**TRADE OPENNESS AND INFLATION IN LATIN
AMERICAN COUNTRIES
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Abstract

In the pre-reforms period the trade policy in Latin America had involved very high levels of protection and government intervention. The recent trade liberalization policies of the Latin American countries have sought to reverse the protectionist policies and open the scope for foreign direct investment and joint ventures in the public and private sector industries. This paper discusses the impact of trade openness policy on tariff structure, export competitiveness, inflation and economic growth of Latin American countries. The relationship between the trade openness and general price level as an indicator of inflation and robustness of this relationship has been explored in the study.

Keywords: Trade openness, export competitiveness, institutional reforms, economic growth, trade blocs, trade agreements, neo-regionalism, inflationary trend, foreign investment, and economic welfare

JEL Classifications: C21, C33, C51, E31, F13, F 41, F43

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1. Introduction

There has been a significant transition in the international relations and business partnering of Latin American countries with the rest of the world in the post 80's period that has reflected in the economic and technological growth of some countries like Mexico, Brazil, Chile and Peru. The recent trade liberalization policies of the Latin American countries have sought to reverse the protectionist policies and open the scope for foreign direct investment and joint ventures in the public and private sector industries.

This paper discusses the impact of trade openness policy on tariff structure, export competitiveness, inflation and economic growth of Latin American countries. The relationship between the trade openness and general price level as an indicator of inflation and robustness of this relationship has been explored in the study. The analysis in the study focuses on measuring the economic growth of the Latin American countries through the major variables gross national product, imports of goods and services, consumption of goods and services, exports of goods and services, capital inflow, gross domestic investment, reserves of foreign assets, savings and growth rate of GNP in reference to the economic growth pattern emerged during 1985-2003.

2. Review of Literature

Economic Reforms and Inflationary Trends

The structural reforms have been initiated in the macro areas including economic activity, international trade, financial markets, generation and use of public resources, governance, and labor markets. It has been observed in the previous studies that the economies that have advocated for open international trade have gained higher rates of growth influenced by the higher rate of investment and factor productivity (Edwards, 1992, Harrison 1997). The traditional view about fiscal and monetary policies in developing countries (and particularly in LAC) is that they are pro-cyclical,

contributing to deepen business cycles (e.g., Hausmann *et. al.*, 1996; Gavin and Perotti, 1997; Gavin and Hausmann, 1996; Talvi and Végh, 2000).

The failure of market reforms in Latin America to produce sustained growth and equitable prosperity is demonstrated most clearly by Argentina's most recent economic and political meltdown. Nevertheless, economic difficulties, poverty and searing inequality has continued to plague the Mexican case as well. Latin American policy makers themselves have begun to contribute to the growing discussion of policies necessary to confront the lingering economic and social challenges. Included among the recommended policy prescriptions are increased social spending supported by tax reforms, assistance to small and medium enterprises, and an end to corruption. Such policy reforms require governments that are autonomous from particular business interests with established institutional channels capable of securing generalized business cooperation and support (Teichman 2002).

It has been observed in general that tariffs tend to be inflationary and free trade is deflationary. However, many arguments express that protectionism has generally created inflation in developing economies, though the experience of the developed countries including United States of America was totally different on this aspect. Tariffs in most of the developed countries were never associated with rising prices, and trade liberalization with declining prices (Batra, 2001). High tariffs were always followed by sharp drops in the cost of living.

Despite the greater complexities associated with open economy macroeconomics, the policy conclusions for a closed economy remain remarkably unaffected. While Keynesians and heterodox economists believe that government should actively intervene, conservatives remain skeptical about the desirability of such interventions (Stiglitz *et al*, 2006). A study conducted in reference to growth in trade and its impact on inflation in Africa, reveals interesting results stating that inflation drags down growth over the longer term while in the short run, growth above its trend requires

accelerating inflation. Thus, in order to pull the economic growth substantially above the low trend, inflation needs to be abandoned. However, this would be counterproductive over the longer term, once the negative relationship between inflation and growth manifests itself (Hodge, 2006). Another argument emphasizes that globalization, taking the form of a higher import component of consumption and a larger export component of GDP, is the cause of the apparent breakdown in the relationship between excess demand and inflation.

