The Economic History of Latin America since Independence

Third Edition

The Economic History of Latin America since Independence tells the story of promise unfulfilled. Despite the region’s abundance of natural resources and a favorable ratio of land to labor, not a single republic of Latin America has achieved the status of a developed country after two centuries free of colonial rule.

And yet much has been achieved in Latin America. A small number of countries succeeded in growing fast in the century before the First World War and attracted high levels of immigration. Others did well during the long period of inward-looking development when modern industry was established. More recently many countries have benefited from the rise of China and have made a serious effort to tackle the extreme income inequality and high levels of poverty for which the region was noted in the past. The gap in living standards with the United States has started to narrow. It is a complex picture in which sweeping generalizations are of little utility.

Beginning with the integration of Latin America into the world trading system centered on Europe and North America during the century before 1930, this book starts by exploring the successes and failures of export-led growth. Using new data on exports and GDP and a simple model to explore the relationship between exports and growth, the author pays particular attention to the question that has most concerned policymakers in Latin America: how to transfer growth in the export sector to the rest of the economy, raising living standards and real income per head.

After the Depression of 1929, a number of countries – mainly the larger republics – withdrew from the world trading system into a model of inward-looking development based on import-substituting industrialization. Although the benefits of import substitution first appeared substantial, the costs of the inward-looking model eventually proved to be excessive. Under the weight of the tariff wall, competition from imports – and with it the pressure to improve quality and design – vanished. Competition from domestic producers might have rescued the situation, but oligopoly was much more common, with barriers to entry provided by high initial capital costs. Victor Bulmer-Thomas argues that a major problem with import substitution was simply timing. The opportunity cost of the inward-looking model became increasingly high after the Second World War, when world trade started to expand rapidly. The advantages to be reaped from international specialization, following the Ricardian theory of comparative advantage, were abandoned in favor of growing protection.

The debt crisis of the 1980s effectively ended the inward-looking phase – no amount of import compression could release the resources needed to service debts and expand production. The author examines the routes through which Latin American republics extricated themselves from the debt problem in pursuit of a new version of export-led growth. Taking its narrative from the end of the colonial epoch to the present, this book provides a comprehensive, balanced portrait of the factors affecting economic development in Latin America.

Victor Bulmer-Thomas is Honorary Professor, Institute of the Americas, University College London, and Emeritus Professor of Economics at the University of London. He is the author of The Economic History of the Caribbean since the Napoleonic Wars (2012) and many other books on Latin America.
Cambridge Latin American Studies

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(continued after index)
MAP 1. Leading resources and products of Central America and South America, circa 1930. Adapted from Horn and Bice (1949).
For the 30 percent who receive 5 percent – a ray of hope; for the 5 percent who receive 30 percent – a warning.
## Contents

*List of Tables, Figures, and Maps*  
page xiii

*Preface to the Third Edition*  
xix

*Preface to the First Edition*  
xxi

*List of Abbreviations*  
xxiii

1. Latin American Economic Development: An Overview  
1

2. The Struggle for National Identity: From Independence to Mid-Century  
20
   - The Colonial Legacy  
23
   - The Economic Consequences of Independence  
30
   - The Free-Trade Question  
33
   - The Export Sector  
36
   - The Nonexport Economy  
41
   - Regional Differences  
46

3. The Export Sector and the World Economy, circa 1850–1914  
50
   - World Demand and the Export-Led Growth Model  
55
   - Export Performance  
63
   - Export Cycles  
73
   - The Pattern of External Trade  
77
   - The Terms of Trade and International Transport Costs  
83
## Contents

4 Export-Led Growth: The Supply Side  
   The Labor Market 87  
   Land 89  
   Capital Markets 98  
   Foreign Investment 102  
   The Policy Context 109

5 Export-Led Growth and the Nonexport Economy 126  
   Domestic-Use Agriculture 128  
   Manufacturing and Its Origins 138  
   Industry and Relative Prices 148  
   Regional Differences on the Eve of the First World War 159

