenger fares	(2.75)	(3.55)	(4.42)	(5.96)	(5.09)	(2.02)
Direct investment receipts	(4.78)	(6.52)	(6.97)	(6.13)	(2.85)	(0.12)
Other private receipts	(5.87)	(8.36)	(12.28)	(20.50)	(25.60)	(10.68)
Imports	−31.54	−42.95	−53.09	−58.74	−62.18	−30.99
Merchandise trade excluding military	−23.04	−30.54	−37.53	−39.10	−38.56	−20.23
Services	−8.26	−12.12	−15.17	−19.31	−23.33	−10.67
Travel and passenger fares	(−3.54)	(−4.04)	(−4.40)	(−4.88)	(−5.45)	(−3.11)
Direct investment payments	(−0.41)	(−0.64)	(−1.02)	(−0.93)	(−0.47)	(−0.21)
Other private payments	(−2.06)	(−4.72)	(−6.59)	(−9.81)	(−13.47)	(−5.28)
Balance on merchandise trade	−1.01	−1.98	1.32	3.71	−5.40	−7.88
Balance on services	7.70	9.41	12.55	17.77	14.44	4.43
Balance on current account	5.69	6.12	12.35	19.95	7.62	−4.13

*Includes nonLatin developing countries in the Western Hemisphere

†Not seasonally adjusted, preliminary

Source: U.S. Department of Commerce, *Survey of Current Business* (various issues)

Table 4

U.S. Imports from Twenty Latin American Republics

In billions of dollars; customs value basis

Selected countries and commodities	1980	1981	1982	1982 First half*	1982 Second half*	1983 First half*
Total	30.02	32.06	32.51	15.67	16.84	17.38
Selected countries:						
Mexico	12.63	13.80	15.57	7.51	8.06	8.21
Venezuela	5.32	5.57	4.77	2.31	2.46	2.43
Brazil	3.72	4.47	4.29	1.99	2.30	2.26
Argentina	0.74	1.12	1.13	0.60	0.53	0.42
Selected commodities:						
Food and animals	7.44	6.87	6.10	3.12	2.98	3.41
Crude materials	1.10	1.28	0.97	0.52	0.45	0.46
Mineral fuels	12.82	13.66	15.18	6.89	8.29	7.49
Chemicals	0.54	0.67	0.61	0.31	0.30	0.51
Machinery	2.29	2.79	3.14	1.44	1.70	1.81
Transport equipment	0.38	0.41	0.38	0.18	0.20	0.22
Other manufactured goods	4.26	4.97	4.44	2.35	2.09	2.56

*Not seasonally adjusted

Source: U.S. Department of Commerce, *Highlights of U.S. Export and Import Trade* (various issues) imports (Table 1), more than 22 percent as compared with under 19 percent This differential in the rate of decline appears to have held to about the same extent when measured in terms of volume[1] While the appreciation of the dollar in world markets may have contributed to the falling share of U S. exports, more significant was the timing of financial problems in individual Latin countries. Mexico, the third largest trading partner of the United States, accounting for nearly half of our exports to Latin America in 1981, was among the first of the major Latin countries curbing its imports in response to financing difficulties in 1982 This country's exports to Mexico fell by a third in 1982 and are expected to decline further this year as Mexico's adjustment program takes effect.[2] While U.S exports to Argentina also fell sharply in 1982, the full impact of the economic contraction in Brazil, Venezuela, and most of the other Latin countries is only being felt this year

The decline in exports to Latin America since 1981 has affected each major category of U.S exports but has been particularly pronounced in machinery and transport equipment as well as in the broad category "other manufactured goods" (Table 2). The machinery and transport equipment sectors accounted for 45 percent of total exports to Latin America in 1981, with exports of machinery alone exceeding $12 billion Several industries that were among those already hardest hit by the domestic recession appear to have suffered the sharpest declines in exports to Latin America Exports of new passenger cars and trucks and buses fell by over half in 1982 At the same time, basic iron and steel products, the exports of which totaled over $1 billion in 1981, were nearly halved These declines have continued through 1983, slowing the present recovery in these industries