However, increasing openness of the economy may be one of the significant strategies that developing nations could use to re-establish the relationship between inflation and capacity utilization in all sectors of economy (Dexter *et al*, 2005). On the contrary a long standing proposition states that trade openness is associated with declining prices which makes the protectionism inflationary (Samuelson, 1974).

The dependency of central bank is associated with average inflation and the negative relation between trade openness and inflation, is likely to be lower in the countries having independent central banks (Romer, 1993). Mainstream economic theory suggests that economic welfare would be maximized when distortions are minimized. Accordingly, a removal of distortions of both macroeconomic and microeconomic nature would have beneficial effects on economic activity and the rate of growth (Igor 2000). The growth and development may result to be slower in a country or region in a normal process than stirred process of reforms.

After years of poor economic management, many Latin American and Caribbean countries are experiencing a process of structural reforms that places them on a path to a superior economic performance (Easterly 1997). Two basic principles identify this process of economic reforms - fiscal and monetary discipline, and reliance on market forces to determine the allocation and distribution of resources. Some researchers find positive advancements in developing countries in order to improve economic development and analyze the main factors of production that should be improved in

order to get a higher degree of development having into account the results of econometrics models of demand and supply (Guisan and Aguayo, 2005).

The social perspectives of economic growth have also been discussed in some studies. A study discussed the importance of education on a sustained economic development strategy, taking into account inter-sector relations and the influence of education in the growth of production per head using three cross-country models (Guisan *et.al.*, 2001). The study recommends the need for evolving new international policies for improving the educative level of population in less developed countries.

Some researchers specialized in economic growth analyze the export-led growth in many countries and insist upon the importance of openness to increase real gross domestic product. In this context, one of the studies discusses the important role of human capital, manufacturing and imports to increase real income per inhabitant and non-agrarian employment (Guisan, 2003). The study argues that beyond increasing the degree of openness in order to increase foreign demand, it is also necessary to relate foreign trade with supply side considering the general positive effects of imports on the domestic growth of industry, building and services. It has been observed that there exists a significant positive impact of political globalization, whereas economic and social globalization does not generate favorable influences when development level and regional differences are operated as controls. Globalization is largely identified by increased global flows and exchanges contribute rather than hamper progress in human welfare (Tsai, 2007).

Trade Openness

Globalization is characterized with variety of contradictions prominently pertaining to the risks of trade openness and prompting inflationary economic conditions in the developing economies. However, the process of globalization has increased access to the markets as the remote markets have been reduced following the political and economic changes world-wide. Market access has also

been improved by growing trade blocks at the regional level. Such accessibility to the markets is further reinforced by reducing the trade barriers through far-reaching business communication strategies, product and market development programs and customer relations. Such situation has given a boost in determining the market opportunities by narrowing the trade barriers helped in deregulating certain sectors of trade such as financial services (Rajagopal, 2007). It has been observed that international trade has consistently grown faster than GDP and has been an important driver of world growth.

The openness in trade has revealed benefit in augmenting overseas investment and reduced barriers that discourage greater participation by firms in international markets (Alexander and Warwick, 2007). A longitudinal research study reveals that trade openness eliminates most of the explanatory power of investment, generates significant positive impact on growth per capita, and allows economic growth to precede investment, rather than the reverse.

Therefore, in open economies, trade openness could replace investment and investment may not be a determinant of growth as is traditionally assumed. Governments in relatively open economies should give priority to liberalizing their trade rather than initiating policies that induce savings and investments (Mehanna, 2006). The most significant factors to openness are population of a country and a measure of distance to potential trade partners. Countries with larger populations trade less, as do countries that are relatively more remote. Furthermore, after controlling for trade policy there is little evidence of a positive correlation between openness and economic development (Guttman and Richards, 2006).

