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THE CRISIS IN LATIN AMERICA: PRESENT SITUATION AND FUTURE OUTLOOK

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Introduction

In its resolution 35/56 of 5 December 1980, the United Nations General Assembly adopted the International Development Strategy for the Third United Nations Development Decade, designed to promote the economic and social development of the developing countries. This Strategy lays down the goals and objectives which should be attained during the 1980s and also the measures which should be taken at the domestic level and especially at the international level to fulfill the purposes proposed.

The IDS laid down that the United Nations regional economic commissions should consider the feasibility of preparing action programmes to support the efforts of developing countries in the implementation of the IDS in their respective areas.

In this context, the ECLA Committee of High-Level Government Experts, meeting in Quito in March 1981, prepared a draft Regional Programme of Action designed to aid in the implementation of the IDS as regards the countries of the region. This Regional Programme of Action was approved at the nineteenth session of ECLA, held in Montevideo, Uruguay, in May 1981.

The IDS established machinery for the review and appraisal of economic and social development and of its own implementation, and this is carried out at various levels. As regards the regional appraisal, it lays down that the United Nations regional economic commissions should carry out the work of review and appraisal in their respective areas, while the General Assembly, for its part, will carry out the first review and appraisal in 1984.

On 20 December 1982, in resolution 37/202, the General Assembly decided to set up a committee of universal membership to carry out the review and appraisal of the application of the IDS at the global level in 1984, while it requested the regional commissions to carry out these tasks in their respective regions.

In these circumstances, the present meeting of CEGAN is of special importance. It must examine the economic and social evolution of the countries of the region and appraise the progress made in the implementation of the IDS and of the Regional Programme of Action during the first three years of the present decade, at a time when a profound economic and financial depression is affecting the countries of the region and the course of economic and financial events at the national and international level has displayed, in its essential aspects, totally different characteristics and orientations from those which the IDS and the Regional Programme of Action set forth or proposed to establish.

In this respect, resolution 37/202 states in one of its preambular paragraphs "that the adverse effects of the continuing international economic crisis, especially on the economies of the developing countries, make particularly necessary the task of carrying out such a review and appraisal with a view to considering the adjustment, intensification or reformulation of the policy measures required in the light of evolving needs and developments, in order to achieve the goals and objectives of the International Development Strategy".

As a contribution to the deliberations of this meeting of CEGAN, the Secretariat has prepared the present document.

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I. THE NATURE, SCOPE AND DEPTH OF THE CRISIS IN LATIN AMERICA

A. THE SCOPE OF THE CRISIS. ECONOMIC CONTRACTION AND STAGNATION IN THE REGIONAL CONTEXT

The economic and financial crisis has spread to practically all the countries of the region. It is getting worse, and a climate of instability, confusion and uncertainty is spreading as regards the future evolution of events and the policies which should be adopted to contain and overcome the harmful effects of this process. The negotiations and arrangements made with regard to external indebtedness and debt servicing have not succeeded in stabilizing the situation, and in some cases the problems are totally insoluble if tackled within the context of conventional methods and forms of action.

Even as late as 1980, in spite of the decline registered in the second half of the 1970s, the region's economic growth still showed a higher average rate than that of the industrial countries with which Latin America is linked through the bulk of its economic, financial and technological relations with the exterior. In the three-year period 1981-1983, however, these differences tended to be reversed, since the region fell into a situation of severe economic recession and renewed inflation. Latin America is now in the midst of a world economic recession which affects developed and developing countries alike: countries with market economies, mixed economies and even to some extent centrally-planned economies; large and small nations; and oil-exporting and non-oil-exporting countries.

This overall appraisal does not mean that the manifestations and spread of the world-level crisis are the same in all regions and countries. It is nevertheless true, however, that in most of the countries there are salient features which evolve along very similar lines, especially as regards the drop in the economic growth rate and, still more frequently, the stagnation or contraction of national economic activities, the excessive indebtedness of some countries, the balance-of-payments problems of the developing countries, and the high levels of unemployment and inflation.

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In order to clarify the nature of this crisis, it is necessary to take account of various considerations which involve the following questions:

a) Is this depression in the world economy the consequence of an actual shortage of physical resources after the intensive exploitation of natural resources required by its extraordinary growth from the period after the war until the mid-1970s, or is it rather a cyclical or conjunctural development, originating in the central industrial countries, which has been transmitted to other areas and especially the developing countries?

b) Are we witnessing a process of transition of the world economy towards the establishment of new forms of technology and energy which will mark a new stage in the development of the forces of production and the forms and social conditions of life?

c) Is this a contradictory situation brought about by the well-known fact of the shaping of a new world economy characterized by a high growth rate and an increase in the degree of internationalization and interdependence of the various areas and countries as regards trade, investment, financing and technological development, without however having at the same time established suitable multilateral institutions to help guide and promote the efficient and equitable functioning of the world economy, especially as regards the place of the developing countries in it? This seems particularly likely when we consider that the existing multilateral institutions in the financial, monetary and trade fields have been overtaken by events and, to tell the truth, have not devoted proper attention to the development problems peculiar to the countries of the periphery.

In the region, it would appear that the crisis manifests itself with similar characteristics or features in many countries:

a) The crisis would appear to be determined principally by external factors, although this is not to deny the importance of the structural aspects and factors of a domestic nature which hinder development;

b) The national economies have fallen during the last three years into a process of decline, stagnation and even contraction in the absolute levels of economic activity, so that the economic growth of the region as a whole has been nil;

c) Such a prolonged situation of stagnation and even contraction of economic activity in the region as a whole is without precedent in the period since the war. The immediate prospects for a significant improvement in the economic growth

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rate are frankly unpromising, and even if there were some recovery in the second half of the decade, the average growth for the 1980s would probably be lower than in any of the previous three decades;

d) There has been a resurgence of inflation and exchange rate instability in the region, and these problems have also spread to the few countries which had previously been free from them. In some cases, economic panic and speculation have created situations which have escaped from the control or guidance of national policies;

e) It is in the area of external relations that the similarity of national experiences and situations is most marked, in spite of considerable differences of degree among the various countries. The problems involved here are the high level of external indebtedness; the burden of debt servicing commitments because of the reduction in maturities and the high rates of interest, and, for many countries, the material impossibility of facing up to the debt servicing obligations if the inflow of new capital continues to be limited, as has been the case since 1982. Furthermore, the countries are likely to have serious difficulties in absorbing new loans if the high interest rates and short maturity terms prevailing at present are maintained. Thus, the magnitude of financing problems, the contraction in external demand in the last three years, and the deterioration in the terms of trade (which has now spread to the oil-exporting countries too) are giving rise to situations of veritable strangulation of the economic process.

These broadly similar manifestations of the crisis in the different nations have differed in their absolute or relative intensity from one country to another according to their economic size and population, the degree of openness to the exterior, the nature and extent of State intervention in the running of economic policy and of the participation of the State as an economic agent, the resource endowment, the degree of industrialization, and the level of diversification reached in the production and technological fields.

The particular path followed by the countries of the region from the period of economic boom to the present crisis has also varied. It may be noted in this respect, for example, that the oil-exporting countries have not evolved in the same way as the non-oil-exporting countries and that the evolution of the countries with high growth rates has been different from that of the more numerous group of countries which have traditionally shown slower growth.

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B. THE DETERIORATION IN SOCIAL CONDITIONS AND THE SHARPENING OF SOCIAL TENSIONS

The crisis is exacerbating the deterioration in social conditions in the Latin American societies, which were extremely inequitable to start with. There can be no question but that economic growth must be accompanied by deliberate State promotion of a process of structural and institutional change designed to achieve a more equitable distribution of the fruits of economic development and to satisfy certain standards of improvement in the social welfare of the mass of the population. It is nonetheless true, however, that in the climate of stagnation and recession, confusion and uncertainty prevailing on the Latin American scene, the absence of economic growth will necessarily cause social tensions to become more acute, resistance to change on the part of the sectors which must make concessions will become more determined, and ultimately even more serious prejudice will be caused to the great mass of the population in the lower segments of the scale of distribution of wealth and income, while at the same time powerful forces of social instability will be fomented.