6 The First World War and Its Aftermath 165  
   The Collapse of the Old Order 166  
   Trade Strategies 174  
   Exchange-Rate, Financial, and Fiscal Reform 186  
   External Shocks, Relative Prices, and the Manufacturing Sector 197

7 Policy, Performance, and Structural Change in the 1930s 208  
   The Depression of 1929 210  
   Short-Term Stabilization 216  
   Recovery from the Depression 225  
   The International Environment and the Export Sector 232  
   Recovery of the Nonexport Economy 240  
   The Transition toward Inward-Looking Development 249

8 War and the New International Economic Order 255  
   Trade and Industry in the Second World War 257  
   Trade Surpluses, Fiscal Policy, and Inflation 266  
   The Postwar Dilemma 276  
   The New International Economic Order 285

9 Inward-Looking Development in the Postwar Period 296  
   The Inward-Looking Model 298  
   Outward-Looking Countries 309  
   Regional Integration 318  
   Growth, Income Distribution, and Poverty 330

10 New Trade Strategies and Debt-Led Growth 346  
   Export Promotion 349  
   Export Substitution 358
## Contents

Primary-Export Development 365  
The State, Public Enterprise, and Capital Accumulation 375  
Debt-Led Growth 383  

### 11 Debt, Adjustment, and the Shift to a New Paradigm 391  
From Debt Crisis to Debt Burden 393  
External Adjustment 401  
Internal Adjustment, Inflation Stabilization, and the Exchange-Rate Problem 413  
Growth, Poverty, and Income Distribution since the Debt Crisis 426  

### 12 Conclusions 436  

**Appendix 1: Data Sources for Population and Exports before 1914** 459  
**Appendix 2: The Ratio of Exports to Gross Domestic Product, the Purchasing Power of Exports, the Net Barter Terms of Trade, and the Volume of Exports, circa 1850 to circa 1912** 465  
**Appendix 3: Population, Exports, Public Revenue, and GDP for the Main Latin American Countries before 1914** 480  
**Appendix 4: GDP Per Head in Latin America since 1900** 526  
**Bibliography** 531  
**Index** 575
Tables, Figures, and Maps

Tables

1.1 Comparative Development Indicators for Latin America, circa 2010  page 6
1.2 Demographic Indicators, 1970–2010  7
1.3 Primary Products as a Percentage of Merchandise Exports, 1980–2010  9
1.4 Exports of Goods and Services as a Percentage of GDP, 1980–2010  11
2.1 The Population of Latin America before and after Independence  23
2.2 The Colonial Economic System  25
2.3 Latin America: Extraregional and Intraregional Trade at the End of the Colonial Era  27
2.4 Exports Per Head (US$): 1821, 1830, 1840, and 1850  40
2.5 Ratio to US of GDP Per Head (US = 100): 1821, 1830, 1840, and 1850  48
3.1 Annual Growth (%) of GDP and Imports for UK, US, France, and Germany: 1850–1912  59
3.2 Export Commodity Concentration Ratios, circa 1913  64
3.3 Annual Growth of Exports (%), circa 1850 to circa 1912  67
3.4 Ratio to US of GDP Per Head (US = 100): 1850, 1870, 1890, and 1912  69
### Tables, Figures, and Maps

