

Intra-regional trade among LACs cushioned the decline in export growth in 1998. In 1998, growth rates for intra-regional exports, although lower than in previous years, remained higher than those for extra-regional ones. Brazil's depreciation of the *real* in January 1999, will affect intra-regional trade, to an extent that is still difficult to predict.

The largest current account deficits are in the US and the developing countries of the Western Hemisphere. As East Asia increased its current account surplus in 1998, both ran larger deficits. That of the US increased by more than 80 billion US dollars while that of the developing countries of the Western Hemisphere did so by almost 16 billion. The EU and Japan have both been running surpluses.

The LAC will have to adjust to higher current account balances through some combination of higher exports and lower imports. The greater the reliance on the latter, the larger will be the decline in economic activity in the region. To the extent that the economies of the region are able to adjust mostly through an expansion of exports, the lower the risk for employment and economic activity.

Among the advanced economies, the IMF is forecasting a further enlargement of the US current account deficit in 1999 (by an additional US\$ 54 billion). It is reasonable to question whether this somewhat asymmetric behaviour in the current accounts (given the surplus registered both by the EU and Japan) is politically and economically sustainable. Because of this growing imbalance, Congress is now divided on the relevance of the role of the US as a "lender of last resort". The question is extremely relevant for LAC as larger deficits in the US trade current accounts, the largest market for the region's exports, could become a catalyst for increased protectionist pressures.

In response to the international financial crisis, some of the countries of the region have introduced trade policy measures to minimize the effects of a surge of low-priced imports, but also in some cases, to avoid an additional deterioration in their trade current account and fiscal balances. Only in isolated cases (e.g. MERCOSUR, Mexico) have there been increases in import tariffs on a significant number of products, though this has been always announced as a temporary measure, most often for fiscal revenue purposes. On the other hand, a number of countries have either unilaterally lowered their import tariffs (Argentina, Chile) or are planning trade liberalization measures (Central America).

So far, neither protection in the face of specific import surges, nor tariff increases to strengthen fiscal revenue, has been suggestive of a reversal of LAC's commitment to liberalisation. This is an encouraging development. Unilaterally restricting imports in a general and significant way would not only impose costs on countries that only recently have begun to open their economies, it would also affect other countries of the LAC through intra-regional trade.

In spite of the turmoil created by the East Asian crisis, integration initiatives in the hemisphere have continued to move forward. The negotiations leading to the FTAA were officially launched in April 1998, and the first round of meetings of the negotiating groups has already been completed, with a second one underway in the first quarter of 1999. Furthermore, last year, Central America, the Dominican Republic, Chile and Peru signed bilateral free trade agreements (FTA) and one between Mexico and Nicaragua entered into force. In the last week of January 1998, the Chilean and Central American negotiating teams met in Santiago for a first round of substantive negotiations leading to an FTA.