

CEPAL Review

Director
RAUL PREBISCH

Technical Editor
ADOLFO GURRIERI

Deputy Secretary
GREGORIO WEINBERG



UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA

SANTIAGO, CHILE / APRIL 1983

CEPAL

Review

Number 19

Santiago, Chile

April, 1983

CONTENTS

Reflections on the Latin American economy in 1982. <i>Enrique V. Iglesias</i>	7
Latin American development problems and the world economic crisis. <i>ECLA Economic Projections Centre</i>	51
Technological change in the Latin American metalworking industries. Results of a programme of case studies. <i>Jorge Katz</i>	85
The Andean peasant, water and the role of the State. <i>A. Dourojeanni and M. Molina</i>	145
Microelectronics and Latin American development. <i>Eugenio Lahera and Hugo Nochteff</i>	167
The real cost of the external debt for the creditor and for the debtor. <i>Carlos Massad</i>	183
Some ECLA publications	197

Latin American development problems and the world economic crisis

*ECLA Economic
Projections Centre*

This article is a summary of the document submitted by the ECLA Secretariat to the Committee of High-Level Government Experts (CEGAN) at the latter's meeting in New York in December 1982. Its main aim is to outline the nature and causes of the crisis through which the region is passing and to suggest some lines of action which could be followed in order to tackle the problem at both the domestic and external levels.

Part I of the article considers the instability of the economic process, the sharp decline in the growth rate, the main economic problems, and the social tensions which the heightening of the latter is causing. Part II sets forth the main relationships between external factors and national economic processes, both from a global viewpoint and through analysis of the specific cases of Brazil, Costa Rica, Mexico and Peru. Finally, Part III contains reflections on Latin America's future prospects and the main lines of action which could be followed in the light of the goals and objectives established in the Regional Programme of Action.

In order to shed more light on these prospects, the article presents two preliminary exercises which give an idea of the effects that would be produced on the main domestic and external macroeconomic indicators by a recovery in the economic growth rate, these two exercises being differentiated by their respectively more and less optimistic assumptions regarding the economic progress of the developed countries and world trade. Whatever the possible growth hypothesis adopted, however, there seems no doubt that regional co-operation and integration must play an important role in the years to come, and the article therefore concludes with a rapid examination of the priority areas in which such efforts should be made.

I

The slackening of economic growth and the intensification of social problems

A. THE ECONOMIC PROCESS: ITS INSTABILITY AND THE SHARP DECLINE IN THE RATE OF GROWTH

The International Development Strategy (IDS) approved by the General Assembly of the United Nations and the Regional Programme of Action adopted by ECLA at its nineteenth session within the framework of that strategy were designed to provide guidelines for the action that should be taken at the national, regional and international levels in order to promote during the 1980s the development of the peripheral countries in general and of Latin America in particular. The implementation of the IDS depended upon concerted action in the international, regional and national fields conducive to the adoption of decisions intended to eliminate or mitigate structural situations in the world economy—particularly in the industrial countries—which represent obstacles to the practical application of the Strategy. Unfortunately, the developments that took place and spread as a result of the world economic crisis generated new political and economic situations which drove events along a course essentially different from the basic premises and guiding principles propounded by the IDS and ECLA's Regional Programme of Action.

No progress whatever has been made in concerting the global negotiations that had been envisaged for the structuring of a new international economic order, and the first years of the present decade so far display in the international sphere a panorama of profound economic recession, with high indexes of unemployment and inflation, while at the regional level, in our own countries, there has been a severe deterioration in economic and social conditions. Considering the region as a whole, it can be seen that in 1981 the per capita domestic product failed to maintain its 1980 levels,

real per capita income has declined, and the 1982 results are even more unfavourable.

International events and this deterioration of economic and social conditions are helping to propagate a dangerous climate of instability and confusion in the context of which substantial changes in national policies are often brought about in many countries, in an endeavour to control almost unmanageable situations.

These processes have indubitably been influenced by factors of different kinds, both internal and external, which differ from one country to another. Among the former may be mentioned policies of greater or lesser openness; the scale and terms of the use of external financial resources; the protection or non-protection of national economic activities; the placing of emphasis on certain economic and political objectives to the detriment of others of a socio-economic character which are of special significance; the *modus operandi* and degree of efficacy in the administration of reserves and of the external debt; and over-estimation of the soundness of specific policies in the light of experiences which were apparently satisfactory over the short term, but were really—at least in part—the result of the favourable evolution of other factors. Generally speaking, it seems that in many cases the domestic policies adopted were based on a diagnosis of the situation and an evaluation of international trends which with the passage of time became more and more widely divorced from reality.

Obviously, however, it has been the changes and unfavourable trends in external variables stemming from the policies pursued and the stagnation and inflation faced by the industrial countries, as well as from the world economic recession, that have made for a severe restriction of the economic growth of the great majority of the countries of the region and for an atmosphere of uncertainty as regards their subsequent development. The factors in question can be controlled by the developing countries only in part and in certain respects, and their influence determines a high degree of economic and technological dependence upon the industrial countries.

Many Latin American countries contracted debts on the assumption that the crisis in the developed world was basically of a conjunctural nature. During the second half of the 1970s they managed, by means of borrowing and a rapid expansion of exports, to maintain what seemed—in the prevailing world economic circumstances—to be a relatively high rate of economic growth, until the persistence and aggravation of the external crisis made their economic policy models untenable.

The problems of external indebtedness and financing besetting most of the Latin American countries and their effects on the decline in growth are not of recent origin: they are really the result of institutional changes and of a cumulative process that began midway through the 1970s. To shed light on these aspects of the question and gain a more precise idea of the nature of the prevailing economic and financial situations it is desirable to review, if only succinctly and in broad outline, the various phases that have taken place.

With this end in view, and for the sake of simplicity, the evolution of the region's economy, from the beginning of the past decade up to the present time, could be divided into four periods or phases which reflect changes and trends of a general character, though they are not always exactly applicable or significant for each and every country. These phases correspond to the following periods: (i) the period of intense dynamism recorded in the early 1970s; last decade; (ii) the period 1974-1975, marked by trends towards an economic depression which became more pronounced in the latter year; (iii) the moderate and costly recovery extending from 1976 to 1980; and, lastly, (iv) the economic and financial crisis of 1981 which dragged on into 1982 and which, unfortunately, may likewise last through 1983. Thus, the period is one of sharp contrasts, in which the optimism of the early 1970s seems to have influenced the maintenance—if not the accentuation—of patterns of external trade and financing whose non-viability had become evident by the dawn of the 1980s, when the hard facts have finally spread an attitude of pessimism.

The early 1970s (up to 1974 in certain aspects) witnessed the culmination of a phase of rapid economic growth which had started in the second half of the 1960s, although with notable differences from one country to another.

Up to 1973, there was a boom in exports of goods and services in the great majority of the countries of the region, and for many of them the external terms of trade followed a favourable trend, thus strengthening the purchasing power of their exports. Accordingly, imports expanded appreciably, on a scale exceeding the increment in the domestic product, without thereby causing any significant increase in balance-of-payments deficits on current account, at any rate for the region as a whole.

The year 1974 marked a phase of transition from the boom of the preceding years to a definite depression in 1975. This transition had one noteworthy feature. The growth rate of the product remained relatively high and the petroleum-exporting countries increased their real income by virtue of the rise in the price of their exports. Imports, in turn, expanded considerably in almost all countries; but at the same time, in an important group of countries exports remained static or decreased and the external terms of trade deteriorated in almost all the non-oil-exporting countries, so that the real value of their exports of goods and services contracted. In 1975 the economic recession became general; for the non-oil-exporting countries as a whole exports continued to stagnate, and their terms of trade deteriorated considerably, the result being a pronounced reduction in the real value of exports which affected the oil-exporting countries as well. In these circumstances the rate of economic growth dropped to only 3.5%, and imports dwindled, except in the case of the petroleum-exporting countries.

Against this background, in 1974 the non-oil-exporting countries as a whole appreciably enlarged their balance-of-payments deficit on current account, which, in the case of a group of 20 countries,¹ climbed from approximately US\$ 4 500 million in

1973 to US\$ 13 500 million in 1974. The main causes were the expansion of imports and the decrease in the real value of exports. This swollen deficit was partly financed by the use of reserves, but principally by an increase in external borrowing. In 1975 the increment in the deficit was still bigger; for the same group of countries it reached a figure of approximately US\$ 16 200 million, at current prices, which seems to have been determined by the contraction again recorded in the real value of exports, notwithstanding the decrease in the value of imports and the decline in the rate of economic growth. Thus, in a brief period net external financing rose from the equivalent of 19% to 51% of the value of exports. International reserves were again reduced, but the magnitude of the financing contributed to the accumulation of a huge external debt which—since it was not possible to restore conditions of economic dynamism and regain terms of trade similar to those of the early 1970s—had subsequent effects on the rate of economic growth and on national economic policy measures.

The phase covered by the years 1976-1979 may be described as one of merely moderate recovery, especially if it is taken into account that the average annual growth rate of the domestic product came to only a little over 5%.

Noteworthy features of this phase were the vigorous expansion of exports and the maintenance of a considerable flow of external financing, notwithstanding the high levels of previous borrowing. This facilitated an increase in imports, which, nevertheless, was less than the rise in the real value of exports. Although for the group of 20 countries under consideration the balance-of-payments deficit on current account decreased in relation to the peak figure of 1975, the imbalance remained at relatively high levels, and throughout this period the external indebtedness of the countries of the region continued to increase. What is more,

¹ Comprising all the countries of Latin America and the Caribbean, with the exclusion of Bolivia, Cuba, Ecuador, Trinidad and Tobago and Venezuela.

in 1979 there was a further rise in the deficit, which, for the same group of countries, increased from approximately US\$ 11 600 million in 1978 to US\$ 19 100 million in 1979.²

The economic performance in 1980 differed considerably from one country to another. Thus, for example, Mexico increased the economic weight it carried among the countries of the region, while at the same time acquiring special characteristics, as a result of the growing importance of its production and exports of petroleum. Broadly speaking, the economic growth rate for the countries as a whole may be described as similar to or slightly greater than the average for the period 1975-1979; although in many countries the high rate of increase in the volume of exports was maintained, signs of deterioration began to appear, and downswings occurred in some countries, while the terms of trade worsened in most cases, except for the petroleum-exporting countries. The reduction in imports observed in a few instances was more than offset by the sizeable increments in others. Furthermore, the effects of previous external borrowing began to make themselves felt. Profits and interest payments on foreign capital and the external debt increased considerably, and the net figures reached some US\$ 13 300 million in 1979, rising to US\$ 18 100 million in 1980. These figures were influenced not only by the increase in the debt but also by the rise in rates of interest.

Accordingly, the balance-of-payments deficit on current account for the 20 countries under discussion soared from US\$ 19 100 million in 1979 to US\$ 32 400 million in 1980, and even the countries in the petroleum-exporting group witnessed an increase in the current deficit on their external accounts.

² All these figures are expressed in current values. If they were adjusted in terms of constant prices of some previous year, the absolute increase would be less, because of the rise in the prices of the goods and services marketed.

In 1981, despite a renewed expansion of the volume of exports of the group of non-oil-exporting countries, the signs of deterioration that had appeared in 1980 spread more widely, sales abroad contracted in a larger number of countries, and there was a tendency for the deterioration in the external terms of trade to be generalized. Thus the real value of exports increased only slightly, and still less if Mexico (where a markedly favourable trend was observable) is excluded from the group of petroleum-exporting countries. In real terms this country's exports increased by more than 15%, a fact which highlights the importance that petroleum exports were acquiring in Mexico's total external sales. Imports decreased in many countries and the region's gross domestic product rose by only 1.1%, a much smaller increase than that of its population.