3.5 Annual Growth of Export Volume and PPE (%): 1850–1912

3.6 Exports Per Head (US$): 1850, 1870, 1890, and 1912

3.7 Exports by Main Markets, 1913

3.8 Imports by Main Markets, 1913

3.9 Annual Growth of NBTT (%): 1850–70, 1870–90, 1890–1912, and 1850–1912

4.1 Sociodemographic Profiles, circa 1910–14

4.2 Banking in Latin America, circa 1913

4.3 Direct and Portfolio Investment in Latin America, circa 1914

4.4 Railways in Latin America, circa 1913

5.1 Agriculture and the Agricultural Labor Force, circa 1913

5.2 Food Imports Per Head and as Share of Total Imports, circa 1913

5.3 Indicators of Manufacturing Output, circa 1913

5.4 The Structure of Manufacturing Output

6.1 External Trade between Latin America and the United States, circa 1913, 1918, and 1929

6.2 US Investments in Latin America, 1914 and 1929

6.3 Commodity World Market Shares by Region, 1913 and 1928

6.4 Changes in Commodity World Market Shares by Country, 1913–28

6.5 Exchange Rates Per USS: 1913, 1918, 1923, and 1928

6.6 Public Revenue, circa 1929

6.7 Net Manufacturing Output, circa 1928

7.1 The External Sector in Latin America: Trade Ratios in 1928 and 1938

7.2 Price and Quantity Changes for Exports, Net Barter Terms of Trade, and Export Purchasing Power, 1932

7.3 The Money Supply: Commercial Bank Time and Demand Deposits, 1930–36

7.4 Qualitative Analysis of Sources of Growth in the 1930s

7.5 Quantitative Analysis of Sources of Growth, 1932–39 and 1929–39

7.6 Annual Average Rates of Growth, 1932–39

7.7 Industrial Sector Indicators in the 1930s
### Tables, Figures, and Maps

<table>
<thead>
<tr>
<th>Table/Section</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.1</td>
<td>Latin American Trade Shares, 1938–48</td>
<td>257</td>
</tr>
<tr>
<td>8.2</td>
<td>Annual Average Rates of Growth by Sector, 1939–45</td>
<td>261</td>
</tr>
<tr>
<td>8.3</td>
<td>Money, Prices, and International Reserves: Annual Average Rates of Growth, 1939–45</td>
<td>268</td>
</tr>
<tr>
<td>8.4</td>
<td>External Trade Indicators, 1945–48</td>
<td>278</td>
</tr>
<tr>
<td>8.5</td>
<td>Latin America’s Shares of World and Regional Exports, 1946–75</td>
<td>290</td>
</tr>
<tr>
<td>8.6</td>
<td>Commodity Share and Rank of Total Latin American Exports</td>
<td>293</td>
</tr>
<tr>
<td>9.1</td>
<td>Nominal Protection in Latin America, circa 1960</td>
<td>300</td>
</tr>
<tr>
<td>9.2</td>
<td>Exchange Rates and Inflation, 1950–70</td>
<td>306</td>
</tr>
<tr>
<td>9.4</td>
<td>Gross Domestic Product: Growth Rates and Per Head, 1950–70</td>
<td>331</td>
</tr>
<tr>
<td>9.5</td>
<td>Underemployment as Percentage of Population Economically Active, 1950, 1970, and 1980</td>
<td>335</td>
</tr>
<tr>
<td>9.6</td>
<td>Income Distribution and Poverty, circa 1960 and circa 1970</td>
<td>336</td>
</tr>
<tr>
<td>10.1</td>
<td>Export-Promotion Countries: Manufactured Exports, 1960–80</td>
<td>354</td>
</tr>
<tr>
<td>10.2</td>
<td>Export-Substitution Countries: Structure of External Trade, circa 1970–80</td>
<td>361</td>
</tr>
<tr>
<td>10.3</td>
<td>Primary-Export Development Countries: Unit Value and Purchasing Power of Exports, 1970 and 1980</td>
<td>368</td>
</tr>
<tr>
<td>10.4</td>
<td>Public-Sector Spending in Selected Countries, 1970–80</td>
<td>378</td>
</tr>
<tr>
<td>10.5</td>
<td>Latin American External Debt Indicators, 1960–82</td>
<td>389</td>
</tr>
<tr>
<td>11.1</td>
<td>External Debt/GDP Ratio (%), 1990–2010</td>
<td>400</td>
</tr>
<tr>
<td>11.2</td>
<td>Net Barter Terms of Trade Based on Goods and Services (2005 = 100), 1980–2010</td>
<td>403</td>
</tr>
<tr>
<td>11.4</td>
<td>Annual Rates of Inflation (%), 1980/85–2005/10</td>
<td>416</td>
</tr>
<tr>
<td>11.5</td>
<td>Real Effective Exchange Rate (2005 = 100), 2002–11</td>
<td>425</td>
</tr>
<tr>
<td>11.6</td>
<td>Annual Growth (%) of GDP Per Head (US$ at 2000 prices), 1980–2010</td>
<td>426</td>
</tr>
</tbody>
</table>
Tables, Figures, and Maps