There are four interrelated aspects of special significance with regard to the social dimensions of development: i) the distribution of property and income; ii) the magnitude of extreme poverty; iii) unemployment, and iv) the limitations on and differences in social participation.

The process of economic development and the rapid social changes which took place in the period since the war have shaped new middle-level socioeconomic sectors which today have considerable weight in the economic, social and political field. At the same time, it is evident that the very high degree of concentration of property and income in a small segment of the population and the very small participation of the great masses in these benefits go to make up a structural situation of extreme and persistent inequality which conditions the whole economic and social system and which it is essential to deal with both for ethical reasons and for those of social efficiency. In other words, reducing the irritating inequalities in personal or family income distribution must be in itself one of the social objectives of the development strategies.

There can be no doubt that the crisis is accentuating these inequalities because of the drop in employment and real wages and the reduction or limitation of the types of social assistance which should benefit the poorer sectors to a greater extent. All in all, this reduces the participation of wage-earners in the distribution of national income, while at the same time increasing the share of the other segments of society, although not necessarily to the same extent for each of them.

A very high proportion of the population of the Latin American countries receive incomes lower than those needed to cover the expenditure which is essential in order to satisfy minimum living conditions, and worse still, a very considerable proportion of the population suffers the still more depressing conditions of extreme poverty. This is in contrast with the high level of consumption in the top segments of the income distribution scale and the spread of high levels of consumption in the upper-middle sectors. The relative magnitude of the population living in a state of poverty varies from one country to another, being generally associated with the degree of economic development and the efficiency of the social policies adopted. Statistical studies carried out by some Latin American countries are said to indicate that this relative magnitude has tended to go down in the period since the war. It is most likely, however, that this relative reduction is not enough to reduce the absolute size of the poor population, at least within a reasonable length of time. The increase in unemployment and the contraction in real wages already referred to are the main factors tending towards the greater severity and spread of poverty during the present crisis.

The objective of reducing poverty situations may be compatible with that of improving the distribution of income (or consumption). The reverse would not necessarily be true, however, in all cases. It would therefore be desirable to consider which of these two objectives should be given immediate emphasis in economic and social policy, bearing in mind the veritable emergency situations brought about by the crisis in many countries.

The chronic problem of unemployment and underemployment which already prevailed in Latin America is assuming staggering levels in this crisis. In some cases, for example, the equivalent of one-fifth or even a quarter or more of the labour force are considered to be unemployed. The industrialized countries with high levels of income become deeply concerned over much lower levels of unemployment among their own citizens and seek to justify the application of

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protectionist measures by the need to protect employment in their countries, even though their unemployed receive social welfare allowances. The increase in unemployment directly influences the rise in the degree of inequality in income distribution and in the spread of poverty. Furthermore, the problem of unemployment not only involves wage-earners but also other social segments corresponding mainly to the intermediate sectors in the scales of distribution of income and property.

The seriousness of this situation can be appreciated if we take into account the fact that the labour force increases each year by a considerable amount in most of the countries and that in order to prevent unemployment from getting worse a high rate of economic growth is needed. In Latin America, except in a very few cases, the economic growth rate slackened during the second half of the 1970s, and in the last three years there has been stagnation or outright economic recession which has dramatically aggravated the problem of unemployment, while no immediate favourable prospects are to be glimpsed.

C. THE EXTERNAL DEPENDENCE AND VULNERABILITY OF THE ECONOMIC PROCESS AND THEIR DETERMINING FACTORS

Various factors of an internal and external nature have helped to unleash the crisis now affecting Latin America. The first of these factors are connected with characteristics peculiar to the national economies; with the nature of the strategies and policies adopted by governments, which in many cases have been flagrantly unsuitable or have amplified the unfavourable effects of the world economic recession and the weakening of international trade; and also, in some countries, with political or social conflicts.

Within the context of the structure and present functioning of the national economies, however, it is evident that it is the external factors which are most clearly responsible in most of the countries for the nature and scope of the crisis; this is so to such an extent that in some views of the problem the crisis is attributed essentially to the conjunctural and structural evolution of the industrial countries, transmitted to the developing countries by the close links of dependency binding the latter to the central economies. This view of the situation unjustifiably overlooks, however, the fact that these external factors have joined together with the domestic structural conditions which have traditionally stood in the way of a dynamic and equitable process of economic and social development.

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Among the more generalized aspects of external relations which have helped to put a veritable stranglehold on the process of economic growth and which mutually strengthen each other in their adverse effects, special mention may be made of:

a) The structural imbalance observed in the economic make-up and technological content of the production and external trade of the developing countries, as compared with the industrial countries. This general imbalance forms the context for more specific aspects of the way the relations between internal and external factors have evolved;

b) The amount of external indebtedness accumulated on account of the growing balance-of-payments current account deficits. A particularly important aspect of this indebtedness is the magnitude reached by payments of interest to the exterior, due both to the large amount of indebtedness and the rise in interest rates;

c) The weakness of external demand because of the world recession and, especially, the way it has evolved in the industrial countries with which Latin America maintains most of its economic, financial and technological relations. This has been reflected in recent years in sluggish growth of Latin American exports and a substantial deterioration in the terms of trade;

d) The resurgence of different kinds of protectionist measures not only in the industrial countries but also among the developing countries, where they have even affected intra-regional mutual trade;

e) The difficulties in establishing regional programmes of co-operation and economic integration and the scanty links with other developing areas, and

f) The problems standing in the way of the more dynamic development of trade with the countries with centrally-planned economies.

In the course of the period since the war, Latin America has registered a significant process of growth and economic and technological change. It has displayed a high potential for economic growth and has made important changes in its structure of production and technology. It has attained appreciable progress in industrialization, to the point where some countries of the region are now passing through a stage of semi-industrialization which marks them out as the new industrial countries of the future. Furthermore there has been quite intensive absorption of modern technologies and vigorous development of the basic production forces which must form the foundation for subsequent growth and economic development.

Neither these nor other aspects pointing in the same direction, however, have managed to eliminate to the necessary extent the unbalanced structure characterizing the productive and technological make-up of the output and trade of the Latin American countries, even in the case of those which may be considered as being among the most advanced. At the same time, it must be acknowledged that this imbalance shows different levels of severity, against the background of the generally greater economic defence capacity of the region. Finally, it is also necessary to take into account the relative nature of these comparisons, since the industrial countries continue to promote extraordinary technological advances.

In actual fact, in spite of the progress made, the exports of the Latin American countries to the industrial countries consist mostly of primary commodities with different degrees of processing, and only to a much lesser extent of manufactures. The former have been appreciably diversified, expanding the range of non-traditional exports, while the latter, which expanded rapidly during the 1970s and even began to include capital goods, have corresponded mainly to products of light industry or those with a lower technological content. In contrast, the imports from the industrialized countries consist mostly of intermediate manufactures, which represent essential imports for national productive activities, and the capital goods needed to increase production capacity and incorporate new technologies.

This structural situation explains the great importance of the evolution of external purchasing power -which derives from the real export income and the net contribution from capital movements- in maintaining and increasing these essential supplies. This also highlights the effects which national policies, the performance of domestic economic activity and the policies of the transnational corporations can have on the demand for imports and the evolution of the balance of payments. Of course the immediate effects of these interrelations are not necessarily reflected in simultaneous adjustments. They have some degree of flexibility and are of varied intensity as regards the spread through the economies as a whole and their incidence on specific aspects or sectors. Moreover, the conditions in which they take place vary from one country to another according

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to the stage of economic development reached and the resource endowment. Another aspect of particular importance as regards the configuration of this imbalance concerns the evolution of the external terms of trade.