Trade openness in the free trade regimes has also affected the economic growth and profit of individual firms in developing countries. It is found that the less efficient firm loses market shares in its home market at the beginning of trade liberalization. Only for a more advanced level of liberalization, does it take advantage of a larger access to foreign demand. Trade liberalization may therefore harm its profits too strongly, forcing it to leave the market. Although

its incentives decrease with trade liberalization, the high-technology firm may be willing to take it over for low organizational and technological costs of firms' integration (Bertrand and Zitouna, 2006). A study analyzing the contribution of openness of trade in a given market structure reveals that around 30 to 50 percent for small European economies and 20%–30% for larger European countries are put in by the foreign firms. On the contrary, market structure is less affected by openness in the USA and Japan (Mirza, 2006).

However, continuous trade reforms and the increasing influence of the World Trade Organization, policy formulation for developing country markets requires continual examination of this link between profitability and trade for more developing countries than have been analyzed so far (Shah Nawaz, 2005). Trade openness triggers competition and to maintain or achieve competitiveness and profitability, a manufacturing firm or enterprise must respond to a range of challenges, including rapid improvements in technology; and declining employment and output; globalization of markets and environmental requirements. In addition, substantial changes in government policy have had important impacts in many countries, as have the increasing levels of global trade (Hayland *et al*, 2007).

Free Trade Agreements (FTA) have important but contradictory conditional effects on the economy of a country as they promote multilateral liberalization when comparative advantages derived from intra- and inter country FTAs are similar but impede such liberalization (Kono, 2007). The regional trade agreements comprised of countries equipped with better trade facilitation may prompt higher scope to generate trade than divert trade.

The traditional gains from shallow integration through eliminating tariff barriers and deeper integration through enhancing trade facilitation will offer long-term advantages to the participating countries. Thus, such trade agreements are more likely to lead the world economy toward global free trade (Lee and Park, 2007). A study observes that multilateral liberalization tends to dominate bilateral liberalization in welfare terms. A transition economy tends to prefer bilateral over multilateral liberalization to avoid any

unforeseen economic setbacks while developed countries may prefer bilateral over multilateral liberalization (Egger *et al*, 2007).

3. Framework of Hypotheses and Research Design

Hypotheses: Economic reforms in a country are a complex and multi-dimensional process that involves the development and implementation of many public policies at intermediate levels during the reforms. Thus, economic reforms will not have a constant speed and will often be subject to modifications in the policies that bring changes in the performance and structure of economic activities. The economic reforms can be assessed by examining their corresponding policy measures and implications. However, entire economic progress may not be interpreted as an outcome of the reforms. The growth and development may result to be slower in a country or region in a normal process than stirred process of reforms.

After years of poor economic management, many Latin American and Caribbean countries are experiencing a process of structural reforms that places them on a path to a superior economic performance (Easterly and Sergio, 1993). Hence, it may be hypothesized that:

H1: Economic reforms have proceeded at a faster pace, but tariff reduction has not offered adequate leverage to the trade openness policies among the Latin American countries.

After the Uruguay Round, all signatories have agreed to incorporate antidumping laws into their trade policy. Both the Uruguay Round and the North American Free Trade Agreement (NAFTA) abolished or reduced tariffs and quotas, which have traditionally been the protectionist tools of choice. Now that these tools have been scaled back, antidumping laws have risen in importance, and are likely to become the most powerful and most often utilized tools of protectionism as domestic producers in more countries feel the pressure of international competition (McGee, 1998).

It is shown that in the last few years the Latin American countries have gone from having one of the most distorted external sectors, to having very low degrees of protectionism (Edwards, 1993). Hence, it has been hypothesized as:

H2: The trade openness policies of the Latin American countries have substantially reduced the inflationary trends and opened avenues for foreign direct investment in agriculture and manufacturing sector.

The free trade areas for Americas (FTAA) on FDI in Latin America by East Asian multinational enterprises could be either positive or negative, depending on the content of FTAA and accompanying policies. If differentials between intra-regional tariffs and most favored nations based tariffs are kept large, import-substituting FDI from East Asia may stagnate or even decrease. With a proper policy package to nurture international production/distribution networks, on the other hand, FDI from East Asia could be accelerated and contributed to deeper integration of Latin America (Kimura and Ando, 2003).