In this situation, the group of 20 countries in question once again showed a significant upswing in their external current account deficit, which rose from US\$ 32 400 million in 1980 to US\$ 41 900 million in 1981. This increase of somewhat over US\$ 9 000 million was due mainly to the net flows of profits and interest on foreign investment and debt, which climbed from US\$ 18 100 million to US\$ 27 100 million. This meant that during 1981 the deficit on the trade balance was contained, and the increase in external financing was absorbed by payments of profits and interest. At any rate, this is the interpretation that can be inferred from the aggregate figures, since the situation may vary as regards the individual evolution of each of the countries of the region.

The nature of this evolution does not change if we look instead at the entire group of 24 countries of the region for which balance-of-payments information is available. In this case, the total balance on current account rose from US\$ 28 100 million to US\$ 38 600 million, while net profits and interest paid abroad increased from US\$ 18 900 million to US\$ 27 800 million.

B. SOME SALIENT ASPECTS OF THE DEVELOPMENT PROBLEMS FACING THE REGION

The brief review presented in the previous section may usefully be followed by a synthesis, still on the macroeconomic level, of the most salient internal and external aspects of the problems facing the region in the present conditions. These aspects relate to economic dynamism, the problems of the external bottleneck and the intensification of social problems and pressures.

The moderate economic dynamism which the region had been displaying since 1976, to some extent as a recovery from the 1975 recession, broke down in 1981 and the economy sank into a severe depression which spread and got worse in 1982. In 1981 the rate of increase of the domestic product was little more than 1%, markedly below the growth rate of the population, and thus the per capita product of the region as a whole diminished for the first time in the whole of the period since the war.

This deterioration was influenced by both internal and external factors. The former are linked to national policies which in some situations have proved inadequate and in others have actually intensified the negative effects of the present conjuncture and the world economic recession. Nevertheless, it is evident that in the context of the current functioning of the national economies, it is the external factors that appear as the most conspicuous determinants, in one way or another, of the essential features characterizing the evolution of the Latin American countries.

Stagnation and inflation in the industrial countries and the world economic recession have engendered simultaneous negative effects on trade and external financing, thus disrupting the trends followed in the 1970s, when trade crises were less acute and could be weathered by making extensive use of external financing. The Latin American countries are facing at one and the same time a contraction in the volumes of demand, a deterioration of the terms of trade, a rise in real interest rates, a drop in the supply of external financing, and a

notable increase in protectionism. Since the end of 1981 and the beginning of 1982 a conjuncture may be discerned in which the following facts coincide:

(a) The external demand of the industrial countries has slackened in consequence of the stagnation and contraction of their rate of growth, although many Latin American countries did manage, except in the years of out-and-out recession, to secure an appreciable increase in the volume of their exports through the operation of other factors and the diversification of markets, as is discussed later;

(b) Primary commodity prices fell, in nominal or real terms, owing to the above-mentioned slackening of international demand and in some cases to the liquidation of stocks because of the high rates of interest;

(c) The persistent inflation observable in the industrial countries (even though it is going down in some of them) has brought about a deterioration in the terms of trade between the countries of the region and these countries. Simultaneously, in some cases, there has been a decrease in the foreign currency prices of certain Latin American export items, due to devaluations and other measures taken to gain a footing and favourable competitive conditions in the industrial countries' markets. This trend towards a deterioration in the terms of trade has sharpened with the rise of petroleum prices for the petroleum-importing countries, especially in the years in which these price changes have taken place;

(d) The rise in interest rates has considerably increased the cost of the external debt that has been accumulating as a result of the heavy balance-of-payments deficits. In this respect a stage has now been reached at which the increments in balance-of-payments current account deficits are being determined by the exceptional increases registered in net payments of profits and interest on external investment and indebtedness. These results are observable both in some individu-

al countries and in the movement of the figures for the region as a whole;

(e) The restrictive policies prevailing in the industrial countries have helped to accentuate these countries' postulates to the effect that international co-operation and external aid should be granted in accordance with a principle of graduality or of discrimination between the developing countries. The same approach is advocated as regards special or preferential treatment in respect of trade and other matters. Thus, almost all the Latin American countries would be excluded from treatment of this kind, which would be reserved for the lower-income countries;

(f) There is a recrudescence of proposals and concrete decisions relating to the adoption of protectionist measures in industrial countries with the aim of preventing or limiting the access of Latin American countries to the markets for manufactures or semi-manufactures which are of particular interest to Latin America.

Despite the decline in the economic growth rate and the measures adopted in many Latin American countries to contain or reduce the volume of imports, balance-of-payments deficits on current account have risen considerably, especially in the last few years, thus giving rise to an accumulative process which is bringing external indebtedness to dangerous levels and situations. This state of affairs creates a veritable bottleneck which is preventing the recovery and acceleration of economic dynamism and the achievement of more stable evolution than that registered in recent years. Thus:

(a) The balance-of-payments current account deficit of the region as a whole, which—as stated above—had been increasing significantly, rose from US\$ 19 800 million in 1979 to US\$ 38 600 million in 1981. In relation to the domestic product, these deficits showed the highest indexes since the end of the war in almost all countries. Thus, for example, in the majority of countries the balance-of-payments current account deficit came to represent between 6.0% and 12.0% of the gross domestic product at 1975 prices. Prior to the depression, at the beginning of the

past decade, the corresponding figures ranged from only 0.5% to 6.0%;

(b) The relation between net external financing and earnings from exports of goods and services has appreciably increased, reaching between 25% and 88% in most countries in 1981;

(c) A feature which has been gaining in importance since the mid-1970s relates to the fact that external financing funds are increasingly provided by the international private banking system, on burdensome terms and conditions, particularly as regards loan repayment periods and high rates of interest;

(d) There has been a surprising increase in total payments of profits and interest on external investment and debt is surprising; In the majority of countries these payments represented between 3.5% and 7.0% of the domestic product in the year 1981, whereas in the early 1970s the corresponding index was only 1.6%;

(e) This is due to the stepping-up of interest rates and the persistent increase in the external debt. The latter reached a sum of about US\$ 250 000 million at the end of 1981, whereas only two years before, at the end of 1979, it had amounted to US\$ 170 000 million. This debt is concentrated in a small number of large and medium-sized countries, but the indebtedness accumulated by other medium-sized and small countries is also of particular relative importance;

(f) Another specially significant aspect of the problem is the effect of the deterioration in the terms of trade of the Latin American countries. Even if the benchmark adopted is the year 1975, by which time the increases in petroleum prices registered in 1973-1974 had already been incorporated, the effect of this deterioration nevertheless came to represent by 1981 a loss of 1.9% of the gross domestic product in many non-petroleum-exporting countries;

(g) In these circumstances, the purchasing power or real value of exports of goods and services has gone down considerably. This would seem to indicate that, for some countries at least, the impact of the deterioration in the terms of trade and the growing external payments of profits and

interest were factors carrying special weight in the balance-of-payments problems and the decline in the rate of growth.

The fall in the economic growth rate and the crisis which is affecting most of the countries of the region have immediate consequences in the shape of a worsening of social conditions for a great mass of the population. This is evidenced in the increase in unemployment and underemployment, the decrease in real wages, the persistence and accentuation of extreme inequality in income distribution, and the maintenance of situations of extreme poverty and indigence affecting a high proportion of the popula-

tion. It should be borne in mind that in boom periods, or in times of greater economic dynamism, income or the fruits of economic growth are distributed very unequally and employment levels do not rise to the extent desirable. In contrast, in phases of slow growth or economic crisis it is the lower-income sectors that are hardest hit by the adverse effects of this trend in the national economies. It is easily understandable, therefore, that in the framework of extremely inequitable societies like those of Latin America, social pressures are intensified and the factors making for instability increase.

C. THE INTENSIFICATION OF SOCIAL PROBLEMS AND TENSIONS

In the report prepared by the Secretariat for the meeting of CEGAN held in Quito in 1981, at which the Regional Programme of Action for the implementation of the International Development Strategy was prepared, consideration was given to various aspects of economic growth, social change, social distribution of income, the scale and extent of poverty and the problems of unemployment.³

It was stated in the report that Latin America had obviously undergone a very important and meaningful process of economic growth and social change since the war; but it was no less true, the report went on to add, that the nature of that process had led and still was leading to the shaping of inequitable societies. The most salient features of the development process prevailing in the region are reflected in the socio-economic structure, which is characterized by a very high degree of concentration of national wealth and income in small segments of the population, a great mass of the population living in conditions of extreme poverty, and a frequently rapid expansion of the middle social strata.

The factors determining these structures

or inherent therein are related in essence with the concentrative forces of the prevailing economic system, with private appropriation of the surplus, with the degree to which the latter is used to boost non-essential consumption in a process of incessant diversification, and with investment serving only to promote consumption.

At the beginning of the 1980s the Latin American governments stressed in the Regional Programme of Action the imbalance between economic and social progress. "Latin America has undergone a significant process of economic growth and social change since the war, but the nature of that process has led and still leads to the shaping of highly inequitable societies."⁴ The rise in unemployment and the fall in real wages which are more and more in evidence in the Latin American countries give grounds for fearing a deterioration in the situation of the more disadvantaged groups. In these circumstances, it becomes necessary to reaffirm the guiding principles of social development contained in the Regional Programme of

³ See *Latin American Development in the 1980s*, E/CEPAL/G. 1150; E/CEPAL/CEGAN 5/L.3; April 1981.

⁴ See "Regional Programme of Action for Latin America in the 1980s", in *Economic and Social Council Official Records, 1981, Supplement No. 16*, Report of the nineteenth session of CEPAL (E/1981/56; E/CEPAL/G. 1176), May 1981, p. 206, paragraph 12.

Action and to adopt measures intended to redistribute the cost of the crisis and to strengthen strategies designed to "increase production capacity, so that the structures

of production and consumption can be transformed in order to meet the basic aspirations of the majorities for a better life".⁵

II

The economic process, indebtedness and changes in external economic relations

A. INTERRELATIONS BETWEEN EXTERNAL FACTORS AND THE NATIONAL ECONOMIC PROCESS

Industrial development, progress in the field of training, the expansion of production capacity, and the changes in production and technology that have taken place in most of the Latin American countries since the Second World War might have been expected to reduce, at least in the large countries and in some of those of medium size, the degree of sensitiveness, vulnerability and dependence of national economies in relation to the action of external factors, particularly as regards the unfavourable effects and repercussions of the world economic recession and economic and technological trends in the industrial countries with which Latin America maintains the bulk of its economic and financial relations. This could be expected, above all, in view of the significant progress that has been made in the development of the productive forces of the national economies.

It is obviously true that, to a greater or lesser degree, the countries of the region possess greater capacity and a broader radius of government action than in the past; as well as sounder infrastructure and support bases to defend themselves against the unfavourable impact of external factors. Most of the countries are clearly in a better position than at earlier stages, when specialization in primary production predominated in domestic activities and in exports; and better, too, than in the early phases of their industrialization processes.

It is no less obvious, however, that in

the context of the Latin American countries' present insertion in the world economy and, in particular, of their relations with the economic and technological evolution of the industrial countries, the national economies are markedly sensitive, in one way or another, to external events, and display a high degree of vulnerability and structural dependence. Moreover, the area of the favourable or unfavourable effects and repercussions of external variables has been expanded by the application of more liberal policies, characterized by the increasing external openness which the countries have been promoting, although with great differences from one country to another in respect of the nature and scale of such openness and of government attitudes and initiatives *vis-à-vis* external events.