The high level of external indebtedness and the heavy financial burden of servicing it form one of the main immediate problems responsible for the difficult external bottleneck situation in which the economies of the region are involved to varying degrees of intensity, and bring out very clearly the situation of dependence of these countries and the limitations on their freedom to adopt the economic policy decisions considered most appropriate in the domestic and external contexts.

As is well known, the problem of indebtedness is of deep concern to the debtor countries, but just as much concern is felt by the creditor countries, the international private banking system and the multilateral institutions on account of the serious consequences that would ensue at the international level if the financial difficulties of the developing countries with the biggest volume of external indebtedness were such as to oblige them to unilaterally postpone the payment of their financial servicing commitments. In this respect, it is worth drawing attention to the speed and "efficiency" which the central countries and the international private banking system have shown in organizing negotiations and agreements on the payment of commitments as regards capital and interest which fall due now or in the near future. It would be highly desirable if the same concern and diligence were also shown in negotiations in other areas or on other matters of special interest to the developing countries in general and the Latin American countries in particular, such as the subject of preferences and access to the markets of the industrial countries and institutional reorganization in the monetary and financial field. These and other problems which are still without a solution are largely responsible for the economic and financial situation affecting our countries, although this is not of course to ignore the responsibility which must be borne by national governments for the unsuitable nature of the policies followed by many countries.

The truth is that the central countries have always been more willing to promote direct private investment and concessionary or non-concessionary external financing, which they see as the most appropriate instruments for increasing investment in the developing countries and finding a "solution" to their

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balance-of-payments current account deficits. They have taken this course instead of giving effective support to the expansion and diversification of the exports of the developing countries to the central countries by adopting the necessary structural measures.

Part of the extraordinary increase in the availability of international financial resources due to the surpluses of the oil-exporting countries and the policy adopted by the United States was used by the developing countries, through the international private banking system, to increase their imports from the industrialized countries and improve their gross international reserve position. At the same time, many Latin American countries achieved success in their policies of increasing exports. In an initial stage, a sensation of an economic boom was thus created which was reflected in one way or another by a weakening in the developing countries' pressure and political action to win substantial changes in the policies of the industrial countries and place the opening-up of the latter's markets in favour of the exports of the developing countries on a more secure basis. On the other hand, many Latin American countries went a long way in the liberalization of their external trade and greater opening-up to the exterior, and in these cases there was a veritable process of reverse import substitution -that is to say, the replacement of domestic production by imported goods- which considerably increased the volume and value of their external purchases. As will be explained later, this process was doomed to come to an end in the short term.

Another aspect which considerably complicates the financial situation is the magnitude of the external debt maintained by State and private enterprises with the international private banking system. In some countries, economic and financial policy was aimed at keeping the exchange rate fixed or relatively stable, while at the same time applying restrictive measures on domestic credit. The aim of this was to avoid both inflationary pressures and the raising of the national-currency cost of the servicing of this debt. This policy stimulated imports and hindered the promotion of exports, while the enterprises which had debts in foreign currency acted as a source of pressure for keeping the exchange rate practically unchanged.

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It is obvious that with the passage of time this situation was bound to have to change, especially when the external demand for Latin American exports slackened, the prices of primary commodities fell, and there was a considerable increase in the interest rates on a growing external debt. The subsequent devaluation in fact meant very severe losses for the debtor enterprises.

In spite of the efforts made to promote exports and contain imports and the sacrifice represented by the decline in the economic growth rate or, still worse, the stagnation and depression registered in the last three years, the majority of the Latin American countries continue to be dependent on heavy external financial support in order to meet the servicing commitments on their accumulated debt, which represent a very high percentage of their current foreign exchange income. The region is thus in a vicious circle in which the debt keeps on growing, feeding itself largely because of the extraordinary rise in interest rates.

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II. THE ECONOMIC PROCESS FROM BOOM TO CRISIS

A. TRENDS IN ECONOMIC EVOLUTION SINCE THE WAR

Between the early post-war years and 1980, the growth and the productive and technological transformation of the national economies reached high levels. The gross domestic product of the region as a whole grew at an average annual rate of 5.5%, so that the volume of overall economic activity was five times greater in 1980 than 30 years before. The growth of industrial production and capital formation was even greater. The considerable progress made by the countries of the region promoted the formation of basic structures that stimulated economic growth and the development of productive forces.

This economic evolution was accompanied by a process of social change which was particularly sweeping in many countries. Nations which were agricultural, single-commodity exporters with a low level of income 30 years ago are today on the way to becoming newly industrial countries and are achieving a diversified economic structure which is striving to reach out to the exterior through its trade flows. When viewed from the standpoint of economic history, this process is in sharp contrast to the intensity and duration of the current crisis.

The economic process has been far from uniform throughout the region. The degree of progress and expansion has varied sharply from one country to another; three decades have produced significant differences as regards the size of the economy and the population, the degree of industrialization, and other aspects of economic development which have substantially changed the relative position of the countries within the region as a whole.

So, too, the rate of economic growth has varied considerably in the short term as a result of these differences, the uneven endowment of resources, and national economic policies.

A global analysis of the evolution since the war reveals five stages or phases in which there were changes of a widespread nature, although they are not equally valid for all the countries of the region: the first stage began a few years after the war ended and continued until the mid-1960s; the second extended

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from the mid-1960s until 1974; the third corresponded to the 1974-1975 biennium; the fourth covered the second half of the 1970s; and, finally, the fifth stage relates to the intensification of the current crisis during the three years 1981-1983.

In many countries the first stage corresponded to the period when a policy of import substitution was being applied. The growth rate was slightly over 5% per year, exports expanded very slowly, and after the Korean War, the terms of trade tended to deteriorate.

This partially accounts for the slow growth of imports, which increased much less than the domestic product. The import/product ratio tended to decline, and by 1965 it had reached its lowest level in the entire period since the war. This marked the saturation of the import substitution process, not because there was no market or room for continuing industrialization, but rather because a policy of this type soon requires additional imports and must be complemented by a policy for export promotion and diversification. Despite the excesses which doubtlessly occurred during the application of the import substitution policy, later experience was to demonstrate the need to reassess the value of this policy, without which neither the subsequent advances in the technological and productive transformation of the national economies nor the first steps taken towards export diversification would have been possible.

The second stage was marked by very different trends from the preceding one:

a) Major changes in the countries' economic policies were promoted which reaffirmed economic growth as an essential goal for the orientation of economic policy. At the same time, policies and measures leading to a greater openness to the exterior were promoted;

b) The pace of economic growth tended to speed up, reaching a rate of approximately 6.5% per year (1965-1974) and even higher rates in the early 1970s. It should be noted that these indexes were influenced to a great extent by a few countries whose growth was more dynamic than many others. Nonetheless, the trends were favourable in a large number of countries, although to varying degrees;

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c) The vigorous growth of the world economy and international trade, as well as export promotion policies, tended to favour Latin American exports and helped to improve the terms of trade; this was especially true in the early 1970s and particularly so for the oil-exporting countries, which received considerably higher prices in 1973-1974;

d) The greater availability of external financing during the early 1970s also helped to boost the supply of imports, the rapid growth rate of which exceeded the growth rate of the domestic product. Despite the expansion of imports, however, the deficit on the balance-of-payments current account did not rise significantly.

In the 1974-1975 biennium, factors with far-reaching implications were at work which changed the internal and external conditions of the Latin American economic process and which were later to have important consequences.