The new economic model in Latin America radically altered foreign direct investment inflows to the region. Previously restrictive national policies became the ones that facilitated FDI in the context of new business opportunities. Transnational corporations (TNCs) took a new look at the region in the context of their evolving corporate strategies, examples being efficiency-seeking corporate strategies in the automotive (Mexico) and the apparel industry (Caribbean Basin) and the market access strategy for services in the telecommunications and electrical energy industries (Brazil). Two interrelated problems were observed in the process - (a) the objectives of TNCs were often attained but those linked to national development goals often were not, and (b) national policies did not channel FDI to priority development activities (Mortimore, 2000). Hence, it has been hypothesized as:

H3: The interplay between trade openness and economic growth has shown moderate impact on the inflation and general price level among different trade blocs in Latin American region.

Enormous change has taken place in trade policies in Latin America: within a few years, most of the region's economies have changed from restrictive to open policies during 1990-2000. However, unlike trade liberalization in Europe, most trade barriers in Latin America have been reduced unilaterally. Recently bilateral or multilateral agreements have been considered, especially preferential trade agreements within the region. Michaely evaluates the relevance and desirability of multilateral free trade agreements (such as NAFTA) for the Latin American continent and the Caribbean, with an emphasis on how they affect trade flows. Is a preferential trade agreement among some Latin American countries more or less likely to be meaningful than others in reference to their intensity of impact, or benefits, or both (Michaely, 1999). Hence, the hypothesis is framed as:

H4: Trade openness among the Latin American countries has attracted foreign investment and augmented export competitiveness which has been instrumental to the economic growth in the region.

The evidence strongly suggests little likelihood that these agreements will succeed in Latin America. Paradoxically, the intense liberalization in recent years has made it less likely that such agreements would be beneficial except possibly for agreements between some countries like Brazil, Mexico, or Argentina. When the level of tariffs and non-tariff barriers is already low, a preferential agreement is more likely to have an adverse impact than a beneficial one (although in any case only a slight impact).

It has been established through previous research studies that trade agreements play significant role in developing a favorable environment for trade and economy among the participating countries (Phillips, 2001). In the model, it is assumed that there are

‘N’ trading blocs, wherein the countries freely trade with each other (e.g. NAFTA, CAFTA, and MERCOSUR). They could be a part of Free Trade Agreement (FTA), Customs Union (CU) or a simple N trading bloc condition. It may be assumed that there exist N Trading blocs in the LAC region and each bloc is endowed with a fixed amount of each commodity. Having into account the interplay of trade blocks, analyzed in the Annex, we may analyze the impact of tariffs on price levels.

Research Design:

The objective of this paper is to measure the extent of growth in the countries of Latin American region as an outcome of trade openness and to assess the competitiveness and economic growth emerged thereof. The study is limited to 11 countries of Latin American region. The justification to choose the selected countries may be explained by the fact that during low growth period contributed by the firms in economic recession, the countries might have been forced to operate on the suboptimal manner with low levels of capacity utilization and this situation can be analyzed accurately.

The principal data sets have been used from the published resources of Economic Commission on Latin America and Caribbean (ECLAC), World Development Reports, International Monetary Fund, World Trade Organization, United Nations Industrial Development Organization and World Economic Outlook of respective years.

4. Results and Discussion

The most common pattern of financial reforms in the Latin American countries has been towards radical liberalization and implementation of prudential norms that moderated the initial process of liberalization. However, growth has been inadequate in the post-reforms period not because of the failure of reforms to yield the expected growth payoff on the basis of international experience, but because of the combination of an unfavorable external

environment with the insufficient depth and breadth of reforms (Rajagopal, 2006).