As already noted, the growth and the far-reaching economic, social and technological changes which have taken place since the Second World War have appreciably strengthened the economic capacity of the countries of the region and have broadened the area of action of governments: advances that might be regarded as the conquest of a measure of autonomy. But there is no getting away from the conclusion that a new vulnerability and a new dependence, more complex and diversified than in the past, have also been shaped and in some

⁵ *Ibid.*, p. 215, paragraph 60.

respects may be considered to produce wider and profounder relative effects. Let us give a little thought, for example, to the risk and possible consequences of the financial situations of indebtedness and balance-of-payments deficits, as regards the vulnerability and dependence of the Latin American economies *vis-à-vis* the power now exercised by the international private banking system and world financial institutions.

One global aspect worthy of mention is the marked parallelism observed during the 1970s between the evolution of the economic growth rates of the industrial countries and of the Latin American countries as a whole. In contrast, the two-year period 1981-1982 witnessed the disruption of that parallelism, which had been characterized by the higher levels of Latin America's growth rates, and it is therefore especially important to describe these phenomena in greater depth. The growth rates of the gross domestic product of the seven largest industrial countries show a movement through time whose periods or phases are distinctly similar to those identified in the preceding chapter, when we looked at the evolution of the annual growth rates of the gross domestic product for Latin America as a whole. Thus, in broad outline, the following points may be stressed: (a) the industrial countries reached the culmination of a long period of rapid economic growth in the year 1973, when the product increased by more than 6% in relation to the preceding year, whereas Latin America prolonged its intense economic dynamism until 1974, in which year the gross domestic product rose by approximately 7%, with a heavy balance-of-payments current account deficit; (b) the crisis showed up in Latin America in 1975, when the growth rate was a little over 3.5%, while the industrial countries lapsed into a state of stagnation or economic recession in 1974 and 1975; (c) in the period 1976-1980 a moderate recovery took place, with an average growth rate of 5.5% in Latin America. In the industrial countries too there was a recovery in economic growth, whose quantitative evolution is expressed, however, in an increase of 5.2% in 1976 followed by

an uninterrupted slide-down to 3.7% in 1979; (d) in the biennium 1980-1981 this decline sharpened in the industrial countries, whose average annual growth rate was only a little more than 1%, while in Latin America the downward movement took place in 1981 with a variation in the region's gross domestic product very similar in scale to that recorded in the industrial countries; and (e) in 1982 there was a significant contraction in the domestic product of the region as a whole, and stagnation in the industrial countries.

In the context of these trends in the economic growth rates of Latin America and of the industrial countries it is useful to point out three clearly discernible aspects. One is the fact that during the 1970s the economic growth of the region as a whole always kept at higher average levels than that of the industrial countries, and only in 1981 was the increase in the two areas of very similar magnitude and of slight relative significance. In 1982 there was a contraction in Latin America's gross domestic product, whereas in the industrial countries as a whole the economy remained virtually stagnant. Another feature is that the periods of stagnation or depression or of scanty economic growth were previously of longer duration (one or two years) in the industrial countries than in Latin America. Now, however, the region has completed over two years of stagnation. The third and last general observation to be made is that both in the 1970s and today the years of scanty growth or contraction occur in the context of a fall or decline of the real value of the region's exports, resulting from a combination of constant prices for exports, contrasting with variations in the terms of trade. In the latter period, however, there has also been a considerable increase in the relative importance of debt servicing.

No claim is made that these comparisons make possible a precise definition of the quantitative relation between the economic growth rates of our region and the evolution of the industrial countries, and still less is it claimed that they explain the inverse relation. This is not only because of

the heterogeneity of the two aggregates, but, essentially, because economic and financial relations are more complex and diversified than could be inferred from such a comparison between the global growth rates, since the economic strategies and policies which have prevailed in the industrial countries and in Latin America largely determine the nature and magnitude of the effects and repercussions on trends in Latin America that may be produced by the functioning of the industrial economies and the world economic recession.

Nevertheless, this global comparative analysis—the results of which have been synthesized in the foregoing paragraphs—sheds a great deal of light on the position of the two areas in the dynamic context of the world economy and poses several questions as to the vulnerability and pronounced sensitiveness to external variables displayed by the Latin American economic process. The following paragraphs will pursue this topic farther.

In order to make faster headway in the present study, a selection has been made of the principal macroeconomic variables that are generally incorporated in global economic projection models, and their historical evolution since 1950 has been examined, with special and more detailed attention, in the more recent period, to the years of the last decade up to the present time. These variables are the following: (a) the gross domestic product; (b) real national income; (c) effects of the variation in the terms of trade; (d) net external financing, which is conventionally considered equivalent to the balance-of-payments deficit on current account; (e) exports of goods and services; (f) imports of goods and services; (g) profits and interest on external investment and indebtedness; (h) public and private consumption; (i) gross domestic investment, including changes in stocks; (j) ex-post domestic saving, which, according to the conventional definitions, is equivalent to the surplus of real national income over total public and private consumption.

Obviously, an analysis of the interrelationships between these variables and those

corresponding to external factors must be based on each individual country's experience: national economic policies have not been uniform, and the evolution of the variables in question has also differed from one country to another, as has the operation of the respective national economies. Moreover, considerable influence is exerted by other well-known factors, such as economic and demographic size and the stage of development through which the various countries are passing. In this analysis, even more than in others, the aggregation of countries incurs the risk of concealing precisely what one wants to know, that is to say, the specific experience stemming from the different economic policies that countries have adopted.

Consequently, in this part of the document general observations will be formulated, while in the following section comments will be made with respect to specific countries which have been selected with a view to the desirability of taking into account dissimilar national experiences. The essential aim of these country analyses is solely to describe the course followed by the process, not to evaluate the policy pursued in each of the countries in question. For that purpose further information and other background material would be required.

The information and background material supplied by the research conducted bears on various essential aspects of the operation of the national economies in relation to external variables. The following are among the features to which allusion should be made: (i) relations between the domestic product and real national income; (ii) the degree of sensitivity, vulnerability and dependence of national economies with respect to external factors; (iii) the borrowing process and trends in total domestic investment and consumption; (iv) the nature of the external bottleneck. This part of the analysis suffers from certain limitations inasmuch as it does not take into consideration other aspects of special importance, such as those relating to the countries' economic policies and in particular their trade policies; to living conditions; to the displace-

ment of production technologies; and to the participation of transnational enterprises.

The decline in the growth rate of the domestic product during recent years has been accompanied by a considerable increase in payments of profits and interest on external investment and debt, and in many cases by declines in the purchasing power of exports attributable to the deterioration of the terms of trade. The substantial rise in external profits and interest payments is due to two factors: one is the greater indebtedness and the other is the marked upswing in interest rates. In this connection it is illustrative to point out that in a group of sixteen countries, which does not include Ecuador, Bolivia and Venezuela, net payments of profits and interest represented in 1981 3.6% of the gross domestic product, whereas in the 1950s and 1960s the corresponding percentage was not even 1.5%.

The significance of the amount of such payments becomes more clearly apparent if it is taken into account that the proportion of gross domestic investment they represent was as high as 15%. In many individual countries the relative importance of these transfers was still greater than for the sixteen countries as a whole. These relations, because of the substantial changes that have taken place in them, are in marked contrast to those prevailing in the early 1970s. If, moreover, the effect of the deterioration in the terms of trade is added to this, an even higher figure would be reached which may be interpreted as a major erosion of the gross domestic product of many non-petroleum-exporting countries, since to determine real national income both these concepts must be deducted from the domestic product. According to one estimate, the terms-of-trade effect plus payments of profits and interest signified in 1981 a decrease of 5.5% in the gross domestic product of a group of 15 non-petroleum-exporting countries, excluding Mexico and taking 1975 as the base year for the terms of trade. This reduction represents one-fourth of the amount of those countries' gross domestic investment.

In chapter I a description was given of

the evolution of the economic growth rate of the countries of the region and the course simultaneously followed by some external variables, and in the preceding paragraphs of this chapter an attempt was made to outline the similarity between the evolution of the annual economic growth rate of the region as whole and the growth rates of the domestic product of the group constituted by the seven largest industrial countries. With respect to this latter piece of research, it is very important to recall that while throughout the whole of the 1970s the average level of Latin America's economic growth rate stood higher than the annual growth rates of the domestic product of the industrial countries, in 1981, for the first time, Latin America showed a negligible growth rate which virtually coincided with that of the industrial countries, while in 1982 a contraction in the absolute levels of Latin America's domestic product took place, just when those of the industrial countries, taken as a whole, stagnated. These recent trends are yet another indication of the depth of the crisis that is affecting the region.

Generally speaking, and with particular reference to the non-petroleum-exporting countries of Latin America, the interrelationships between external factors and the rate of economic growth might be synthesized in line with the same periods used in describing the global evolution of the economy in chapter I.

(a) In the early 1970s the marked dynamism of economic growth was spurred by a deliberate national policy of growth which was reinforced by an expansion of exports and a simultaneous improvement in the terms of trade.

(b) In the biennium 1974-1975 exports of goods and services remained static and the terms of trade considerably deteriorated. These unfavourable factors made their influence felt in 1975, and the economic growth rate was relatively low in comparison with that corresponding to the preceding period. The countries tried to keep their growth rates up to a certain level and resorted to external borrowing (and also to their reserves) to cope with the balance-of-

payments deficit. A policy was thus initiated which attempted to maintain a fairly dynamic economic process on the basis of external loans, access to which was relatively easy because of the expansion of available international resources generated by the balance-of-payments surpluses of the petroleum-exporting countries.

(c) During the period of moderate recovery which extended up to the end of the 1970s, the economic scene was characterized by the following features:

(i) a deliberate export promotion policy was pursued, and export growth rates were high, but at the same time external borrowing to finance the balance-of-payments deficits continued to increase, especially in the later years of the period;

(ii) the servicing of this debt ultimately proved to be very difficult to absorb, especially in view of the rise in interest rates;

(iii) the deterioration of the terms of trade did considerable harm to many countries of the region; and

(iv) payments of interest and profits increased and represented growing proportions of the domestic product in almost all the countries of the region.

(d) In 1981 and 1982 this economic and financial process reached a crisis, the most characteristic features of the situation being essentially the following:

(i) difficulties in continuing to step up external borrowing;

(ii) a considerable increase in debt servicing, which represents a very high proportion of current export earnings; and

(iii) unfavourable prospects for export expansion owing to the prolongation of the crisis in the industrial countries and at the world level.

These aspects of the interrelationships between external factors and the national economic process might be considered, in part at least, of a conjunctural character. The key question of the vulnerability and dependence of the rate of economic growth, however, is essentially a matter of the asymmetry in the economic and technological structure of domestic production and in the trade flows between developing and industrial countries.

Thus, the Latin American countries, despite the progress made in the economic and technological diversification of their domestic production and of their sales abroad, are exporters of primary commodities with differing degrees of processing and of manufactures with a low technological content, whereas their imports from the industrial countries comprise intermediate products that are essential for economic activity and capital goods required for the establishment of basic infrastructure and for capital accumulation to increase production capacity and make headway in the incorporation of technological innovations. In these circumstances, when the capacity to import is reduced—and taking into account the policy applied in relation to external financing and the terms for its use—national economic policy is confronted with several independent or complementary options, namely: (a) promotion of a decline in domestic demand in order to reduce imports, which, as is common knowledge, has a high social cost in terms of employment and income distribution, apart from the fact that such a policy may take a long time to produce the results hoped for; (b) containment or selective control of imports to limit purchases of non-essential goods from outside, to which end the adoption of specific policies and measures is necessary; (c) deliberate policies to promote greater expansion and diversification of exports, although they may have no immediate effect of much significance; and lastly, (d) promotion of an efficient industrialization policy, which, of course, goes beyond short-term conjunctural problems and is identified with the basic and essential aspects of the national economy's development strategy and economic and technological transformation.