The year 1974 marked a period of transition from the boom of the preceding years to an outright recessionary trend in 1975. The product's growth remained relatively high in 1974, and the real income of the oil-exporting countries rose as a result of the price increases which they achieved for their exports.

Imports expanded considerably in almost all of the countries. At the same time, however, the exports of a large number of them either showed no growth or decreased, and the terms of trade worsened for almost all of the non-oil-exporting countries as the real value, or purchasing power, of their current income from exports of goods and services dropped.

In 1975 the recession became general among the non-oil-exporting countries; their exports remained stagnant and the terms of trade declined once again. The economic growth rate dropped to only 3.5%, at the same time that the volume of imports decreased. The current account deficit of this group of countries rose appreciably. This deficit was financed partially with reserves, but to a greater extent through external financing. Thus began the period during which the magnitude of external financing, cumulative indebtedness and deficits on the current account of the balance of payments were to become characteristic features of the economic evolution of the region's countries, until they finally resulted in the deep and widespread crisis which has been affecting Latin America for the last three years.

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The phase covering the second half of the last decade (1976-1980) was marked by a moderate improvement in the rate of economic growth. The average growth rate of the gross domestic product was about 5.5% annually, although there were considerable differences from one country to another. Some notable developments during this period were the expansion of the exports of the non-oil-exporting countries and the persistence of a considerable inflow of external financing despite the magnitude of the external indebtedness which was being accumulated.

Imports also grew to some extent, although less than the real values of exports. Further, it is interesting to note that during this period net capital inflows frequently exceeded the amount needed to finance the balance of payments; as a result, in some years the monetary reserves of many countries increased.

Beginning in 1981, the majority of the Latin American countries were thrown into an economic and financial crisis which can be regarded as the deepest and longest-lasting since the world-wide crisis of the 1930s.

The performance of the domestic product has been deteriorating for the last three years (1981-1983). There has been virtually no growth for the region as a whole, and a severe drop in the absolute levels of the domestic product is expected for 1983.

In these circumstances, there was a drastic decrease in the per capita gross domestic product, which was approximately 10% lower in 1983 than in 1980. If the effect of the terms of trade and the net remittances of interest and profits are taken into account, the decline in national per capita income was around 15% during that period.

The developments during this period are examined below, and the most outstanding aspects of the economic process in relation to external variables are underlined. The nature and implications of the adjustment policies which are being adopted in order to deal with the new conditions will also be analysed.

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B. THE ONSET OF THE CRISIS AND THE ADJUSTMENT POLICIES

1. The spread and complexity of external dependence

The deterioration in the socioeconomic situation during the last three years was due, as already noted, to the constraints which the external sector placed on the development process. On this occasion, as in other post-war crises of the external sector, the weakness and the drop in the volume and value of exports played a major role, as did the deterioration of the terms of trade. Either because of the march of events or the implementation of deliberate policies, all of this led to the curbing or restriction of imports. Nevertheless, it is clear that in these circumstances trade factors alone are not enough to account for the nature and extent of the external imbalance; financial factors also had a decisive influence in the onset of the crisis. Furthermore, the relationship between external trade and financial factors and the way they have evolved over time have been similar in most of the countries, which in a large part accounts for the extensiveness of the crisis.

During the 1974-1980 period, external dependence spread and became more complex. The region borrowed heavily, and this process extended to most of the sectors of the economy, going far beyond the domestic banking system and the sectors directly linked to external trade. The foreign banks in fact acquired an extraordinary ability to exert pressure, which later permitted them to exert an influence in the determination of adjustment policies. This helps to account for certain features common to national policies and the evolution of national economies during this period of crisis.

To a large extent the new international position of the countries of the region which took shape during the past decade was, in most of the countries, sustained by both a theoretical stance and the view held of the evolution of the developed world.

On the theoretical level, the promotion of more extensive external relations was assigned a more significant role in the development process than in the past. There were, however, differences with respect to the function which such external relations should perform. Some felt that external trade should be the basic driving force of growth. Others assigned it the role of an indispensable counterpart to a form of transformation of production which would essentially be guided by the

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domestic market. In both cases, however, there was a desire to increase the part played by external trade in the national economic process.

It was often thought that the future evolution both of production in the developed countries and of world trade would be relatively favourable. The 1974-1975 recession in the industrial countries was largely attributed to the effects of the increase in fuel prices, although there was an awareness of the effect of other factors. A degree of improvement in the growth rates of some developed countries in the period between 1974 and 1979 (over 4% in the United States and 5% in Japan) led to the belief that the fuel crisis would gradually be overcome and that growth would soon speed up, so that world trade would once again play a very active role in the region. This optimism was encouraged by the dynamic growth of Latin American exports, since it was thought that if such results could be achieved during a mediocre period for the world economy, then it was to be expected that they could be maintained or even improved upon in the near future.

The combination of theoretical stances and the apparent favourable outlook paved the way for policies of expansion and diversification of exports and to the acceptance of foreign trade deficits, which were assumed to be temporary. The net oil exporters expected a slow but steady improvement in real fuel prices, while the importers trusted in substitution and conservation plans and in the development of their own energy sources. Others saw the increases in oil prices as a sign of hope for an improvement in raw material prices in general and were confident that freer external relations would make the old scheme of comparative advantage begin to function and that this would result in a steady increase in the value of exports.

2. The evolution of external trade and external financing in 1976-1980

During the period 1976-1980, external trade registered extremely dynamic growth which far outpaced that of the product. The growth rates of the volume and value of exports were the most rapid since the war, and imports also grew, in some years at surprising rates, in the nations of the Southern Cone and in some of the net oil-exporting countries. At the same time the deficit on trade in goods and services persisted during most of those years in the majority of cases. Thus a situation arose which was uncommon during post-war development, in that external trade was very dynamic while, at the same time, it consistently showed a deficit in the medium term.

/The rapid

The rapid growth in the value of exports had varying origins. In the countries which were net exporters of oil or fuels, it was caused by the increase in prices; in some cases this was accompanied by decreases in export volumes, while in others there were increases. Situations varied in the other countries: diversion of production which had previously been destined for the domestic market, diversification of raw material production, greater processing of the raw materials exported, and expansion of exports of manufactures. In this last case, advantage was taken of installed capacity which had previously been idle or in the process of development and of the rapid expansion of the industrial sector in some countries. There were very uneven price movements, and the domestic efforts which went along with the growth in the value of exports were, therefore, also very different.

The motivations and composition of the growth in imports were very different too. In some cases it essentially served to support an intensive process of investment, while in other cases it sustained a growth in consumption and was used in the fight against inflation. In general, the volume and prices of imports rose simultaneously, the periodic increases in the latter being the most stable.

Under these circumstances, a deficit on the external trade in goods and services was the norm. The foundation, if not the actual reason, for this deficit was the inflow or availability of external financing. This was offered in abundance to almost all the countries, was channelled through the transnational banking system, and at first, real interest rates were low. Gradually, however, the average loan terms became shorter and the interest rates went up.

This net external financing was increased substantially over time in order to meet the trade deficits and the mounting liabilities incurred as a result of direct investment and the foreign debt. The amount of interest payments climbed in absolute and relative terms due both to the growth of the debt and the rise in interest rates.

This brief description of the way in which trade and external financing evolved reveals the simultaneous existence of three factors that were common to most of the countries: the dynamic growth of trade, a deficit on trade in goods and services, and abundant net external financing.