11.7 Poverty and Income Distribution, circa 2000 and circa 2010 433
A.1.1 The Population of Latin America, circa 1850 to circa 1912 460
A.1.2 Latin American Exports, circa 1850 to circa 1912 462
A.2.1 The Ratio of Exports to GDP (w), circa 1850 and circa 1912 467
A.2.2 Import Price Indices (1850 = 100), 1850–1912 469
A.2.3 Export Price Indices (1850 = 100), 1850–1912 471
A.2.4 Net Barter Terms of Trade (1850 = 100), 1850–1912 474
A.2.5 Export Volume Indices (1850 = 100), 1850–1912 477
A.3.1 Population (in thousands) of US and Latin America: 1820–1913 483
A.3.2 Exports Per Head (current US$), US and Latin America: 1820–1913 485
A.3.3 Public Revenue Per Head (current US$), US and Latin America: 1820–1913 487
A.3.4 GDP Per Head in US and Latin America (current US$ unless specified): 1820–1913 489
A.3.5 Ratio of GDP Per Head to US GDP Per Head (US = 100): 1820–1913 491

Figures

3.1 Required export growth rate to achieve target rate of growth of 1.5 percent real GDP per head 57
3.2 Latin American NBTT (1850 = 100): 1850–1912 85
4.1 Public revenue per head (US$), c. 1912 (3-year averages) 119
5.1 GDP per head in US dollars (2000 prices), circa 1912 160
11.1 Shares of world merchandise exports (%), 1980–2011 430
12.1 Change in ratio of Latin American GDP pc to US GDP pc: 1831–1912 and 1831–1928 440
Tables, Figures, and Maps

A.3.1 Ratio to US of Latin American GDP per head: 1821–1912 493
A.3.2 Ratio to US of Argentine GDP per head: 1821–1912 496
A.3.3 Ratio to US of Brazilian GDP per head: 1821–1912 500
A.3.4 Ratio to US of Chilean GDP per head: 1821–1912 503
A.3.5 Ratio to US of Colombian GDP per head: 1821–1912 505
A.3.6 Ratio to US of Cuban GDP per head: 1821–1912 509
A.3.7 Ratio to US of Mexican GDP per head: 1821–1912 511
A.3.8 Ratio to US of Peruvian GDP per head (3-year average): 1821–1912 514
A.3.9 Ratio to US of Venezuelan GDP per head: 1821–1912 522
A.3.10 US GDP per head (1996 prices): 1774–1830 524
A.4.1 Ratio of Latin American to US GDP per head: 1901–2010 529
A.4.2 Ratio of Latin American to US GDP per head at PPP 2005 exchange rate (3-year average): 1981–2010 530

Maps

1 Leading resources and products of Central America and South America, circa 1930 iv
2 Latin America, circa 1826 2
3 Latin America, circa 2010 3
Preface to the Third Edition

Since the first edition of this book was published in 1995, there have been major advances in our knowledge of the economic history of Latin America as a result of new data series. This has made it possible in this edition to estimate foreign trade, fiscal accounts, and even gross domestic product (GDP) per head for all the main Latin American countries back to the time of independence 200 years ago. As a result, we can compare with much more confidence the region’s long-run economic performance not only among the Latin American republics themselves, but also against other countries.

It has long been recognized that Latin America had “fallen behind” the United States, at least as measured by GDP per head, even before independence. New empirical research for this edition, however, suggests that the gap was much bigger than previously thought. Thus, Latin America had fallen well behind the United States even before it became “Latin America.” Indeed, the gap was almost certainly substantial even before the United States became the “United States.” Thus, two-thirds of the gap in current living standards had emerged two centuries ago, and only one-third can be attributed to the independence period.