Over the short term, and especially when there is no significant margin of compressible imports, economic policy generally tries to avoid a contraction in the supply of imported intermediate products in order not to affect the level of economic activity and employment, since this would mean restrictions on imports of capital goods, which, in their turn, would affect the formation of production capacity for the immediate future.

Another topic of special relevance for conceptual propositions on development strategy and for the praxis of economic policy is that of the relative changes that might take place in the course followed by domestic investment and total consumption when variations occur in external financing, which in these analyses may be considered as the contribution of external resources to the formation of the total mass of available goods and services.

In this connection, it is worth noting that the amounts of external financing tend to be absorbed, at least to a large extent, by remittances of external profits and interest (although this situation varies from one country to another), and that in these circumstances external transactions, despite the big balance-of-payments deficits, do not make any real contribution to the total supply of available goods and services, especially in cases where the amount of financing is only equivalent to the payments of profits and interest.

In the more general case in which external saving really does contribute with an inflow of real resources to the total supply

of goods and services, there is nothing to guarantee that in the economic process this contribution will be reflected in an increase in the relative participation of domestic investment in total goods and services, and a decrease in the share of total consumption. As a matter of fact, the research carried out shows that several situations may arise in different countries, as well as within one and the same country at different times. Thus, while numerous cases are to be found, particularly among countries with a high degree of economic dynamism, in which the growth of net external financing is accompanied by an expansion of imports and an increase in the participation of domestic investment in total goods and services, there are also many instances in which this does not happen. Hence it would seem that while in the experience of a number of countries external indebtedness has gone hand-in-hand with an increase in production capacity, elsewhere it has been accompanied by a process through which, to some extent, there has been an increase in the share of total consumption, or else the pre-existing relative distribution has been maintained.

B. SOME SALIENT FEATURES OF THE INTERRELATIONS BETWEEN THE EXTERNAL SECTOR AND THE NATIONAL ECONOMIC PROCESS IN A GROUP OF COUNTRIES

1. *The case of Brazil*

Brazil's experience clearly shows the interrelations between the economic process and external variables in the context of different stages of development and of the strategies and policies adopted in each of these. In the course followed by economic development since the Second World War three phases can be indentified:

(a) The so-called 'import substitution' phase, which extended up to the mid-1960s, and during which imports and exports grew much less than the gross domestic product, which rose during the period in question at an average annual rate of a little over 6%.

(b) From the mid-1960s up to 1974, the Brazilian economy attained peak indexes

of economic development. So dynamic was it that the gross domestic product increased at an annual rate of approximately 8.5%. In the framework of this intense dynamism the economy underwent sweeping changes in production and technology and exports and imports expanded even faster than the domestic product.

(c) From the mid-1970s up to the present time, the rate of economic growth has declined, and although its average level remained relatively high during the period 1975-1980 (an average annual rate of 6.5%), it dropped in absolute terms in 1981 (-1.9%). The data available indicate that the gross domestic product virtually stagnated in 1982 (0.5%). The factors that have most conspicuously influenced this evolution in

recent years are undoubtedly the high balance-of-payments deficit on current account, which led to a substantial increase in the external debt; the heavy financial servicing of this debt, augmented by the rise in interest rates; and the negative effect of the deterioration in the terms of trade.

The action of these various factors has created a typical external bottleneck in Brazil's economic development process. And the most significant aspect of this situation is the fact that the external constraint does not originate in a slackening of exports, since the growth of these was speeded up and diversified; nor does it lie in an expansion of imports, which, on average, remained static or increased only slowly as from 1975; rather has it been determined by the servicing of the heavy external debt and the unfavourable evolution of the terms of trade. The figures bear eloquent witness to this situation. In 1981, payments of external profits and interest alone represented 3.2% of the product, whereas in the 1950s and 1960s the corresponding proportion did not exceed 1%. Moreover, the effect of the deterioration in the terms of trade (on the basis of 1975 prices) was equivalent to 3.7% of the product in the year in question. As for net external financing in 1981, it amounted to 3.7% of the product: a similar proportion to that of payments of profits and interest. This exposes the vicious circle into which the flow of external financing is sinking: payments of profits and interest and a further increase in debt.

Another aspect of special interest is the evolution of gross domestic investment, domestic saving and total public and private consumption in the context of the various phases of Brazil's economic development. From this evolution some essential conclusions may be drawn: (a) the coefficient representing the relation between gross domestic investment and the product tended, as was to be expected, to rise with the speeding-up of the growth rate of the domestic product, and to diminish in the second half of the 1970s when the rate of economic growth declined. This trend sharpened in 1981 with the contraction of the product and investment in absolute

terms. In brief, the gross domestic investment coefficient, which had been 24% in the early 1970s, climbed to 30% in 1974 and fell back to approximately 22% in 1981; (b) as a general rule, increases in this investment coefficient occurred in the context of an economic process which stepped up the use of external financing and increased the product-elasticity of imports; (c) in these circumstances, during the first half of the 1970s the coefficient of domestic saving tended to rise, revealing a marked dynamism in the mobilization of national resources. In contrast, in the second half of the decade this coefficient gradually declined, along with the investment coefficient, while the coefficient of net external financing remained relatively high. The gross domestic saving coefficient was 21% at the beginning of the decade, rose to approximately 24% in the mid-1970s and dropped to 18% in 1981; imports of goods and services, for their part, have expanded very slowly since the mid-1970s or even decreased in absolute terms, as happened in 1981. This is another typical element in the bottleneck that is affecting the Brazilian economy.

2. *The case of Costa Rica*

The economy of Costa Rica is characterized by a relatively high degree of openness as regards its external trade flows. In 1981 the value of exports amounted to over 30% of the gross domestic product, with a similar figure for imports. Another important feature is the relatively large scale of external financing, which since the 1970s has come to represent about 10% of the gross domestic product (at 1975 prices); this means, in comparative terms, half of the gross domestic investment coefficient.

The rate of economic growth tended to accelerate in the 1960s and up to 1974. During the period 1964 to 1974 the gross domestic product showed an average annual growth rate of 7.2%. This trend took a drastic turn for the worse in the second half of the last decade, when the annual growth rate was only a little over 5%; it remained static in 1980, and in 1981 contracted in absolute terms by 3%.

During its period of greatest dynamism, Costa Rica's economic process was characterized by a very high growth rate of imports (an annual average of 9%), and by an even more rapid expansion of exports (an annual average rate of 11%). In contrast, as from the mid-1970s exports slackened appreciably, although with very irregular fluctuations, as was also true of import flows. In any event, the indexes of external financing in relation to the product reached very significant relative figures, which implies a substantial increase in the external debt.

The other factor which had a powerful influence on the balance-of-payments deficit was the sum represented by payments of profits on foreign investment and interest on the increasing external debt. These remittances, as a whole, rose from a little over 2% of the gross domestic product in the early 1970s to almost 7% in 1981.

The investment coefficient increased over the long term and remained at relatively high levels throughout the second half of the 1970s, despite the decrease in the rate of economic growth. In 1981, however, it underwent a drastic contraction, dropping from the average of roughly 25% for the decade to only 18%, while domestic saving accounted for only about 50% of total gross investment.

3. *The case of Mexico*

Throughout the years following the Second World War the Mexican economy showed a long-term economic growth trend reflected in an average annual rate of a little over 6.5%. Naturally, in the course of time, the dynamism of the economy underwent spells of decline and faster growth. Thus, in the biennium 1976-1977 the annual rate of economic growth fell short of 4%, while in the subsequent four years it exceeded 8%. This dynamism was largely due to the production and export of petroleum, and was accompanied by massive increases in gross domestic saving. The productive and technological transformation of the Mexican economy, for its part, developed in the context of a pattern of profound changes in

the nature and structures of the country's external relations.

During a first phase, up to the mid-1960s, imports and exports increased less than the domestic product, reflecting the familiar pattern of 'import substitution'; during the 1970s, in contrast, external relations broadened out considerably. This was largely due to the growing importance of petroleum exports and the consequent improvement in the terms of trade. At the same time, an expansionary policy, promoted by the inflow of capital and the liberal use of external financing, led to a considerable increase in imports during the second half of the decade, to such an extreme that their annual percentage growth was 2, 3 and even 4 times as high as the growth rate of the domestic product, particularly in the years 1980 and 1981.

Gross domestic investment (including changes in stocks) increased considerably during the 1970s. Its coefficient in relation to the gross product rose from 20.8% in the early years of the decade to 28.6% in 1981. At the same time, the relation between net external financing and the domestic product increased from 2.3% to 6.4% over the period mentioned. Thus, in 1981 the balance-of-payments deficit showed the highest absolute and relative figure in the whole of the period since the Second World War.

In these circumstances, gross domestic saving also rose, from 18.5% to 22.3%. Thus, the participation of gross domestic investment in the total supply of goods tended to increase, while the use of external financing showed an upward trend too.

The growth of the balance-of-payments deficit on current account led to the gradual accumulation of a considerable external debt. External profits and interest alone represented in 1981 4.2% of the gross domestic product, whereas in the early 1970s the corresponding figure had been only 1.4%. Furthermore, total servicing of the external debt, together with profits on foreign investment, absorbed 54.3% of current export earnings in that year. This indicates an extremely inflexible situation with respect to Mexico's external accounts,

particularly because of the relations that have to be maintained between the evolution of external debt servicing and the growth rate of exports.

4. *The case of Peru*

To judge by estimates of the gross domestic product at constant 1975 prices, over the long term the Peruvian economy attained an average annual growth rate of 5% throughout the two decades 1950-1970. This rate declined during the 1970s to an annual average of 3.5%, which improved somewhat in 1981 (4.4%).

In the 1970s imports—which in the past had increased faster than the product, especially during the 1960s—fluctuated very irregularly in one direction or the other: during the second half of the decade they declined in some years and in others increased considerably, particularly in the three-year period 1979-1981.

Exports also showed a marked instability, which up to a point is inherent in the nature and trade structure of the country's principal export products, especially fish meal. This instability, which results in signifi-

cantly wide fluctuations over the short term, detracts from the meaningfulness of comparisons between extreme years. Even so, the figures at constant 1975 prices indicate that net external financing increased appreciably during the 1970s, and also in 1981. It is estimated that on average the financing in question represented over 3% of the gross domestic product in the 1970s and approximately 7% in 1981.

This instability of the external variables affecting the Peruvian economy is also reflected in sharp fluctuations in the gross domestic investment coefficient. Generally speaking, historically this coefficient has tended to decline, and there are signs of the same trend in the second half of the 1970s. A similar behaviour pattern is to be seen in the coefficient of domestic saving in relation to the gross domestic product.

The rising trend of the balance-of-payments deficit has resulted in a considerable increase in the external debt, so that payments of profits and interest on foreign investment and the external debt came to represent 3.2% of the domestic product in 1981, whereas at the beginning of the decade this relation had been 1.8%.

III

The economic prospects of Latin American regional co-operation and some aspects of international co-operation

A. THE ECONOMIC PROSPECTS OF LATIN AMERICA

The regional Programme of Action for the 1980s, adopted at Montevideo, expresses the region's main aspirations in respect of socio-economic development. The attainment of the objectives and targets which the governments have set themselves is based on a strategy of economic and social transformation which envisages significant changes in Latin America's position in the international economy, in economic relations between the countries of the region and with other de-

veloping areas and in the socio-economic structure of the Latin American countries.