These factors are also seen to be interconnected by causal relationships which sustain their coexistence. In so far as the relationship between indebtedness and the value of exports is used as one of the most meaningful indicators of a country's external creditworthiness, the rapid growth of the latter variable tends to provide

/a basis

a basis for greater borrowing. During the 1976-1980 period, exports grew at rates of close to 20%, while the nominal interest rate remained around 10%. Under such circumstances, even for the countries in which the above-mentioned ratio was high, greater borrowing could be justified by reasoning on the basis of certain assumptions. Thus, for example, if the ratio was 3 to 1, it could be maintained at that level if both the debt and the value of exports rose by 20%; half of the additional amount borrowed would finance the nominal interest rates of 10%, while the other 10% -representing 30% of the value of exports- provided support for a large trade deficit and an increase in the international reserves.

Thus, if it was believed that a situation of rapid growth in the value of exports and considerably lower nominal interest rates could last, it was believed possible to expand external indebtedness without any risk in terms of the external payments capacity, while at the same time large trade deficits could be maintained side by side with increasing reserves. This provided a substantial degree of freedom with respect both to economic policy and the governments' own political action. In many cases, in fact, exchange, credit, fiscal and international reserves policies all joined together to stimulate domestic spending, thus producing a temporary boom which increased external financing requirements.

Unfortunately, this reasoning was based on numerous assumptions which, if not correct, could lead to serious problems. For this reason, as early as 1977 the Secretariat sounded a warning note in its prospective studies regarding the vulnerability entailed by the level of indebtedness which was being reached.

The simultaneous assumption in the medium term of a 20% growth rate in the value of exports and nominal interest rates of 10% did not appear to be reasonable. As already noted, a combination of very different situations lay behind that figure of 20%. When it was due to a very rapid growth in volume, it was foreseeable that this could not be maintained in the long run, and as regards commodities, it was common knowledge that the growth in world demand for these goods was slow and that there was a resurgence of protectionism in the developed countries whenever the exports of the developing countries came to represent significant percentages of their markets.

On the other hand, in order to use manufactures to sustain high and significant values of exports in the medium term, industrialization policies were called for which very few Latin American countries were applying. Moreover, the resurgence of

/protectionist policies

protectionist policies which also began to be noted in this regard posed a serious obstacle to a lasting expansion in the value of exports. As regards prices, there was no doubt that part of the growth in the value of exports was due to mounting world-wide inflation. This acceleration of inflation made it difficult to maintain nominal interest rates which represented very low or even negative real rates.

As for the trade deficit in goods and services, it did not seem reasonable either to approach this without reference to domestic policies and the terms of trade. The persistence of the trade deficit concealed dangerous tie-ins with the domestic economy. In many cases the achievement of a rapid growth of exports was achieved at the expense of major domestic costs which could not easily be increased in the event of an undesirable short-term situation. On the other hand, the rapid growth of imports was vital to the maintenance of policies for economic growth, economic liberalization, or anti-inflationary policies. As is well known, trade deficits are also related to the terms of trade. During the 1976-1980 period, as already mentioned, the governments based their actions on expectations of an improvement or, at the worst, a standstill of the terms of trade. An unfavourable short-term situation, whether in connection with external demand, the terms of trade or a combination of the two, would either cause the deficit to grow more than had been expected or would cause the national economy to suffer a great deal.

Finally, the assumption that "debts should not be repaid, but rather refinanced" was implicit in this reasoning. Refinancing is therefore viewed as a relatively automatic mechanism. If the average loan term is extended, then the amount renewed at any one time represents only a small percentage of exports. With an average term of 10 years and a ratio of the debt to the value of exports of 3 to 1, the amount to be renewed represents 30% of the value of exports. If the average term is less, if it becomes shorter from year to year or, worse yet, if the debt with a term of under one year represents a substantial percentage of the total, then the amount which must be renewed can easily represent around 100% of the value of exports. In the latter case, any unfavourable short-term situation could, at the very least, place the automaticity of its refinancing in doubt.

This was the reasoning which led the Secretariat to repeatedly denounce the dangerous increase in external vulnerability implicit in this style of growth which entails heavy external borrowing from the transnational banking system.1/

/3. The

3. The region's external economic relations in the 1981-1983 period

As from 1981, events diverged from the optimistic assumptions underlying the policies for furthering external financial and economic relations. In most cases the situation with respect to the various factors mentioned above worsened simultaneously, leading to a profound crisis in the balance of payments and in the mode of growth linked with the external variables.

Confidence in the economic recovery of the developed countries was dashed by the slowdown of growth in 1981 and the decrease in 1982. World trade tended to stagnate, and the protectionist tendencies of the central economies became still more marked.

World inflation slackened somewhat, and the real interest rates corresponding to the nominal ones rose to levels unheard-of in the period since the war. The terms of trade worsened for the vast majority of the countries.

As a consequence of these facts, already in 1981 the value of exports for the region as a whole grew much slower; the interest on the debt rose substantially; yet the growth in the value of imports did not decline with respect to the preceding year. This resulted in a deficit on current account for the region of over US$ 40 billion. This deficit was 45% higher than in 1980 and was twice that of 1979 -and the deficits in those two years had been higher than in preceding years. Additional financing was granted for very short terms, with the result that by late 1981 the debt with a term of less than one year represented more than 65% of the value of the region's exports (this calculation does not include Panama and the Bahamas) and over 70% in the case of the countries with the biggest economies and populations.

In 1982 the situation became even worse. The drop in the prices of many commodities caused the terms of trade to plummet at the same time that real interest rates held steady or rose. The value of exports decreased for the first time in many years and the debt/exports ratio reached record levels in almost all of the countries, coming to close to 4:1 in the three most heavily indebted nations. At the same time, the debt with a term of under one year exceeded the value of exports in one country and grew rapidly in the rest. Automatic refinancing of the debt became an unattainable ideal. Furthermore, it was clear that the adjustment mechanisms represented by the reduction of imports and the degree of utilization or actual level of reserves were insufficient in themselves to permit payment of

/the interest

the interest on the debt. It became imperative to renegotiate the debt, and the banks had to provide net external financing and increase their exposure. Thus, the renegotiation process began in 1981 in some countries, and in 1982 in the rest.

4. Economic and financial adjustment policies

The evolution of world trade and protectionism made it clear by late 1981 that, at least in the short run, the greater part of the debt problem would have to be resolved in the financial sphere.

For many countries it was evident that the most serious problem in connection with their indebtedness was refinancing the loans, especially the short-term credits. In some cases these loans approached the total value of their exports and, obviously, far exceeded their ability to pay. At the same time, the interest payments which had to be made exceeded any surplus they could reasonably expect on their trade in goods and services, or the possibility of using their reserves. It was therefore not only a question of refinancing all or part of the loans as they matured: it was also absolutely essential to obtain additional credits. For their part, the creditors tried to reduce to a minimum the additional net financing which they had to provide.

As from 1981, most of the countries embarked on a renegotiation process together with domestic adjustment policies designed to meet the requirements of a specific balance-of-payments programme. The governments of the region, the transnational banking system and the International Monetary Fund have participated actively in these processes. The transnational banking system, naturally enough, encourages more intensive national efforts to guarantee greater external payments capacity. To this end, it has made the renegotiation of the debt contingent upon the signing of agreements with the Fund which contain its well-known stipulations with respect to domestic policies.

Some countries have attempted to negotiate with the Fund as regards these stipulations on the basis of their own national strategies and policies, and in some cases considerable departures have occurred from what have been the customary adjustments.

The general principles of the traditional stipulations are well known. As regards the general guidelines for development, they reaffirm the supposed advantages of decontrolling the economy, reducing the public sector and expanding the private sector, as well as underlining the important role which international

/trade should

trade should play in guiding the allocation of resources. With respect to identifying the causes of the crisis, they stress excessive public spending, the inadequacy of the prevailing pricing system to deal with the new conditions, and above all the role of the exchange rate. Consequently, they prescribe that in response to inflationary pressures or severe balance-of-payments deficits, national policies should reduce the fiscal and public deficit, adjust real wages, limit domestic credit and public-sector borrowing, increase tax revenues and controlled prices, eliminate subsidies, and achieve a surplus on the external trade account.