Falling U S exports have not been limited to traditional manufacturing industries. High technology products, in which the comparative advantage of the United States is possibly the greatest, were initially more insulated from the Latin adjustment measures. The export of scientific and business machinery to Latin America fell about 16 percent in 1982, while the value of computer exports actually remained steady. However, by the first half of 1983, exports of these high technology items were also falling rapidly: scientific and business machinery exports to Latin America were down 38 percent from the first half of last year, with computer exports falling 21 percent

Even agricultural exports to Latin America have been affected. U S exports of grain and cereal preparations to Latin America, which totaled $3 billion in 1981, fell by 40 percent last year. This was partly due to good production years in Mexico and Brazil, but financing difficulties also contributed to the decline

On the basis of a recent study estimating the direct and indirect domestic employment generated by U.S exports, the loss of nearly $9 billion of merchandise exports to twenty Latin countries in 1982 caused the loss of about 225,000 U S. jobs last year[3] More than three quarters of these lost jobs are estimated to have occurred in the machinery, transport equipment, and other manufactured goods sectors, areas where unemployment in 1982 was generally higher than the U S average[4] Falling exports to Latin America are estimated to have contributed directly about 0 3 percent to the decline in U S. real GNP last year[5] In the first half of 1983, U.S exports to Latin America fell a further 19 percent over the previous six-month period and were down by more than a third from the first half of 1982 Some recovery of U.S exports to Mexico is anticipated for the second half of 1983 But, given the declines that have already taken place and the ongoing scarcity of foreign exchange in the entire region, U S. exports to twenty Latin countries in 1983 are projected to fall below $24 billion, or 40 percent below the level reached in 1981. Assuming

[1] U S export volume, estimated by adjusting value figures by unit value indexes of U S exports by "end-use" category, also fell about 22 percent The total fall in import volume, estimated by adjusting the "Western Hemisphere" volume figure in the International Monetary Fund's 1983 *World Economic Outlook* for Venezuela's import volume growth, was about 18 percent (Venezuela is not included in the IMF definition of nonoil developing countries in the Western Hemisphere) Such comparisons are necessarily inexact since they involve the use of different base years and commodity categories

[2] In value terms, the share of U S exports to Mexico as a proportion of total Mexican imports actually rose in 1982 (This is thought to be due to increased official financing from the United States Also, speculative movements out of the Mexican peso, in part, took the form of the purchase of goods To the extent that these unrecorded imports were largely from the United States, U S exports would benefit) The share of U S exports to the region, excluding Mexico, remained approximately constant between 1981 and 1982 Thus, the proportionately greater decline in Mexican imports and the large U S share of those imports contributed heavily to the falling share of U S exports to the region as a whole

[3] "Domestic Employment Generated by U S Exports" by Lester A Davis, was released by the Commerce Department in May 1983 This study estimates that in 1982 $1 billion of U S exports generated an average of 25,200 jobs Export-related employment in 1980 was estimated using an input-output model of the U S economy developed by the Interindustry Economic Research Fund at the University of Maryland Estimates for 1982 were then derived by adjusting the 1980 figures for changes in the level of exports, export unit values, and U S productivity The application of the above result for U S exports to Latin America is valid for two related reasons (a) the composition of U S exports to Latin America is not dissimilar to the composition of U S exports in general, and (b) the employment generated by major export categories is, in any case, relatively invariant—see Davis Therefore, while too much emphasis should not be placed on a precise figure, the analysis does provide reasonable orders of magnitude

[4] For example, U S unemployment in the transport equipment sector in 1982 averaged 15 3 percent, unemployment in the machinery sector stood at about 11½ percent

[5] This estimate, derived by deflating GNP and exports using 1980 as a base, does not take into account multiplier effects

that this export projection for 1983 holds, nearly 400,000 U.S jobs will have been lost during 1982 and 1983 as a result of declining merchandise exports to Latin America [6]

In addition to the depressing effects of merchandise trade, reduced service receipts from Latin America have also retarded growth in the United States Although total U.S. service receipts from Latin America in 1982 remained steady (Table 3), this was entirely due to the continued growth of "Other private receipts"—mainly interest receipts by U S banks—to over $25 billion in 1982. These receipts had peaked in mid-1982, after which the sharp reduction of net new lending along with a continued easing of world interest rates contributed to their decline Lower average interest rates in 1983 are expected to reduce receipts in this category further this year.