Now that the first years covered by the Regional Programme of Action have elapsed, it can be seen that the international situation, far from changing in a direction favourable to economic dynamism accompanied by better-balanced external accounts, has swung the opposite way, and its evolution has come to be a very significant element in the recession affecting the Latin American

countries. In these circumstances, the importance of many of the proposals of a regional character contained in the Programme has been heightened. Thus, in so far as the signs of international co-operation continue to be discouraging, the Latin American countries will obviously have to channel increasing proportions of their production and trade towards the markets of the region and of the rest of the developing countries, as well as towards their own domestic markets. A recovery in the developed countries' production and in world trade would undoubtedly facilitate the tasks in hand, but it clearly cannot become the *sine qua non* for the Latin American countries to regain their economic dynamism.

In the earlier chapters of this article the repercussions of the world recession on the Latin American countries were discussed. The data for 1981 and the provisional information available for 1982 show that external disequilibria have seriously weakened economic growth and have had serious effects on the social situation. In these circumstances, changes in policy have come about which, with greater or lesser degrees of emphasis, are switching the possibilities of reactivation to the domestic and regional markets. A process of negotiation on external financing transactions is also under way, its aim being to make the balance-of-payments situation manageable. But even if progress is achieved in the fields of trade and finance, it seems hardly likely that the general recessive effects transmitted from the developed world can be significantly counteracted in 1983. Accordingly, the following review of prospects is based on the assumption of a more important recovery as from the biennium 1984-1985, as a step towards greater acceleration of economic dynamism in the second half of the 1980s.

The normative objectives and targets pursued by the region were clearly established in the Regional Programme of Action, and there is no intention here of preparing new projections of that kind. It has been thought useful, however, to present two exercises of a preliminary nature whose sole purpose is to offer provisional orders of

magnitude as regards the effects that a recovery of economic dynamism would have on the main internal and external macroeconomic factors of equilibrium. Basically, the exercises differ from each other in their assumptions as to the economic evolution of the developed countries and of world trade. Obviously, the more vigorous the reactivation of the developed economies, the better are the chances that the second half of the 1980s will usher in a level of dynamism more in line with that contemplated in the International Development Strategy for the Third United Nations Development Decade.

In the period 1983-1985 a moderate reactivation is expected, enabling the region to attain average growth rates somewhat below 4% for the period 1981-1985. If this recovery were to be combined with a growth rate of about 6% during the second quinquennium, the average rate for the whole decade would approach 5%. If, as already stated, the growth rate achieved in the second quinquennium were slightly higher than 7%, the decade would end with an average of approximately 5.6% (see table 1).

The mere study of these aggregate figures reveals how deeply the region would be affected by the crisis. There can be no doubt that the reduction of the average economic growth rate for the decade will have profound repercussions on the economic and social situation.

In the economic field, it will be necessary to cope with a state of indebtedness that will weigh heavily on the external accounts for a lengthy period, which will unquestionably be prolonged in so far as external demand and the terms of trade fail to recover. Similarly, the producer sectors will have to readapt themselves to new demand and supply conditions.

As regards the social aspects of the situation, setbacks in terms of employment and distribution have occurred in the first years of the decade which will be far from easy to reverse. An accentuation of the social orientation of policies thus becomes indispensable, both for reasons of equity, and as an indispensable requisite for the reactivation of the domestic markets.

Table 1
 LATIN AMERICA (19 countries):^a DISTRIBUTION OF GROSS DOMESTIC PRODUCT
 AND EVOLUTION OF THE EXTERNAL SECTOR

(Percentage annual growth rates)^b

Year	Gross domestic product	Gross domestic investment	Total consumption	Exports of goods and services	Imports of goods and services	Terms-of-trade effect	Net payments of profits and interest	Net external financing ^c
1970-1980	5.9	7.4	6.3	4.2	8.6	—	8.2	12.1
1981	1.1	-1.2	0.6	7.8	1.7	—	41.2	29.5
A								
1981-1985	3.8	4.7	3.1	4.6	2.5	—	6.1	-0.5
1985-1990	6.0	4.9	6.2	7.1	6.2	—	3.7	0.7
A 1								
1981-1985	3.8	4.7	3.1	4.6	2.5	—	1.3	-4.4
1985-1990	6.0	4.9	6.2	7.1	6.2	—	2.5	-1.2
B								
1981-1985	3.8	4.7	3.1	4.6	2.5	—	6.1	-0.5
1985-1990	7.1	8.9	6.3	8.5	7.8	—	4.1	3.1

Source: CEPAL, on the basis of official data.

Note: "A" exercise assumes recovery of the growth rate of the gross domestic product of the 1970s in the second half of the 1980s.
 "A 1" exercise corresponds to exercise "A" plus the hypothesis of a decrease in average interest rates from 12% to 10% in the decade, with maintenance of export requirements.
 "B" exercise assumes recovery and acceleration of the growth rate of the gross domestic product during the second half of the 1980s.

^a Not including Cuba or the English-speaking Caribbean countries.

^b Of values at 1975 prices.

^c Including net private donations.

At the opening of the 1980s, the Secretariat drew attention to the nature and magnitude of employment problems. To these difficulties, significant in themselves, must now be added the consequences of the virtual absence of economic growth in 1981-1982. It is estimated that in this biennium the labour force increased by about 5.5%, and for the mere reason that there has been no increase in job opportunity a rise of about 5 points should be expected in the percentage of overt unemployment. Moreover, the crisis has compelled some enterprises to step up their productivity and others to declare themselves bankrupt and close down altogether. Thus, even if as from 1983 a level of activity were regained similar to the 7% which

Secretariat studies assumed necessary in order to absorb the growth of the labour force and gradually reduce underemployment, the period 1983-1990 would start with a backlog of overt unemployment amounting to more than 10%. Given the present style of development, many years of rapid economic growth will be needed for the productive absorption of this contingent of human beings that has been cut off from job opportunities. Although part of this group may possibly find forms of underemployment which are not reflected in overt unemployment statistics, it is indispensable to reinforce the employment policies contained in the Regional Programme of Action in order to tackle so serious a problem.

Table 2
LATIN AMERICA (19 countries):^a DISTRIBUTION OF GROSS DOMESTIC PRODUCT
AND EVOLUTION OF THE EXTERNAL SECTOR

(Percentages with respect to gross domestic product)^b

Year	Gross domestic product	Gross domestic investment	Total consumption	Exports of: goods and services	Imports of goods and services	Terms-of-trade effect	Net payments of profits and interest	Net external financing ^c
1970	100.0	21.7	75.5	15.6	12.8	-3.0	1.9	2.2
1980	100.0	24.9	78.3	13.3	16.5	1.7	2.4	3.9
1981	100.0	24.3	78.1	14.2	16.6	0.8	3.4	5.0
A								
1990	100.0	23.9	76.6	15.4	15.9	0.5	3.3	3.3
A 1								
1990	100.0	23.9	76.6	15.4	15.9	0.5	2.6	2.5
B								
1990	100.0	27.4	73.3	15.6	16.3	0.6	3.2	3.5

Source: CEPAL, on the basis of official data.

Note: "A" exercise assumes recovery of the growth rate of the gross domestic product of the 1970s in the second half of the 1980s.
"A 1" exercise corresponds to exercise "A" plus the hypothesis of a decrease in average interest rates from 12% to 10% in the decade, with maintenance of export requirements.
"B" exercise assumes recovery and acceleration of the growth rate of the gross domestic product during the second half of the 1980s.

^a Not including Cuba or the English-speaking Caribbean countries.

^b On the basis of values at 1975 prices.

^c Including net private donations.

The fall in real wages is another source of profound concern. Postulating such a reduction as a condition for an increase in employment and domestic saving might have adverse effects on the role that it is desired to assign to the domestic market in economic recovery, and on the social objectives sought-for in the development process. What seems essential in this respect is a simultaneous revision of policies relating to the consumption and saving of the upper income strata and of the government. The consolidation of a domestic market, in which the participation of the broad masses and the process of capital accumulation acquire increasing importance and require a high degree of permanence, will be a decisive

factor in the definition of policies concerning real wages, saving and investment.

The degree of dynamism postulated in the exercises will call for growth rates of saving and investment, similar to or somewhat greater than those recorded over the long term. Of course, to reach investment percentages ranging from 24% in 1990 (according to the first exercise) to 27% (according to the second exercise) will require an extra effort in view of the deterioration shown by the initial situation today (see table 2).

These amounts of investment represent, moreover, a demand component of the greatest importance for development strategies in which regional integration will play

Table 3
LATIN AMERICA (19 countries):^a DISTRIBUTION OF GROSS DOMESTIC PRODUCT
AND EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at 1975 prices)

Year	Gross domestic product	Gross domestic investment	Total consumption	Exports of goods and services	Imports of goods and services	Terms-of-trade effect	Net payments of profits and interest	Net external financing ^b
1970	253 930.7	55 206.7	191 704.9	39 547.4	32 528.3	-7 692.3	4 941.3	5 615.1
1980	451 011.7	112 423.5	352 982.3	59 902.3	74 296.4	7 740.4	10 894.6	17 549.0
1981	456 127.2	111 031.6	356 124.5	64 555.4	75 584.3	3 688.2	15 385.8	22 724.9
A								
1985	529 143.6	133 280.6	401 976.4	77 176.0	83 289.8	3 134.9	19 473.9	22 286.6
1990	707 776.3	169 129.4	542 111.7	108 894.2	112 358.7	3 790.5	23 408.4	23 034.3
A-1								
1985	529 143.6	133 280.6	401 976.0	77 176.0	83 289.8	3 134.9	16 179.6	18 992.5
1990	707 776.3	169 129.4	542 111.7	108 894.1	112 358.7	3 790.5	18 349.2	17 855.8
B								
1985	529 143.6	133 280.6	401 976.4	77 176.0	83 289.8	3 134.9	19 473.9	22 286.6
1990	745 015.0	203 871.9	546 215.0	116 138.7	121 210.2	4 524.1	23 759.0	25 918.5

Source: CEPAL, on the basis of official data.

Note: "A" exercise assumes recovery of the growth rate of the gross domestic product of the 1970s in the second half of the 1980s.
"A 1" exercise corresponds to exercise "A" plus the hypothesis of a decrease in average interest rates from 12% to 10% in the decade, with maintenance of export requirements.
"B" exercise assumes recovery and acceleration of the growth rate of the gross domestic product during the second half of the 1980s.

^a Not including Cuba or the English-speaking Caribbean countries.
^b Including net private donations.

a more important role than in the past. The investment required in 1990 for the 19 countries under consideration to attain the growth rate for the gross domestic product envisaged in the first exercise (5.0%) would be about US\$ 170 000 million at 1975 prices, while this figure would rise to US\$ 204 000 million if the targets established in the second exercise were to be reached (see table 3). The size of the investment requirements reflects a significant potential demand which would have to be taken into account in drawing up any industrial complementarity or intra-regional co-operation programme.

Similarly, the speeding-up of the growth rate will necessitate appreciable in-

creases in domestic saving. By the end of the decade the coefficient of this in relation to the domestic product would exceed 20% and 23% in the two exercises, and this would require annual growth rates of 5.8% and 8.1%, respectively, as from 1981. It should be noted that this increment in domestic saving is indispensable if, as will be presently explained, the relative importance of the external debt is to be appreciably reduced.

One of the central problems with which the Latin American countries have to cope in the present economic conjuncture is the critical balance-of-payments situation, whose characteristics have already been discussed in some detail. In this context, it is useful to explore some policy lines which may facili-

tate placing the region on a new footing in the international economy, reducing the impact of external pressures, and undertaking joint action at the regional level whereby Latin America will be enabled to meet the challenge of the existing situation.