Table 1. Growth of GDP in the Latin American Countries (In percent)

Countries/Period	1951-60	1961-70	1971-80	1981-1990	1991-2000	2003
Argentina	2.9	4.4	2.8	-0.6	4.6	8.6
Brazil	6.8	6.1	8.7	1.7	2.6	-0.4
Chile	4.0	4.3	2.7	3.2	6.0	3.3
Colombia	4.7	5.2	5.4	3.7	2.6	3.7
Costa Rica	7.3	6.8	5.5	2.3	4.4	6.4
Ecuador	5.0	4.8	9.0	1.8	1.8	2.5
Mexico	6.1	7.0	6.7	1.9	3.3	1.2
Paraguay	2.8	4.7	8.7	3.1	2.8	2.5
Peru	5.5	5.1	3.9	-0.8	4.7	4.1
Uruguay	2.2	1.6	3.1	0.2	3.2	2.3
Venezuela	7.6	6.0	1.9	-0.5	2.1	-9.3

Source: 1. Economic Commission for Latin America and Caribbean (ECLAC) 2. Results are based on the data computed by the author

Performance of Latin American countries since reforms were initiated in mid-eighties has shown mixed results. Their annual growth rate for the referred period was 3.9 percent though the performance was widely differed. During 1950-1980, the region witnessed relatively higher growth rates of 5.0 percent per annum on an average. There has been a steep decline in the growth rates to the extent of 1.4 percent per annum in the LAC countries during the decade of 1980. The growth resumed in 1990's, that was lower than the growth rate of 3.4 percent per annum achieved during 1951-81 period.

There have been many arguments raised on how liberalization has been achieved in the Western Hemisphere in recent times, and what is left to be completed analyzing the complexities of simultaneous unilateral, multilateral and preferential (bilateral or regional)

liberalization efforts. These simultaneous policy efforts have defined a new paradigm in the region in the way trade policy and regional trade agreements have been designed and implemented.

This new paradigm was first named by ECLAC as *open regionalism* and practiced as *trade openness* in the Latin American region. Conceptually this issue has been, analyzed by Ethier (1998), and Devlin and Estevadeordal (2001) under the name of *neo regionalism*.

Various unilateral and multilateral reforms have been accompanied in Latin America and the Caribbean by an active agenda of trade openness. The depth of these reforms is self evident when looking at the average regional tariff rates that went from 40 percent in the mid-1980s to 11 percent in mid-1990s.

In most of the Latin American countries covered in the study, tariff cuts were up to 50 percent which were implemented within a short period ranging from two to three years. It has been observed that average maximum tariffs in the region fell from more than 58 percent on average while a few countries are currently applying maximum tariffs of up to 100 percent on a small number of products. Tariff dispersion, on average, has declined from 32.9 percent during 1985-2003, though some important tariff peaks remain despite the general policy of trade openness.

In the study about 41.2 percent of tariff lines for industrial products were bound, equivalent to 57.5 percent of imports whereas for agricultural products, the percentages were 38.3 and 74.6 percent, respectively. Past several years have witnessed deep changes in trade policy in the Latin American region; this process has generally been accompanied with other far-reaching macroeconomic reforms.

Table 2: Tariff Dispersion in Latin American Counties

Country	1985			1991		
	NAT	WAT	SD	NAT	WAT	SD
Argentina	36.4	50.9	14.5	12.6	17.64	8.6
Brazil	55.2	22.0	36.7	22.5	21.0	17.3
Chile	18.6	11.1	3.2	8.2	4.9	0.9
Colombia	38.9	38.9	28.2	14.8	19.7	8.3
Costa Rica	49.1	52.3	27.4	14.2	14.2	8.8
Ecuador	51.8	86.3	54.3	12.6	21.0	10.4
Mexico	33.7	53.9	15.4	11.7	21.0	4.5
Paraguay	18.8	15.0	12.6	16.2	21.6	11.6
Peru	58.40	93.4	26.8	10.5	8.4	6.70
Uruguay	39.2	26.1	16.20	16.6	22.1	9.70
Venezuela	30.7	28.6	28.6	15.4	12.3	11.3

Country	1997			2003		
	NAT	WAT	SD	NAT	WAT	SD
Argentina	14.8	31.5	6.8	22.4	14.9	7.6
Brazil	16.2	21.6	7.7	18.6	11.1	6.8
Chile	8.8	10.5	1.2	11.5	4.6	0.9
Colombia	11.5	18.4	6.3	13.3	10.6	9.4
Costa Rica	9.6	11.5	7.5	12.8	10.2	8.6
Ecuador	10.4	13.8	6.6	16.6	19.9	7.7
Mexico	14.6	38.9	12.4	15.2	16.2	14.9
Paraguay	10.5	12.6	6.7	17.1	13.6	9.8
Peru	11.90	15.8	4.40	18.7	14.9	4.5
Uruguay	10.80	17.2	6.90	14.2	14.2	10.4
Venezuela	12.4	19.8	6.1	15.9	12.7	8.6