Generally speaking, there has been a change of emphasis in comparison to the agreements of other periods, in that the external trade account is stressed and greater flexibility is accepted as regards the limits which used to be established for some domestic goals, such as those concerning inflation.

Various opinions and assertions have been expressed as to the nature of these agreements and their objectives throughout the period since the war. In the present circumstances they are more controversial than in the past, however, for a number of reasons.

In particular, the leading role attributed to international trade is now being questioned, in view of the fact that it has become less dynamic and that the protectionist pressures in the developed countries are becoming stronger; doubts have also been expressed about the effectiveness of global macroeconomic measures, now that the crisis has more clearly revealed the economic and social heterogeneity of the region's economies, as well as about the limitations on action by the public sector at a time when the private sector appears to have been overwhelmed by the complexity of the problems and is demanding government intervention in order to deal with them.

These doubts as to the effectiveness of such agreements under the current circumstances have been confirmed by the facts. Indeed, the results habitually differ from the goals and objectives originally proposed. Shortly after the signing of agreements it has frequently been necessary to make major modifications in them or to suspend their implementation for a time.

Furthermore, in economic and social terms, the results have not been satisfactory in all cases. The drops in output and employment have exceeded the original estimates, and during 1983 the signs of stagnation -if not an outright drop- in production have tended to increase. Some countries, however, have

/successfully controlled

successfully controlled the more immediate effects of the crisis, particularly in connection with their balance-of-payments problems.

The most serious doubts concern the Latin American economies' ability to withstand the current recession much longer if conditions in the world economy do not change soon. Indeed, the persistent efforts to attain a relatively large trade surplus in goods and services -which would generally imply an even greater surplus on the trade in goods- have had effects which go beyond mere drops in output. Serious imbalances are being produced in the areas of employment, inflation and the budget. In some cases industrial plants have begun to be dismantled, and there seems a danger that this process will spread. At the same time discouragement among entrepreneurs is growing, projects for expansion are being abandoned and, in all probability, disinvestment is occurring in many lines of production.

It is also clear that these policies have distributed the external and internal costs of the crisis inequitably. In the external sphere, the Latin American countries are being severely penalized and the international banking system is being rewarded. The renegotiations have been carried out as if the poor allocation of the loans (when this did in fact occur) or the high real interest rates were the exclusive responsibility of the debtors and as if there were no obligation to share the costs. Moreover, surcharges, fines and costs are applied in these renegotiations which further increase the interest rates and the banks' potential profits. Pressure has also been applied to obtain State guarantees in respect of credits which were granted to the private sector without them. In the domestic sphere, a large part of the costs have been passed on to the lower-income sectors; eloquent proof of this is provided by the high levels of unemployment and the decreases in real wages.

In short, thus far the adjustment process, despite the fact that it is generating trade surpluses as big as, or even larger than, those demanded, has proved to be inefficient, destructive and inequitable in many cases, and it should therefore be reviewed in depth. In order to do so, it is necessary to find external financial and trade alternatives which will distribute the costs of adjustment more equitably and gradually and, in the domestic sphere, will lead to a rapid and effective reactivation of the regional economy.

III. SOME ASPECTS OF GLOBAL ECONOMIC TRENDS AND EXTERNAL ECONOMIC RELATIONS IN 1981-1983

The socio-economic crisis affecting the Latin American countries has important common elements, such as external dependence and vulnerability and the application of adjustment policies corresponding, in broad outline, to a common conceptual matrix. There are, however, marked inter-country differences as regards the scope of the crisis and the depth of the deterioration it has caused. It has already been pointed out that, alongside the common factors, there are others which help to account for the diverse ways in which the situation has evolved in the various countries during the three-year period 1981-1983. Thus, for example, the scale and profile of external indebtedness are not always comparable, nor are the fall in the value of exports, the changes that have taken place in production, economic growth trends and the extent to which adjustment policies have been applied.

In the present section discussion will be focused on some aspects of the global evolution and external economic relations of the region and of the Latin American countries during the period 1981-1983. The phase of crisis, however, will be analysed within a broader time framework, linking current events with trends in the 1970s, in order to bring out more clearly the differences between countries, especially as regards their potential capacity to weather the present crisis.

A. GLOBAL ASPECTS OF ECONOMIC EVOLUTION

1. Changes in production and economic growth

During the 1970s, both the growth of the countries of the region and the changes in their structure of production followed different lines. The fuels crisis, with its countless repercussions on the international economy and the central countries, compelled most of the Latin American countries to introduce changes in their policies as from 1973. The consequent transformation of production affected, to a widely differing extent according to the countries concerned, industrial development, investment for the exploitation of hydrocarbons, the development of alternative sources of energy, agriculture and the sectors linked to trade and finance.

/From another

From another angle, it may be remarked that in formulating and executing projects on the expansion of production, some countries placed emphasis on domestic market prospects and others on the opportunities offered by external markets, while elsewhere attempts were made to demonstrate the viability of a combination of the two.

There were also manifest disparities in the countries' efforts to mobilize resources for investment. In some instances the proportion of the product used for investment was high; in others, on the contrary, it continued to be small.

In consequence of these and other points of dissimilarity, during the period 1974-1980 not only the direction taken by the changes in production but also the average rate of growth varied considerably from one country to another. It has already been noted that the economic dynamism of the region as a whole slackened considerably in relation to trends in the early 1970s. Nevertheless, in four countries (Brazil, Ecuador, Mexico and Paraguay) the annual growth rate exceeded 6%; in the majority, on the other hand, there was no improvement upon long-term trends. As can be seen in table 1, growth rates were very low in some countries of the region.

This moderate and disparate recovery in the region's economic growth died out in 1981, when the growth rate (1.8%) was the lowest since 1940. The situation has continued to deteriorate during the two-year period 1982-1983. In 1982 the product contracted by 0.8%; what is more, the downward movement was generalized, and out of 19 countries 11 showed negative variations. In this context, the contraction was particularly acute in the Southern Cone countries, and next came the Central American countries, which were further affected by their intra-regional conflicts. The decline is expected to be even sharper in 1983 and to extend to most countries, including those that had so far avoided decreases in their domestic product.

Manufacturing and construction were the sectors hardest hit by the recession at the regional level. The first of these, which in 1980 had accounted for about 24% of the region's product and during the past decade had grown at an annual rate of 6.6%, declined by -2.9% in 1980 and -1.5% in 1982; in the latter year 13 of the 19 countries considered recorded negative variations, and Brazil, which contributes approximately 37% of the region's manufacturing product, only managed to maintain the already depressed level of 1981, in which year its manufacturing product had fallen by 6.4%.

/Table 1

Table 1

LATIN AMERICA: GROWTH RATES OF GROSS DOMESTIC PRODUCT

(Percentages on the basis of values at 1975 prices)

Countries	1976-1980	1981	1982
Large countries			
Argentina	1.6	-6.4	-6.7
Brazil	6.2	-1.0	0.7
Mexico	6.4	8.1	0.2
Total	5.6	1.5	-0.4
Medium-sized countries			
Colombia	4.4	3.9	1.3
Chile	4.4	6.6	-10.9
Peru	2.4	4.0	0.7
Venezuela	2.3	0.0	-1.1
Total	3.0	2.7	-1.6
Small countries			
Bolivia	4.2	-1.3	-9.6
Costa Rica	4.7	-4.9	-6.3
Ecuador	6.5	4.6	2.3
El Salvador	1.5	-9.4	-5.2
Guatemala	5.1	1.1	-3.5
Haiti	4.2	0.6	0.6
Honduras	5.4	0.0	-0.9
Nicaragua	-2.1	8.4	-0.4
Panama	5.3	4.5	4.2
Paraguay	9.9	8.4	-2.1
Dominican Republic	4.8	5.3	2.0
Uruguay	5.1	-1.7	-11.6
Total	4.9	1.6	-2.5
Total Latin America	5.0	1.8	-0.8

Source: ECLA, on the basis of official data.