In external relations, three broad areas of action are generally distinguished in which measures could be adopted to further an appreciable improvement in the delicate situation of the Latin American external sector: international trade; external financing, and international co-operation. In the field of international trade, it is clearly necessary that measures should be directed towards a decisive increase in export earnings, either through expansion of the volumes exported or through an improvement in prices, or through both these things at once; attention should also be devoted to the region's possibilities of itself supplying increasing percentages of imports with a satisfactory degree of economic efficiency. In the area of external financing, it is indispensable to seek a redefinition of the terms (loan periods and rates of interest) on which these resources have been transferred to the Latin American countries. Lastly, in the sphere of international co-operation, the region should take concerted action to obtain better conditions of access to the markets of the industrialized economies and should intensify intra-regional collaboration and co-operation with other countries of the Third World. As this last area to a certain extent overlaps the first two and possible propositions are closely linked to those put forward in respect of them, the analysis will be focused on the first two aspects in question.

Obviously, solutions based on the expansion of international trade would tend to give the region a greater degree of autonomy than those that postulate a moratorium in the servicing of the external debt, since they depend more on the countries' own decisions. They involve not only the capacity to generate increasing flows of exportable products, but also, and to a very important extent, concerted intra-regional action. The first requisite is linked to the creation and adaptation of domestic production capacity which will allow of a more vigorous and

diversified export drive; thus, an indispensable step is the strengthening of the economic structure and its readjustment in this direction. Concerted action, for its part, calls for regional integration and co-operation, which must be regarded as an essential component of the dynamism of exports, both from the standpoint of the broadening of markets through regional co-operation, and from that of united action and adoption of joint policies in trade negotiations with the industrialized countries.

These two aspects have already been underlined in the Regional Programme of Action in the context of the need to boost export earnings. In the projections prepared to that end⁶ attention was drawn to the changes in the composition and destination of exports needed to make this increase in earnings possible. Another point emphasized was that manufactures ought to become the most dynamic Latin American export item, and that efforts to boost them should be based mainly on intra-regional trade.⁷ Moreover, a significant effort would have to be made to increase exports of primary commodities and fuels, to expand trade with other developing areas and with the socialist countries, and to secure a more co-operative attitude on the part of the industrial countries.

The serious deterioration in the terms of trade which took place in 1981-1982 has placed the region in an extremely delicate situation. The greater the recovery in the prices of Latin American exports, above all those of primary commodities, the easier it will be to cope with the balance-of-payments problems. This possibility, however, is largely outside the range of the region's power of decision. In contrast, the expansion of intra-regional trade depends to a

⁶ *Latin American Development Projections for the 1980s* (E/CEPAL/G.1158/Rev. 1), United Nations publication (Santiago, Chile), April 1982.

⁷ The proportion of total exports accounted for by manufactures would have to rise from 15% at the present time to 42% in 1990, which would require annual growth rates of about 17%. Intra-regional trade, on its part, would have practically to double its participation.

great extent on internal decisions. In so far as the pertinent targets set forth in the Regional Programme of Action are attained, a change in the terms of trade should occur in consequence of the greater symmetry that foreign trade would acquire.

As regards net external financing, possible lines of action are very largely conditioned by the region's present situation of indebtedness. The high levels of the external debt and its servicing clearly reveal the impossibility of keeping up the trend which net external financing has been following in recent years. Consequently, possible measures would have to be directed towards relieving pressure on the balance of payments through a change in the terms of the existing debt and an inflow of new credits which, by virtue of the special terms on which they were extended, would not result in additional pressure.

The foregoing aspects have been taken into account in the projection exercises cited, with the aim of bringing them to the fore, establishing certain orders of magnitude in the external macroeconomic relations, and analysing their possible implications.

The projections have established the reduction of relative levels of indebtedness as an essential condition for more balanced management of the external accounts. To that end, a gradual decrease in the external financing/product ratio is assumed, so that by 1990 the percentage in question would be more or less similar to the average for the 1970s. In Latin America's case, this would mean bringing it down from 5.0% of the gross domestic product in 1981 to 3.4% in 1990. This proposition is complemented by another which postulates that debt servicing should not exceed a predetermined proportion of the value of exports. Secondly, it is assumed that the terms of trade will remain constant at their 1981 level, which constitutes a relatively pessimistic hypothesis, based on the observations made in earlier paragraphs. A final hypothesis is that the terms of the external debt as regards loan periods and rates of interest will more closely resemble those of the second half of the 1970s than those of today, which implies the assumption that the region will

have some degree of success in the negotiation of its debt.

The internal repercussions of this relative decrease in external financing would be reflected, as already pointed out, in a rise in the levels of domestic saving. In this connection, it should be noted that the participation of saving in the financing of total gross investment would climb from the level reached in 1981 (almost 80%) to 86% and 87% in 1990 in the two respective exercises.

Within the frame of reference described, in both exercises imports would grow at the very slow rate of 2.5% up to 1985. This would reflect on the one hand the effects of the recession on the countries' foreign trade, and, on the other, the restrictive policies that have been applied on account of the balance-of-payments problems already referred to. After 1985, given the speeding-up of economic growth and the improvement of lending terms that are postulated, import requirements to sustain such growth will be considerably greater. For the region as a whole, their annual rate of increase would have to be higher than that of the gross domestic product: i.e., 6.2% in the first exercise (against 6% for the product) and 7.8% in the second exercise (7.1% for the product). These rates imply, however, a decline in the long-term product-elasticity of imports (see table 1).

The exports projected are such as would correspond to the earnings required for financing the imports in question and attaining the expected level of net external financing. These amounts necessitate relatively high growth rates in both exercises. In the first they are reflected in an annual rate of 6.0% in the period 1981-1990, and in the second the rate rises to 6.7%. It is worth noting that the necessary rate of expansion of exports fits fairly easily into the export potential developed by the region in recent years; it must not be forgotten, however, that measures and decisions in international trade are of a multilateral character, which makes it indispensable to strengthen the system of international co-operation if the goals established are to be reached.

Export expansion requirements are determined not only by the relatively high

Table 4
LATIN AMERICA (19 countries):^a EVOLUTION AND PROJECTIONS OF THE EXTERNAL SECTOR
(Percentages on the basis of current prices)

Year	Percentage relations with respect to exports of goods and services					Relation between external debt and gross domestic product ^c
	Net payment of profits and interests	Net external financing ^b	Servicing of external debt			
			Capital	Interest	Total	
1970	16.1	17.8	12.8	5.5	18.3	...
1980	16.9	26.7	17.4	13.2	30.7	25.9
1981	23.2	33.5	19.8	18.8	38.6	27.9
A						
1985	24.5	28.1	24.3	19.1	43.3	26.8
1990	21.3	21.3	20.4	16.5	36.9	22.9
A 1						
1985	20.4	24.0	23.2	15.1	38.2	25.3
1990	16.6	16.6	18.0	12.2	30.2	19.5
B						
1985	24.5	28.1	24.3	19.1	43.3	26.8
1990	20.1	20.8	19.2	15.6	34.8	22.1

Source: CEPAL, on the basis of official data.

Note: "A" exercise assumes recovery of the growth rate of the gross domestic product of the 1970s in the second half of the 1980s.
"A 1" exercise corresponds to exercise "A" plus the hypothesis of a decrease in average interest rates from 12% to 10% in the decade, with maintenance of export requirements.
"B" exercise assumes recovery and acceleration of the growth rate of the gross domestic product during the second half of the 1980s.

^a Not including Cuba or the English-speaking Caribbean countries.

^b Including net private donations.

^c On the basis of values at 1975 prices. The debt balance was deflated by the implicit index of imports of goods and services.

economic growth rates which are postulated for the second quinquennium, and which are reflected in large volumes of imports, but also by the heavy external debt accumulated and the high interest rates in force. The accumulation of external indebtedness has generated servicing costs which call for abundant export earnings to meet the targets established with respect to external financing. Analysis of the period 1981-1985 makes this clear. As already noted, while imports should increase by only 2.5% a year, exports would need to do so by 4.6%. If it is taken into account that in 1981 the servicing of the external debt absorbed about 40% of current export earnings, it becomes obvious that a relation of this magnitude cannot be kept up without aggravating the already delicate balance-of-payments situation; hence the proposal that it should be reduced to about 35% by the end of the decade (see table 4).

As already noted, the restrictions imposed on net external financing in relation

to the product, and on the servicing of the external debt in relation to export earnings necessitate a major effort to increase exports. In any case, however, such an effort is inevitable if Latin America's external sector is to be placed on a sound footing and the bases are to be established for achieving a form of economic growth less vulnerable to external vicissitudes. Although it might be possible to obtain more external financing than is projected in these exercises, requirements in respect of export earnings would not appreciably decrease, because of the high percentage which is tied up in the servicing of the external debt and which is precisely what it is proposed to reduce. In this connection it should be pointed out that even with the severe restrictions imposed on external financing, the servicing of the external debt would rise by 1990 to about US\$ 175 000 million: a sum almost four times as large as that paid out in 1981 (see table 5).

Attention has previously been drawn to

Table 5
 LATIN AMERICA (19 countries):^a EVOLUTION AND PROJECTIONS OF EXTERNAL
 SECTOR FINANCIAL VARIABLES
 (Millions of dollars at current prices)

Year	Net payments of profits and interest	Net external financing ^b	External debt servicing			Exports of goods and services
			Capital	Interest	Total	
1970	2 751.1	3 046.6	2 195.9	938.9	3 134.8	17 106.8
1980	17 956.6	28 256.0	18 474.5	14 031.9	32 506.4	106 011.0
1981	26 558.0	38 369.8	22 667.2	21 599.7	44 219.9	114 676.9
A						
1985	51 222.9	58 741.2	50 682.9	39 809.7	90 492.6	208 852.6
1990	100 364.9	100 260.3	96 097.3	77 830.8	173 928.1	471 712.9
A-1						
1985	42 622.8	50 141.1	48 370.6	31 489.5	79 860.4	208 852.6
1990	78 477.4	78 372.9	85 032.0	57 620.4	142 652.4	471 712.6
B						
1985	51 222.9	58 741.2	50 682.9	39 809.7	90 492.6	208 852.6
1990	101 314.2	104 822.4	97 162.3	78 658.2	175 820.5	505 163.8

Source: CEPAL, on the basis of official data.

Note: "A" exercise assumes recovery of the growth rate of the gross domestic product of the 1970s in the second half of the 1980s.
 "A 1" exercise corresponds to exercise "A" plus the hypothesis of a decrease in average interest rates from 12% to 10% in the decade, with maintenance of export requirements.
 "B" exercise assumes recovery and acceleration of the growth rate of the gross domestic product during the second half of the 1980s.

^a Not including Cuba or the English-speaking Caribbean countries.
^b Including net private donations.

the importance attached to the high interest rates in the world financial situation in recent years. With the aim of examining the implications of lower interest rates for external-sector variables, another exercise was carried out, derived from the first, in which the average rate of interest was lowered by two points and export requirements remained the same as in the first exercise. The results show a marked reduction in 1990 of the percentages of the gross domestic product represented by net payments of profits and interest, on the one hand, and net external financing on the other; in both cases these relations fell from approximately 3.3% to 2.5%. Furthermore, the servicing of the external debt would correspond to about 30% of current export earnings and the coefficient of the external debt in relation to the gross domestic product would drop from 23% to 19% in the same year. The significance of this reduction becomes

clearer still if it is borne in mind that in this case the servicing of the debt by 1990 would amount to only US\$ 143 000 million, that is to say, US\$ 31 000 million less than in the reference example (see table 4). It is important to note that this considerable impact is closely linked to the maintenance of the export earnings assumed in the basic exercise.