Noninterest service earnings from Latin America were already showing declines in 1982. The largest decline among service receipts in 1982 was falling earnings from direct investment. The decline in direct investment receipts from Latin America, which amounted to about $2 billion in 1982 (after adjusting for falling income from the Netherlands Antilles), was entirely accounted for by the drop in earnings from Mexico In 1983, income from U.S direct investment in Latin America has declined further because of the severe regional recession and local currency depreciations

Finally, the U S net tourist balance with Latin America moved from surplus to deficit last year, deteriorating by nearly $1½ billion. Mexico's scarcity of foreign exchange reserves, along with its consequent devaluations and efforts to implement exchange controls last year, largely accounted for the deterioration of the U S. tourist balance with Latin America Receipts from Mexico, including the border area, fell more than $900 million in 1982, exceeding the total drop in U S tourist receipts last year The more favorable Mexican exchange rate also induced a larger number of travelers to Mexico, raising U.S travel payments by nearly $500 million, with dollar expenditure in the Mexican border area rising by 27 percent Further deterioration in our travel balance with Latin America has already occurred in 1983

No estimates of the effect of service exports on domestic employment are available Clearly there is much greater variability here than for merchandise trade While the travel and tourist industries may well be more labor intensive on average than merchandise exports, fluctuations in investment earnings may have little direct employment effects In any case, a comprehensive study on employment costs would need to take account of the adverse developments in the services sector.

[6] The employment equivalent of $1 billion of exports is slightly lower in 1983, with gains in productivity Average export unit value is expected to remain substantially unchanged

U.S. imports from Latin America

Exports from Latin countries in 1982 fell $10 billion (Table 1), reflecting the fall in GNP of their major trading partners and the continued decline in the prices of their commodity exports U.S imports from Latin America in 1982, however, remained steady The U.S share of Latin exports therefore rose from 37 percent to 40 percent between 1981 and 1982 That share has continued to rise, reflecting the faster expansion of the U S economy than other major industrial countries and the continued strength of the dollar

In addition, during the first half of this year, U.S imports from Latin America expanded significantly faster than domestic production in comparable products Latin exports to the United States also captured a larger share of the U S. import market. In the first half of 1983, while our imports from Latin America grew by 11 percent from the same period in 1982 (Table 4), our imports from the rest of the world fell by 2 percent In some sectors, the relative growth of imports from Latin America was even faster For example, in the first half of 1983, U.S. imports of chemicals from Latin America grew by 64 percent from a year earlier Over the comparable periods, U S imports of chemicals from other countries grew 11 percent, while domestic U.S production was increasing only about 3 percent Machinery imports from Latin America during this period grew 26 percent, as U S. machinery imports from the rest of the world grew 7 percent and domestic production actually fell 6 percent.

In most cases, the relatively rapid growth of Latin exports to the United States has been facilitated by their low initial market shares These low market shares suggest the potential for further growth is present. This potential is clearly enhanced by the possibility of a sustained recovery in the United States, subject to the recognition that imports can be impaired by overt or indirect protectionist pressures

In terms of exchange rate competitiveness, substantial currency devaluations in real terms have placed most of the major Latin trading partners of the United States in a better position to take advantage of our increased growth Looking ahead, the prospect of these and other Latin countries maintaining more competitive exchange rates has increased, precisely because of their financing difficulties With reduced reserves to support their currencies and an ongoing need to avoid further capital outflows, the ability and desire to maintain overvalued exchange rates have considerably diminished

Heightened competition from Latin exports is a relatively recent phenomenon and, to the extent that it represents an effort at adjustment by the expansion of trade, is a positive development To date, however, the bulk of the adjustment to financing constraints has occurred through a contraction of Latin imports

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