/Even more

Even more marked was the slump in construction, which had been a very dynamic sector in the 1970s, with an annual growth rate of 7.3%; in 1982, only in two countries of the region did a modest increase take place, while in the other 17 countries considered there were abrupt downturns which in the aggregate represented a decline of -5.7%. This situation was unquestionably largely due to the decrease in investment.

The reduction of global and sectoral production meant that the form, structure and transformation of production current up to then were disrupted or brought to an end.

Countries with great economic dynamism and high rates of investment in 1974-1980 showed, in the same period, particularly intensive growth in the manufacturing and construction sectors. In others, with less dynamism, the growth rate of the construction sector greatly exceeded the average for the economy and that of the manufacturing sector. Thus, for example, in the case of Argentina, Costa Rica and Uruguay, the annual growth rates of the construction sector in the period 1974-1980 practically quadrupled, doubled and trebled, respectively, that of the product of each of these countries. Bolivia and Chile, too, had their boom periods -especially in construction- although these were shorter-lived.

In the special case of Colombia, it was the agricultural sector that attained growth rates exceeding those of the global product and very high in relation to those customary in the sector.

Up to 1982, it was the countries which had previously exhibited most dynamism and in which the growth rate of the manufacturing sector had been highest that were best able to withstand the effects of the crisis. Nevertheless, the data available for 1983 indicate that at least in Brazil and Mexico, which were in this group of countries, the domestic product was significantly reduced. On the other hand, countries with less dynamism, whose growth was largely based on the expansion of construction, were those which showed the sharpest downturns in that sector as well as in the global product. During 1982, in Argentina, Bolivia, Chile, Costa Rica and Uruguay the sectoral product plummeted abruptly, in two cases by more than 40%, and the global product also dwindled. In such countries as Brazil, Colombia, Ecuador, Panama and Peru, where during 1982 the sector in question maintained or increased its product, the consequent positive effects to some extent counteracted depressive trends.

/To evaluate

To evaluate the depth of the crisis and its impact on the sectoral structure, a useful way of measuring the setback that occurred is to compare the per capita global product and the product of the main sectors in 1982 with those recorded in previous years, drawing attention to the year in which the levels in question were exceeded for the first time. In 1982 the per capita gross domestic product of four countries reverted to the levels of about two decades earlier (the beginning of the 1960s) and that of six countries fell back by about one decade (to the early 1970s); in two countries it dropped a little below the level recorded five years before, and in seven countries it reached the same levels as at the beginning of the 1980s (see table 2).

In the sectors producing goods some notable decreases are observable. With respect to agriculture, three countries stood at the level of the early 1950s, and the same was true of two others with regard to the construction sector.

It is in the agricultural sector that severe contractions have affected the largest number of countries. While variations from year to year and from crop to crop are usually more intensive than in other sectors, an appreciable decline is generally apparent. Ten countries recorded lower levels than in 1970.

In three countries (Chile, El Salvador and Nicaragua) a simultaneous decline took place in the agricultural, manufacturing and construction sectors, all of which sank below their 1960 levels. On the contrary, in five countries (Brazil, Mexico, Colombia, Paraguay and the Dominican Republic) the decreases in the per capita product of those three goods-producing sectors were relatively small up to 1982, leaving them at the same levels as at the beginning of the 1980s.

As can be seen, up to 1982 at least the deterioration of production differed appreciably in intensity from country to country, and was not independent either of the changes in production or of the economic dynamism previously shown by the various economies of the region.

2. Export and import flows and the physical balance of resources

Attention has already been drawn in earlier pages to the special form taken by the evolution and the interlinkage of Latin America's external trade and financial relations in the period 1976-1982. The region's general trends in this respect were also followed in most of the individual countries, but, as in other respects, at the national level the phenomena occurring can be seen to differ in intensity and scope.

/Table 2

Table 2

LATIN AMERICA: PER CAPITA PRODUCT IN 1982, IN RELATION TO LEVELS ATTAINED IN PREVIOUS YEARS

Countries	Per capita gross domestic product in 1982 (dollars at 1975 prices)	Year in which the 1982 level of the per capita global and sectoral product was attained for the first time				
		Global product	Sectoral product			
			Agriculture	Industry	Construction	Trade and finance
Venezuela	1 879	1954	1964	1976	1956	1969
Mexico	1 707	1981	1965	1980	1981	1981
Uruguay	1 330	1978	1951	1975	1978	1976
Brazil	1 322	1979	1980	1978	1978	1979
Panama	1 308	1982	1965	1972	1982	1981
Argentina	1 307	1969	1973	1965	1969	1961
Peru	974	1974	1950	1970	1956	1974
Costa Rica	942	1973	1969	1974	1954	1968
Chile	876	1971	1958	1959	1950	1980
Dominican Republic	840	1982	1982	1982	1977	1982
Paraguay	787	1980	1980	1980	1981	1980
Ecuador	749	1981	1971	1982	1971	1980
Colombia	647	1981	1979	1976	1982	1981
Guatemala	607	1976	1972	1977	1977	1974
Nicaragua	498	1963	1952	1967	1963	1954
Bolivia	452	1972	1975	1972	1951	1950
Honduras	393	1973	1965	1977	1950	1978
El Salvador	314	1962	1950	1962	1956	1959
Haiti	171	1952	1950	1980	1978	1976

Source: ECLA, on the basis of official data.

/The volume

The volume of imports (see table 3) expanded between 1976 and 1980 at exceptionally high annual rates (ranging from 17 to 27%, by countries) in the three Southern Cone countries, Paraguay and Mexico. It contracted in Bolivia, El Salvador, Nicaragua and Peru. In the rest of the countries it increased at relatively moderate and even -in Brazil, Guatemala and Paraguay- low rates. The adjustment policy applied as from 1981 presupposed, in the great majority of cases, a reduction in the volume of imports. The effects of this reduction on the product differed commensurately with the indispensability of imports for the growth pattern in vogue or with the existence of margins for compression. Moreover, the scale on which imports were reduced varied widely. In 1982, with the exception of Paraguay, the very countries in which expansion had been greatest in 1976-1980 recorded, in relation to the preceding year, the most marked contractions in import volumes, which in the case of Argentina, Chile and Mexico reached as much as 37%. The relation existing between economic dynamism and imports in the Southern Cone countries was highlighted by the notable extent to which the product fell; Mexico, in contrast, was able to keep up its level. In the same year, five countries succeeded in at least maintaining the level of their imports and avoided significant decreases in their product in some cases even obtaining slight increments. In an extreme position were a few countries, such as Brazil, the Dominican Republic, Ecuador and Honduras, which, despite having had to cope with appreciable cuts in their imports, managed to keep up or to some extent raise the level of their product.

The data available for 1983 show that most countries went on making efforts to reduce imports and that reactions continued to occur which, although their general direction was towards decreases in the product, were very different in their scope. A notable case in point is that of Mexico, where an appreciable reduction in imports seems to have been reflected in a fall of only about 4% in the product. This fact seems to demonstrate the great importance attaching, with respect to imports, to the magnitude and nature of the investment undertaken in the preceding period and the substitution capacity acquired in the years of booming growth, both of the product and, in particular of investment. In contrast, other countries, as for instance, Peru and Bolivia, seem to have stood the decline in imports very badly.