To sum up, the results obtained make it possible to show not only the magnitude of the balance-of-payments problem and the principal factors that determine it, but also the considerable effort demanded by certain policies designed to bring about a more balanced external situation. In this context, orders of magnitude are presented which make it possible to evaluate the absolute and relative importance that might be attached to increased export earnings and to new terms and amounts of external financing.

Lastly, the achievement of more equi-

librium in the balance-of-payments situation will necessitate a set of measures relating to external financing and trade. In view of the importance of the subject, the other two sections of the present chapter are devoted to

the suggestion of lines of action and policy measures for regional co-operation with other developing areas and with the developed countries.

B. REGIONAL CO-OPERATION AND ECONOMIC INTEGRATION

1. *Priority areas*

Latin America has already demonstrated its ability to produce a large proportion of consumer manufactures, but it still shows considerable limitations in the manufacture of capital goods, intermediate products and certain consumer goods for which advanced technology is required. It is precisely these lines of production that need economic spaces which, as a general rule, exceed those separately offered by the national markets of the Latin American countries. Consequently, integration and co-operation are irreplaceable in their significance as basic mechanisms for complementing and accelerating these countries' industrialization processes, without, of course, detracting in any way from the importance of the role they may also play in strengthening intra-regional commodity trade.

There are naturally innumerable ways in which pooled action can make a substantial contribution to the attainment of the objectives indicated, while at the same time helping to reach other goals of interest to the Latin American countries.

In an ECLA document presented at the nineteenth session of the Commission (Montevideo, May 1981)⁸ a descriptive list was given of the possible priority areas for co-operation in the decade now beginning. This seems an appropriate opportunity for a review in somewhat greater depth of those spheres of action in which the Latin American countries should concentrate their co-operation efforts.

Thus, taking for granted the indispen-

sable and resolute support of the countries of the region for the various integration schemes existing in Latin America and the Caribbean —whose ultimate objective is essentially to create an area or subregional market which will promote an industrialization process of greater depth and scope— the following pages analyse the fields in which co-operation can do a great deal to speed up the development of the countries of the region.

2. *Joint rational development of natural resources and compensation for regional disequilibria*

Efforts should be made to initiate or continue co-operative action to bring about: (i) a greater degree of self-reliance in regional supplies of food and raw materials in general; (ii) joint use of shared resources, such as water; (iii) re-channelling of trade flows in respect of primary commodities which the region exports to third countries and at the same time imports from the countries in question; and (iv) improvement of income from commodity exports, through an increase in local processing which will raise their incorporated value added and lead to greater national participation in the distribution and marketing phases, as well as to a stronger position in international commodity negotiations. All these initiatives should be undertaken in an adequate framework of rational use of resources.

3. *Energy*

In this field there are major areas which have not yet been the subject of sufficient attention, including, *inter alia*, the development of non-traditional energy resources; the

⁸ See ECLA, *Regional integration and co-operation in the 1980s* (E/CEPAL/G.1151), April 1981.

systematization of full, rapid and accurate information, especially with regard to petroleum and petroleum products; manpower training; management of enterprises; and, in general, everything related to energy economics and technology. Lastly, it would be of interest to continue in greater depth co-operation efforts such as those made in recent years by Mexico and Venezuela with a view to relieving the situation of the Central American and Caribbean countries which are net petroleum importers.

4. Physical integration and co-operation in transport, communications facilities and other public services

In order to surmount the obstacles posed by the long geographical distances existing between the countries of the region and to promote more efficient utilization of the existing infrastructure, it is important to pursue the initiatives aimed at facilitating the movement of persons and goods and at interconnecting the various transport and communications media. It will also be necessary to promote closer collaboration—especially in respect of the technology and production of certain inputs and capital goods—in other public services such as drinking water, irrigation, urban sanitation and metropolitan urban railway systems.

5. Food and agriculture

In this sector there is much potential room for co-operation activities in such fields as technology, foreign trade and the region's ability to supply its own food requirements. Complementarity in production, in line with climatic characteristics or the type of land available, may give rise to long-term supply agreements between groups of countries. Another point to note is that limitations in the available supply of foreign exchange and in other respects make it advisable that the region should produce as much of the food it requires as possible.

6. Science and technology

Science and technology are linked with all

productive activities and with the creation, application, dissemination, control and ownership of knowledge. Among the co-operation activities of regional interest may be mentioned the strengthening of scientific and technological capacity; promotion of the adaptation or creation of technology connected with priority sectors (energy, food, capital goods, etc.); interconnection of scientific and technological networks; organization of Latin American multinational technological enterprises; financing for scientific and technological development, and the adoption of common regional positions in international negotiations on such matters as industrial property and a code of conduct in technology.

7. Co-operation in industry

Apart from moves towards the creation of a common market, whose main beneficiary would be manufacturing industry, there are other co-operation activities at the level of specific branches of industry or individual enterprises, both public and private. Complementarity or joint programming of industrial branches of high capital density and volume and with large scales of production, such as petrochemicals, the aluminium industry, shipbuilding, the iron and steel industry or the production of electronic components, may contribute to a considerable increase in their efficiency and feasibility. A similar case is that of capital goods or heavy equipment, which call for continuity of demand and substantial production orders.

8. Financing

There now exist financial mechanisms, both on a regional scale and within the integration systems, intended to facilitate trade between such systems, to support countries with balance-of-payments deficits and to finance projects relating to integration industries. Nevertheless, co-operation in seeking new sources of financing inside and outside the area and in putting into operation an export insurance system is still of great importance, especially in order to cope with

the needs for long-term credit generated by the energy disequilibria of many countries of the region, by the urgent need to create and consolidate new export flows, by the additional demand for financing which will result from increased trade in capital goods, and by the need to concert major financial arrangements in support of binational or multinational co-operation activities.

At all events, present circumstances open up the opportunity of improving the forms of regional and subregional financial co-operation in Latin America already in existence as suggested above. It would therefore be desirable:

(a) To give greater impetus to the negotiations being conducted to secure larger amounts of reciprocal credits and longer repayment periods under the ALADI system of compensation of balances and reciprocal credits. The success of this system, which has been in operation for more than 15 years, warrants extending the time limit for compensation of balances to 6 months, which would mean likewise enlarging reciprocal credit amounts so that as far as possible payment before the end of the compensation period could be avoided;

(b) To interlink the payment systems of the Central American Common Market and of ALADI. The interconnection of these systems, which would make it possible to operate at the Latin American level, has already been studied from the technical point of view, and the reason why no further progress has been made is basically the want of agreement as to the interest rates that should be applied and the length of the compensation period. If the compensation period under the ALADI system were extended to 6 months, it would be exactly the same as that used in the Central American Common Market, so that it would cease to be a factor of conflict. It should also be possible to reach rapid agreement on rates of interest;

(c) To increase credit amounts and repayment periods under the Santo Domingo financial assistance agreement for balance-of-payments support. This agreement has been invoked on several occasions by various countries and in every case has worked

satisfactorily. However, the resources at present committed under the Agreement are still of very little significance and the credit repayment periods are too short. Larger amounts and longer repayment periods would facilitate balance-of-payments financing in Latin America and would expedite intra-Latin American trade;

(d) To re-update studies for the purpose of establishing a Financial Security Network in Latin America, on the basis of the proposal submitted by ECLA itself in the mid-1970s. The idea propounded envisages a commitment on the part of Latin American official financial institutions to provide funds as 'last-resource lenders', where a member country so requests and provided that the country in question had previously resorted to other sources of financing, including the International Monetary Fund. The mechanism would create a system of evaluation and consultation which could sow the seeds of closer co-operation in the future in fields other than that of financing and in other aspects of financing itself.

9. Co-operation in the field of services, especially in consulting and engineering

In some countries of the region, consulting and engineering services have come to constitute a significant item in their external trade and, complementarily, it can be seen that there is a wide field for the development of the technological and scientific know-how behind these activities. Although all the countries, to a greater or lesser extent, possess experience and knowledge of the technology used in the production sectors most characteristic of their economies, there are still big gaps which could be filled if the capacities of the whole group of countries were appropriately combined and collective initiatives were undertaken to make better use of national consulting and engineering resources. The possibility of co-operating in large-scale works in such sectors as energy, transport and communications, mining, etc., could give continuity to the application of specialized knowledge, eliminating the sharp fluctuations in demand for consulting and engineering services within each country, and

helping to train the Latin American countries for undertaking works in common outside the region.

10. *Export promotion*

Regional co-operation in the area of export promotion might be directed both towards improving knowledge of potential external markets and towards strengthening Latin America's bargaining power, as well as towards presenting a united front in face of the protectionist measures applied by the developed countries. Thus, regional co-operation at the level of governments, individual enterprises and their associations could help to perfect the various instruments of promotion (including insurance and re-insurance), to pool exportable supplies, to maintain publicity campaigns, to form associations of producers of exportable goods, to create multinational external marketing enterprises and to take such collective action as will facilitate access to international markets.

11. *Co-operation with the relatively less developed countries of the region*

If co-operation among the Latin American countries is to succeed it calls for special consideration of the principle of reciprocity, in the sense that the small and medium-sized countries which have not advanced in the industrialization process at the same rate as the larger countries should receive special support treatment, both under integration schemes and in all economic and commercial relations with the more developed countries of the region. Admittedly, this essential aspect of intra-regional relationships has been attended by serious problems when attempts have been made to put it into practice, either because of shortcomings in the means used to implement it or because the less developed countries have only slight possibilities of taking advantage of the opportunities offered. At the present time, however, there are sound political, economic and ethical reasons for seeking new paths and formulas which can contribute to the attainment of a more satisfactory intra-regional equilibrium.

C. SOME ASPECTS OF CO-OPERATION AT THE INTERNATIONAL LEVEL AND WITH OTHER DEVELOPING AREAS

1. *General remarks*

In the 1970s the industrialized countries were harassed by persistent inflation, increasing unemployment and a very unstable balance-of-payments situation, in terms both of surpluses and deficits and of fluctuations in exchange rates. The policies applied to tackle these problems had major repercussions on the developing countries, above all on the non-petroleum-exporting group. Deserving of special mention is the impact of the combination of inflation and greater international liquidity whereby the industrial countries sought to cope with the first fuel crisis. In Latin America's case, as previously noted, the countries of the region made use of the abundant supply of credit and contracted heavy debts, with the aim of

forestalling, as far as possible, significant declines in the growth rate of imports and of the product (and in some cases, of consumption). Furthermore, through foreign trade, they added a considerable component of imported inflation to what were already traditional inflationary problems of their own.

At the beginning of the 1980s the United States decisively changed its policy, thus altering the international panorama. The greater importance attached to anti-inflationary policies, in contrast with what happened in the crisis that started in 1974, resulted in a deeper-seated and more prolonged recession, a pronounced increase in unemployment and a notable rise in real interest rates. The effects on the developing countries have been manifold and have been

superimposed on a high level of indebtedness which did not exist in 1973, thus fostering a situation of deterioration and instability which has already been described in previous chapters with respect to Latin America.

Increasing unemployment and difficulties of production and financing in many developed countries acted as a spur to protectionist tendencies just at the very time when, paradoxically, a tendency to adopt policies of openness in trade and finance was to be observed in the developing countries. The recession in the industrial countries added to their growing protectionism a decline in demand for primary commodities and in their prices, thus bringing about a clearly-defined trend towards an imbalance in foreign trade, as has been pointed out in earlier chapters.

Accordingly, the 1981-1982 crisis found the Latin American countries in a particularly vulnerable situation, in the first place because their greater openness to international trade and to movements of capital facilitates the transmission of external impacts. Secondly, their high level of indebtedness seriously limits their chances of obtaining additional financing to cope with their balance-of-payments crisis. Thirdly, some developing countries do not have enough foreign exchange resources or accommodative capacity to maintain the regular servicing of their external debt, above all in view of the stagnation of international trade and the fact that their terms of trade have deteriorated.