NAT= Non-weighted Average Tariff, WAT= Weighted Average Tariff and SD= Standard Deviation. Source: 1 Data published in the reports of ECLAC, IMF, WTO and UNDP of respective period
 2 Results are based on the data computed by the author

Costa Rica stands out as a determined reformer. From an average tariff of 53% in 1985, this country passed to the lowest level in the region: 3.3% in 1999. The overhaul of the tariff structure included the reduction of the average rate as well as the reduction in its dispersion. Though the gains along this dimension are not very notable throughout the nineties, there is a significant reduction relative to the levels observed during the second half of the eighties. Relative to the Chile's structure which is almost flat there is still some room to reduce Central America's tariff dispersion.

In view of the tariff liberalization Latin American and the Caribbean countries implied substantial commitments to dismantle import barriers. However, trade openness has not significantly supported the economic growth in the region. Accordingly, the results exhibited in Table 1 and Table 2 on growth of GDP and tariff dispersion among the Latin American countries, are consistent with hypotheses H1 and H2.

The estimation was derived through ordinary least square. The results were robust and indicate significant positive relationship between trade openness and inflation among the countries in the trade blocs covered under the study. Romer (1993) and Sachsida et al (2003) has been found suitable to compute the relationship between the trade openness and extent of inflation emerging in the economy in the countries of study region, in order to be consistent with previous research studies. Hence, the following equation has been derived:

$$\ln \mu_t = \alpha + \beta(\hat{T})_t + \theta_t + \varepsilon \quad (1)$$

Where the subscript t represents time, the log of inflation ($\ln \mu_t$) is the natural logarithm of GDP deflator and $(\hat{T})$ is measure of rate of trade openness in reference to GDP of the country. In addition, (θ_t) is identified as a set of control variables determining the rate of inflation in a country in a given time frame and (ε) represents the error term. The Table 3 exhibits the interrelationship trade openness and inflation among the countries forming various trade blocs.

Table 3: Interrelationship between Trade Openness and Inflation during Economic Reforms Period in Latin American Countries

Measures	Trade Blocs		
	NAFTA ¹	MERCOSUR ²	AC ³
Constant (α)	1.962 (0.497)	2.381 (0.366)	2.144 (0.415)
Openness $[\beta(\hat{\tau})_t]$	1.227 (0.573)	1.873 (0.472)	1.692 (0.630)
Log of inflation (μ_t)	2.861 (0.584)	3.105 (0.442)	1.964 (0.711)
Log of general price level (θ_t)	0.103 (0.477)	- 0.276 (0.264)	- 0.295 (0.571)
R^2	0.946	0.938	0.822

¹ Trade bloc constitute of three countries USA, Canada and Mexico. ² Trade bloc MERCOSUR comprise of countries Argentina, Brazil, Chile, Paraguay, Uruguay and Venezuela. ³ Trade bloc of Andean Community (AC) include Bolivia, Columbia, Ecuador and Peru. Figures in parentheses indicate standard error. Source: Results in the Table are based on the data computed by the author.

It may be seen from the results presented in Table 3 that countries within NAFTA and MERCOSUR trade blocs have shown positive relationship between trade openness and inflation. It has been observed that there has been a negative relationship between price level and trade openness among the countries of MERCOSUR and Andean Community while it has showed a positive relationship with NAFTA countries.

The general price level has marginally showed increasing trend as a resultant factor of trade openness in industrial and agricultural sector products in Mexico during the reference period of this study. This finding is largely consistent with the notion that trade openness fosters non-inflationary economic growth in the country and establishes hypotheses H2 and H3.