Although the gap did widen over the course of the two centuries after independence for the region as a whole, it did not do so for all countries all of the time. What we now know confirms the tentative conclusions of the previous two editions of this book: that a small number of countries performed well in the century before the First World War, even if they did not succeed in reaching the standard of living in the United States; that other countries made substantial progress during the long period of inward-looking development in the twentieth century; and that for the
Preface to the Third Edition

first time we can see that the rise of China is creating unprecedented opportunities for Latin American countries to close the gap on US living standards and tackle the accumulated problems of income inequality and poverty.

All this suggests great caution when seeking to explain the relative backwardness of Latin American countries today. Not only are the differences among the republics enormous, but there have also been many role reversals, with countries performing well subsequently performing poorly and vice versa. Sweeping generalizations designed to explain Latin America’s performance in terms of inherited colonial institutions or factor endowments are simply incapable of capturing this complexity. The reader will therefore find little in the third edition of this book to support the neo-institutionalist ideas that have become fashionable in recent years.

The influence of the international context has always been of great importance for Latin America. Indeed, the “commodity lottery” remains very important in understanding the evolution of each country. However, the new wave of globalization – leading to the integration of product and factor markets around the world – has increased even further the impact of the external environment on the region and reversed the decline in the importance of primary products that took place during the inward-looking phase. Latin America is still struggling to find a way to maximize the benefits of globalization while minimizing the impact of negative external shocks. Much progress has been made, especially in terms of improving equity, but much remains to be done.
Preface to the First Edition

Any author whose work covers the whole of Latin America faces a series of problems. These problems are compounded when the period covers nearly two centuries. It is no surprise, therefore, that relatively few studies purport to survey the economic history of Latin America since independence, despite the rapidly expanding literature on the progress of individual countries and provinces. It is, however, the advance at the sub-regional level that makes necessary and feasible a new economic history for the whole region. From Chile to Mexico, a new generation of scholars has used advanced techniques to mine the primary sources and advance our knowledge across a broad range of issues.

Any economic history of Latin America involves a multidisciplinary approach, which runs the risk of offending the sensibilities of those scholars who prefer to work within a single disciplinary boundary. As a representative of the last generation to be encouraged to stray across disciplines, I have enjoyed the opportunity to draw on a huge literature covering economics, economic history, history, politics, sociology, anthropology, and international relations. As an editor of the multidisciplinary Journal of Latin American Studies since 1986, I have been uniquely privileged to gain access to new research in this area before it becomes widely disseminated.

A book such as this one cannot be written without accumulating many debts. Only a few can be mentioned here. Rosemary Thorp and Laurence Whitehead taught me the limitations of a narrow focus on economics. Leslie Bethell gave me the opportunity to work with historians on the monumental The Cambridge History of Latin America. The late Carlos Díaz-Alejandro, who almost certainly would have written this book had
Preface to the First Edition

he not died prematurely, and José Antonio Ocampo demonstrated to me how professional economists could provide insights into the economies of nineteenth-century Latin America. Last but not least, I owe a special debt to all those students who have attended my lectures and classes on the economic history of Latin America. Their reaction was often the litmus test of what was, or was not, an acceptable way of presenting new ideas and of making them comprehensible to those groups that are likely to comprise the majority of readers of this book.
Abbreviations