The international trade and financial situation is reflected in a restrictive tendency in the international banking system, whose loan portfolio has been affected by the world recession and particularly by the increasing difficulties of some debtor countries. Furthermore, the recession which began to make itself felt in the Latin American countries in 1981-1982 has already compelled the Central Banks of some countries to adopt measures in support of the national banking systems.

In this connection, it should be borne in mind that a financial bank serves as an intermediary not only between savers and users of funds, but also between the present and

the future. When cyclical fluctuations are very marked and are accompanied by sharp fluctuations in the exchange rates of reserve currencies, the possibility of intermediation between present and future diminishes, because the banks consider its economic feasibility to have been reduced. If this phenomenon spreads to many banks, a choice has to be made between official support for the system or a major financial crisis; this holds good both on the national and on the international plane.

Thus, no solution for the foreign trade crisis is provided in the field of finance; rather are the recessive trends strengthened, with the serious economic and social consequences already indicated in this article.

2. Some aspects of international co-operation

(a) North-South co-operation

A general warning, almost too obvious yet nevertheless indispensable, is that measures to reactivate the world economy must be adopted within the framework of necessary moves to bring about changes in greater depth which will lead not only to a reacceleration and reorientation of economic and social development at the world, regional and national levels, but also to a reorganization of international economic relations. It may be added that the implementation of such initiatives will be easier if, in the different countries, it is approached in a dynamic context within which price stabilization measures are not adopted at the cost of stagnation of investment and continuous worsening of the unemployment situation.

It is important to reiterate, too, that the principal capacity for action to reactivate the world economy lies in the hands of the industrialized countries, inasmuch as they constitute the hub of the system of international relations. Thus, an indispensable priority requisite for such reactivation is a resolute, co-ordinated and steadfast policy on the part of those countries, aimed at surmounting the conjunctural and structural problems that are affecting their development processes, including those linked to the

reorganization of energy resources and to the redeployment of industry. In this respect, the efficacy of the action undertaken is clearly correlative to the coherence both of the diagnoses made and of the measures taken to deal with the trends and difficulties observable in the various industrialized countries.

At the level of the world economy, the international community —through the IDS for the United Nations Third Development Decade— has proposed specific objectives and targets for the developing countries, which have been ratified by the Latin American governments in the Regional Programme of Action. In this connection, the policies and measures adopted, both at the world and at the Latin American level, must take into account, *inter alia*, the points listed below:

(i) Countries with large and continuing balance-of-payments surpluses on current account should establish policies to facilitate their imports, since they are obviously in a privileged position to restore the dynamism of world trade;

(ii) Expansion of the developing countries' export trade should be facilitated with a view to reducing or eliminating their external imbalances. To this end:

— the developing countries could amplify and strengthen their export promotion policies, in relation both to traditional and to non-traditional exports,

— the developed countries could reduce or eliminate the tariff and non-tariff barriers (especially sliding-scale tariffs) which affect their imports from developing countries, especially of manufactures and many primary commodities; this step is indispensable for the success of the export promotion policies suggested in the previous subparagraph and also in order to make sure that the increases in export volumes achieved by virtue of tenacious efforts on the part of the developing countries in general, and those of Latin America in particular, are not nullified by a serious deterioration of the terms of trade;

(iii) It would be necessary to reschedule the servicing of the developing countries' external debt while the world reactivation programme gains impetus. To that end it would be useful to place at the disposal of

the countries a support mechanism for the refinancing of the debt, the possible characteristics of which have been indicated in various ECLA documents, and may be summed up as the right to automatic access to refinancing in accordance with certain objective indicators, and the principle that the scale and terms of rescheduling must be decided on a case-by-case basis;

(iv) The developed countries could apply some measures relative to the international private banking system, such as the acceptance of mechanisms for longer-term refinancing of their portfolios; the transfer of the effects of these measures to heavily indebted countries would enable the latter to obtain some relief of their payments situation;

(v) There would need to be a considerable increase in the operational levels (and also, in some cases, in the types of operations) of multilateral financial institutions, especially the International Monetary Fund and the World Bank, but also the regional credit institutions. The present dimensions of the International Monetary Fund are totally insufficient to cope with the existing situation in respect of external disequilibria, and its usable resources run the risk of exhaustion during the first half of 1983. To prevent this, and to allow the Fund to play an active role in a non-depressive solution of the crisis, the scope of its operations should be enlarged by raising the member countries subscriptions. It should be stressed that a 100% increase in IMF subscriptions would mean adding from US\$ 30 000 to US\$ 40 000 million to the Institution's total loan resources, and that these amounts represent only a proportion of between 10% and 15% of Latin America's current external debt. Lastly, the International Monetary Fund could establish a service to finance external deficits in the developing countries caused by increases in international interest rates, as representatives of Latin American governments have been proposing for some months past, in various forums;

(vi) At the same time, the resources of the World Bank and the regional banks should be boosted in order to enable these institutions to provide financial and tech-

nical support, both of a concessionary and of a non-subsidized character, for changes in the structure of production which are indispensable not only in order to weather the present crisis but also to regain reasonable and sustained world economic growth rates during the rest of the 1980s. The enlargements of funds proposed for the international public banking system would be perfectly feasible if there were rapid and genuine fulfilment of the targets consisting in the transfer to the developing countries of financial resources representing 0.7% and 1% of the industrialized countries' gross domestic product;

(vii) Finally, it would be necessary to bring about at the earliest possible moment a reform of the international monetary system making adequate provision at least to lay the foundations and establish suitable conditions for a process of equitable and symmetrical adjustment; for the creation of liquidity linked to the expansion of world trade flows; for the existence of a régime of flexible but relatively stable exchange rates; and for the satisfaction of the developing countries' needs, especially in respect of the transfer of monetary resources. Equally needful is a reform of the international system of trade making proper allowance for the interests of the developing countries.

(b) *South-South co-operation*

(i) *Trends and potentialities.* During the next few years the economic relations existing between the developing countries should be strengthened and amplified as a means of seeking new dynamic factors of growth and mitigating the harmful consequences of the slow development of the world economy. Increasing interregional co-operation would be added to intra-regional co-operation and to the expansion and reconstruction of the domestic market of the developing countries themselves, as a way of ensuring the Third World the more rapid rate of development which would permit a better form of insertion in an international economy dominated by the passive behaviour of the centres. Co-operation among the nations of the different developing regions is part of the quest for a

new international economic order, and one of the essential elements in the International Development Strategy for the 1980s.

In the 1970s the real potentialities of linkages between the countries of the South became apparent. These countries' will to reduce their dependence upon the centres and to promote their own interdependence has been reflected in action on the part of countries or groups of countries whereby they have been able to get to know one another better, to improve communications and transport, to establish special financing mechanisms, to create joint enterprises, to execute technical co-operation projects (including the transfer and development of technologies of their own), and, of course, to achieve a significant expansion of reciprocal merchandise trade.

The available background data on Latin America's trade with the rest of the developing countries suggest that during the rest of the 1980s an important and sustained expansion of interregional trade could take place. Between 1970 and 1978 Latin America's exports to the other developing countries as a whole rose from 2% of the region's total exports to 5%. The latter figure still seems relatively low, and may be pushed up considerably in the course of the 1980s. This impression is corroborated by the fact that, in relation to the total imports of the developing countries (excluding Latin America), Latin American exports to those countries represented only 1.4% in 1978, a coefficient similar to that recorded in 1970.⁹

The outlook is also promising for a considerable increase in the next few years in the direct inflow of loans and investment from the developing countries of the OPEC to the non-petroleum-exporting countries of the Third World, a large number of which will be generating persistent balance-of-payments current account deficits. In particular, there are possibilities of a future increase in the flow of loans and investment

⁹ See in this connection ECLA, "The external economic relations of Latin America in the 1980s", E/CEPAL/G. 1160, April 1981, pp. 147-148.

of this kind to Latin America, and specific initiatives in this direction exist already.

In another sphere, the experiences of Argentina and Brazil in co-operation with various African countries highlight the possibilities of collaboration in respect of technology. The intermediate technologies available in the Latin American countries for application in other developing countries are especially suitable in comparison with those technologies which it is attempted to transfer from the central countries. In 1982, Secretariats of the Economic Commission for Africa and the Economic Commission for Latin America launched a programme of horizontal co-operation between the two regions, particularly in the fields of foreign trade, development of human resources and science and technology.

(ii) *A programme of action for South-South co-operation.* The various aspects mentioned above have led the developing countries to intensify their search for systematic forms of joint action. As a result of the Conference on Economic Co-operation among Developing Countries, held in Mexico City in 1976; the United Nations Conference on Technical Co-operation among Developing Countries (Buenos Aires, 1978); the Fourth Ministerial Meeting of the Group of 77 (Arusha, 1979); and the High-Level Conference of the Group of 77 which took place in Caraballeda, Venezuela, in 1981, a start has been made on various joint activities of Third World countries which have been reflected in guidelines and decisions in several international forums, especially in United Nations agencies. These have not only given shape to guiding principles for the reciprocal co-operation of the developing countries but have also indicated priorities for action and specific mechanisms for putting such co-operation into effect.

The will of the South to undertake further joint action was particularly clearly reflected at the Ministerial Meeting of the Group of 77 at Arusha, where the First Short and Medium-Term Action Plan for Global Priorities on Economic Co-operation among Developing Countries (ECDC) was adopted. In this it was established that reciprocal economic co-operation 'is a key

element in a collective self-reliant strategy and thus becomes both an essential part of and an instrument for the necessary structural changes required for a balanced and equitable process of world economic development, ushering in a new set of relationships based on mutual interests and accommodations'.¹⁰

Among the areas of interest defined at the Mexico City Conference, the First Action Plan adopted at Arusha selected 9 in which to take the first measures of reciprocal co-operation: a global system of trade preferences among developing countries (GSTP); co-operation among State trading organizations (STOs); establishment of multinational marketing enterprises (MMEs); strengthening of subregional, regional and interregional economic integration and co-operation; co-operation in the transfer and development of technology; least developed countries; landlocked and island developing countries; monetary and financial co-operation; and multinational production enterprises among developing countries (MPEs). Furthermore, at the Ministerial Meeting at Arusha it was reiterated that technical co-operation is a basic instrument for the promotion of economic co-operation among developing countries, for which reason it was considered necessary that the Buenos Aires Plan of Action and the corresponding resolutions adopted at the United Nations Conference on Technical Co-operation among Developing Countries should be rapidly and effectively implemented.

In view of the progress made to date, and of its paramount importance, special attention will be devoted here to the global system of trade preferences among developing countries. After the preparation of a number of technical studies by UNCTAD and the various meetings at the regional and world levels, the GSTP has entered into the negotiation stage, and progress in this respect during 1982 is promising. The bases approved by the developing countries define the framework within which

¹⁰ See UNCTAD, *Arusha Programme for Collective Self-reliance and Framework for Negotiations*, UNCTAD V, Document TD/236, Manila, May 1979, p. 8.

negotiations leading to the establishment of the GSTP will be conducted. Because of the scope and significance of these agreed bases, the setting-up of the GSTP may lead to the creation of an authentic economic system for the developing countries which will permit the strengthening of relations among them in respect of trade and in many other fields of economic activity.

Lastly, it is of interest to note that at the Venezuela meeting in 1981, it was decided to set in motion a series of mechanisms (working groups, conferences, seminars, etc.) designed to strengthen co-operation among developing countries in the areas of energy, financing, agriculture, raw materials, technology, industrialization and trade.