Assuming low variation in the regional economic growth and taking the estimates at their face values, the income effect is immediate, the short term effect from relative prices is lagged, and

the estimated short run price elasticity (-)0.3 is lower in absolute value than the long run elasticity (-)1.3. These results are common in the analysis of time-series data of foreign trade. The estimated long run coefficient of foreign imports is found to be 0.8 that implies a trend of increasing market share for Latin American countries on the basis of the pooled data at constant relative prices.

Intra-regional trade is relatively small in general terms and is negligible for Costa Rica. Mexico has traditionally absorbed only a tiny fraction of Central America's exports. In sum, regional trade flows are not very big - on an average, no more than 18% of the region's exports have gone to the region itself and Mexico. On an average 40% of all imports, come from the USA. The results of Table 4 support the hypothesis H4.

Table 4: Trade Openness and Export Competitiveness
in the Latin American Countries (1985-2003)

Country	Regression Coefficients ^a		
	Openness	FDI	Exports
Argentina	0.81988**	0.61124**	0.44134
Brazil	0.70145**	0.79216**	0.37621**
Chile	0.53661	0.60073	0.59823
Colombia	0.27972**	0.24217	0.47159
Costa Rica	0.55374	0.49214	0.61842**
Ecuador	0.11498	-0.11767	0.45620
México	0.39833**	0.57622**	0.48542
Paraguay	0.77971	0.39872	0.29811
Peru	0.49321**	-0.0352	0.30102
Uruguay	0.59136	-0.0349	0.20956
Venezuela	0.1234	0.45612	0.71131**

a: Dependent variable GDP. ** Statistical significance at 5 percent level. Source: Results are based on the data computed by the author.

The results of the above Table show that the trend of exports in the selected countries is positive though with a slower rate of growth,

as compared to the country debt and foreign direct investment (FDI). It may be observed that except 3 countries, others have shown a positive trend in the FDI. Manufacturing in the region faces severe competitive stresses as it integrates into the global economy.

The long-run effect of reforms would prevail, if sustained during the process which might be influenced by the sum of the contemporaneous and the delayed impacts. If the latter is negative, some of the achievements of growth would be lost in the future. If positive, additional growth would occur effortlessly. The results including lagged reforms variables in the basic equation are reported in the coefficients that hold negative signs as compared to those of the corresponding contemporaneous variables. However, the lagged coefficients are quite small in absolute value, leaving substantial positive long-run effects for each of the reforms variables. None of the delayed effects has a clear statistical significance individually, but they have strong significance jointly.

This dynamic specification marginally improves upon the static one according to standard statistical measures, as well as with regards to the qualitative features of the results. As measured by the adjusted R-square, the fit of this dynamic specification is slightly better than that of its static counterpart. Moreover, in the dynamic specification, education is statistically significant. The evidence thus suggests the presence of a minor partial offset to the beneficial growth effect of stabilization during the post-reforms years.

5. Conclusion

Trade openness, inflation and economic growth are interrelated. It has been observed that in Argentina, Chile, Costa Rica and Peru, the post-reform growth is substantially higher than the one in the five years prior to reform. In addition, in Chile in the five pre-reform years, there was no growth at all while in Argentina, it was very slow. In Brazil, Mexico and Uruguay, the post-reform growth is somewhat higher than in the five pre-reform years, while in the cases of Colombia, Ecuador, Paraguay and Venezuela, the post-reform growth is slower than in the five years prior to reforms.

Perhaps even more important than the slowdown in growth was the magnitude of a macroeconomic imbalance and in some cases a virtual economic chaos in the pre-reform period. In many countries inflation rates evolved into hyperinflations during the 1980s, while fiscal deficits continued to burst. In reference to the period of study, the inflow of foreign capital has increased for almost all countries covered in the study. The trend in export share rose during the post-reforms period in all the selected countries. However, these results are not conclusive that the trade competition has been the dominant factor for most of the Latin American countries towards augmenting their export share.

Greater trade openness among Latin American countries would help to improve institutions. The opening up of markets can play an important role in weakening vested interests and reducing economic rents associated with long standing economic and institutional arrangements. Trade can thus spur improvement in domestic institutions that otherwise would not have been possible. In addition, international agreements can be an important external anchor and catalyst for institutional change by breaking through domestic impediments to reforms.

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