ADRs American Depository Receipts
ALPRO Alliance for Progress
AP Andean Pact
CACM Central American Common Market
CAP Common Agricultural Policy
CARICOM Caribbean Community
CAT certificado de abono tributario
CBI Caribbean Basin Initiative
CBR crude birth rate
CDR crude death rate
CEPAL Comisión Económica para América Latina (y el Caribe)
CET common external tariff
cif cost, insurance, freight
DC developed countries
DFI direct foreign investment
DUA domestic-use agriculture
EC European Community
ECLA Economic Commission for Latin America
ECLAC Economic Commission for Latin America and the Caribbean
EEC European Economic Community
EP export promotion
EPZ export-processing zone
ERP effective rate of protection
ES export substitution
EU European Union
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXA</td>
<td>export agriculture</td>
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<tr>
<td>FTA</td>
<td>free-trade agreement</td>
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<td>FTAA</td>
<td>Free Trade Area of the Americas</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>GK$</td>
<td>Geary-Khamis dollars</td>
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<tr>
<td>GNI</td>
<td>gross national income</td>
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<td>GNP</td>
<td>gross national product</td>
</tr>
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<td>GRECO</td>
<td>Grupo de Estudios del Crecimiento Económico</td>
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<tr>
<td>GSP</td>
<td>generalized system of preferences</td>
</tr>
<tr>
<td>IACC</td>
<td>Inter-American Coffee Convention</td>
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<td>IADC</td>
<td>Inter-American Development Commission</td>
</tr>
<tr>
<td>IBGE</td>
<td>Instituto Brasileiro de Geografia e Estatística</td>
</tr>
<tr>
<td>ICA</td>
<td>International Coffee Agreement</td>
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<tr>
<td>IDB</td>
<td>Inter-American Development Bank</td>
</tr>
<tr>
<td>IFI</td>
<td>international financial institution</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IMR</td>
<td>infant mortality rate</td>
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<td>INDEC</td>
<td>Instituto Nacional de Estadística y Censos</td>
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<td>INEGI</td>
<td>Instituto Nacional de Estadística Geografía e Informática</td>
</tr>
<tr>
<td>ISA</td>
<td>import-substituting agriculture</td>
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<tr>
<td>ISI</td>
<td>import-substituting industrialization</td>
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<td>ISS</td>
<td>import-substituting services</td>
</tr>
<tr>
<td>ITO</td>
<td>International Trade Organization</td>
</tr>
<tr>
<td>ITT</td>
<td>income terms of trade</td>
</tr>
<tr>
<td>LA6</td>
<td>Latin America Six (Argentina, Brazil, Chile, Colombia, Mexico, Uruguay)</td>
</tr>
<tr>
<td>LA8</td>
<td>Latin America Eight (Argentina, Brazil, Chile, Colombia, Cuba, Mexico, Peru, Venezuela)</td>
</tr>
<tr>
<td>LA9</td>
<td>Latin American Eight plus Uruguay</td>
</tr>
<tr>
<td>LA14</td>
<td>Latin America Fourteen (all republics other than the LA6)</td>
</tr>
<tr>
<td>LAFTA</td>
<td>Latin American Free Trade Association</td>
</tr>
<tr>
<td>LCU</td>
<td>Local Currency Unit</td>
</tr>
<tr>
<td>LDC</td>
<td>less-developed country</td>
</tr>
<tr>
<td>Lp</td>
<td>Peruvian pound</td>
</tr>
<tr>
<td>MDG</td>
<td>Millennium Development Goal</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>Mercado Común del Sur</td>
</tr>
<tr>
<td>MFN</td>
<td>most-favored nation</td>
</tr>
<tr>
<td>MNC</td>
<td>multinational corporation</td>
</tr>
</tbody>
</table>
Abbreviations

MoXLAD Montevideo-Oxford Latin American Economic Database
NAFTA North American Free Trade Agreement
NBTT net barter terms of trade
NEM New Economic Model
NIC newly industrialized country
NTB nontariff barriers
OECD Organization for Economic Cooperation and Development
OPEC Organization of Petroleum Exporting Countries
PEA population economically active
PED primary-export development
PPE purchasing power of exports
PPP purchasing-power parity
PREALC Programa Regional del Empleo para América Latina y el Caribe
PRI Partido Revolucionario Institucional
PTA Preferential Trade Agreement
REER real effective exchange rate
RERD real effective exchange-rate depreciation
RI regional integration
SOE state-owned enterprise
TC trade creation
TD trade diversion
UFCO United Fruit Company
UNCTAD United Nations Conference on Trade and Development
UNEP United Nations Environmental Programme
USAID US Agency for International Development
VAT value-added tax
VER voluntary export restraints
WC Washington Consensus
WDI World Development Indicators of the World Bank
WTO World Trade Organization