/Table 3

Table 3

LATIN AMERICA: EXPORTS AND IMPORTS OF GOODS AND SERVICES

(Annual growth rates, values at constant prices)

Countries	Exports of goods and services			Imports of goods and services		
	1976-1980	1981	1982	1976-1980	1981	1982
Large countries						
Argentina	7.1	15.2	-3.7	27.0	-15.8	-37.1
Brazil	13.3	24.1	-7.7	3.7	-11.4	-7.1
Mexico	16.3	3.4	3.2	21.2	19.8	-37.5
Total	13.0	15.1	-3.5	13.5	0.5	-27.2
Medium-sized countries						
Colombia	3.4	-7.9	0.1	13.7	0.7	11.4
Chile	14.8	0.9	8.7	19.9	17.9	-37.0
Peru	11.4	-7.2	10.3	-1.0	20.5	0.7
Venezuela	-1.7	-8.0	-12.1	2.9	1.6	9.4
Total	3.4	-5.9	-2.3	6.6	7.0	-1.7
Small countries						
Bolivia	-4.7	-5.8	2.8	-2.3	0.2	-29.7
Costa Rica	1.3	28.3	-9.1	5.9	-25.3	-24.9
Ecuador	1.5	1.2	-1.1	11.5	-0.7	-9.2
El Salvador	-1.4	-10.9	-9.4	-2.3	-5.9	-10.5
Guatemala	2.8	-13.4	-8.7	2.1	-2.1	-27.5
Haiti	10.3	-14.4	-2.5	11.5	3.1	-10.0
Honduras	7.4	1.2	-14.3	10.7	-11.6	-24.6
Nicaragua	-14.3	8.9	-9.4	-0.1	5.2	-33.6
Panama	10.5	-2.1	-4.8	2.2	0.3	9.1
Paraguay	12.0	-9.9	24.3	17.1	11.1	15.3
Dominican Republic	-1.7	10.5	-12.3	6.3	-11.3	-6.2
Uruguay	4.1	7.1	-17.7	18.3	-12.1	-24.1
Total	1.8	1.1	-6.8	6.2	5.6	-15.1
Total Latin America	8.1	7.0	-3.6	10.3	1.3	-18.1

Source: ECLA, on the basis of official data.

/This reduction

This reduction was necessary, as has already been explained, as a means of counteracting, via the trade balance, the sharp upswing in interest payments just when the international banks had adopted a restrictive attitude to the issue of new credits and both the value and the volume of exports had diminished. All these circumstances entailed a much more arduous effort to obtain a trade surplus.

It must be recalled, in addition, that during the period 1976-1980 the majority of countries had shown trade deficits that were gradually rising as time went by; nevertheless, the average annual growth rate of the value of the region's exports was 22.3%, almost identical with that of the value of imports (22.2%), if the beginning and end years of this period are compared. This state of affairs was almost universal, and significant deviations occurred only in the case of El Salvador and Nicaragua.

The volume of exports increased at an average annual rate of 7.8%. Inter-country differences are marked, however, and in five countries the volume contracted (see table 3). On the other hand, the growth rate of the volume was especially high (over 10% per annum) in Brazil, Chile, Mexico, Panama, Paraguay and Peru.

The deterioration that began as from 1981 spread to most of the countries in 1982. Although the volume of Latin America's exports in 1982 was about 3% larger than in 1980, their value dropped by more than 1.5%. Only Brazil, Mexico and Panama recorded higher export values in 1982 than in 1980; the reductions were particularly marked in the medium-sized and small countries. In the great majority of cases, as will be shown in detail later, an appreciable proportion of the decrease or the increase in value must be attributed to the fall in international commodity prices. It is worth mentioning that in 1982 the export volumes of four countries (Argentina, Brazil, Costa Rica and Paraguay) exceeded the 1980 figures by over 10%.

In the context of this review of trends in the value at constant prices of imports and exports of goods and services, it is of particular interest to establish the amount and the negative or positive sign of what is usually called the physical trade balance.

At the macroeconomic level, of course, an excess of imports over exports increases internal availabilities or supply, and makes it possible for consumption and capital formation to surpass, in the aggregate, the domestic product. In

/turn, an

turn, an excess of exports over imports diminishes internal availabilities, and, consequently, domestic consumption and investment, in the aggregate, are of lesser magnitude than the domestic product.

During the second half of the last decade, the region as a whole showed an excess of imports over exports on a scale of some significance in relation to the absolute levels of external variables. This margin of excess (in dollars at constant 1975 prices) amounted to approximately US$ 7 billion in 1974 and about US$ 5.5 billion in 1976, and rose to more than US$ 13 billion in 1980 (see table 4). In this period, both imports and exports of goods and services appreciably increased, but the former in a higher proportion than the latter.

Generally speaking, this import surplus for the region as a whole was the result of similar balances for the great majority of the Latin American countries, although their relative size varied appreciably from one country to another. Only a very small number of countries had in certain of the three years mentioned a physical balance that was virtually nil, or an excess of exports over imports. Among these, the most important instances are Argentina and Venezuela; in a lesser degree, Chile, the Dominican Republic and Panama.

In 1982 the situation changed considerably. In the region as a whole, exports surpassed imports by about US$ 1 billion. This figure is the product of different situations. Out of the total number of 19 countries considered, eight exported more than they imported and 11 did the reverse. Pre-eminent among the former, for the size of the figures concerned, were the three large countries and Chile; under the latter head come almost all the medium-sized and small countries. In the former group of countries, the export surplus was due not only to an increase in external sales, but also to a curtailment of imports, which is characteristic of the adjustments to the new conditions generated by the crisis.

3. Investment and saving

a) Trends in domestic investment

During the 1970s, the investment process was stronger and more sustained than in the preceding decades. While its evolution was similar to that of the global economic process -as regards dynamism, stagnation and contraction- its average relation to the product remained at relatively high figures.

/Table 4

Table 4

LATIN AMERICA: PHYSICAL BALANCE OF EXTERNAL TRADE IN GOODS AND SERVICES (IMPORTS MINUS EXPORTS)

(Millions of dollars at constant 1975 prices)

	1974	1976	1980	1982
Large countries				
Argentina	539.8	-1 452.1	2 359.4	-2 379.9
Brazil	7 255.0	4 358.7	358.7	-4 741.3
Mexico	1 716.6	1 245.3	4 865.8	-224.1
Total	9 511.3	4 151.9	7 584.0	-7 345.3
Medium-sized countries				
Colombia	497.4	241.7	1 439.5	2 059.3
Chile	1 095.0	-271.7	157.8	-1 232.8
Peru	1 094.3	873.4	-131.3	331.9
Venezuela	-6 797.7	-595.6	1 077.7	3 829.0
Total	-4 110.9	248.0	2 543.9	4 987.3
Small countries I				
Bolivia	-40.2	42.0	87.5	-66.5
Ecuador	0.2	41.7	663.0	468.6
Paraguay	64.4	64.6	195.0	311.0
Uruguay	258.1	-1.8	534.6	183.2
Total	282.5	146.5	1 480.1	896.3
Small countries II				
Costa Rica	205.4	249.6	444.0	-152.1
El Salvador	120.8	199.3	151.2	148.5
Guatemala	150.3	448.4	459.9	251.4
Honduras	159.1	83.4	193.0	24.5
Nicaragua	326.7	68.9	296.6	129.5
Panama	327.7	138.8	-150.9	-62.8
Total	1 290.0	1 179.3	1 393.7	339.1
Small countries III				
Haiti	37.9	75.9	125.4	133.7
Dominican Republic	-83.1	-194.7	141.4	-27.9
Total	-45.3	-118.7	266.8	105.8
Latin America (19 countries)	6 927.6	5 606.9	13 268.5	-1 016.8

Source: ECLA, on the basis of official data.

/The most

The most important change occurred in the early 1970s, when investment grew faster than the product. Thenceforward, even in periods when the product declined, a certain parallelism between the respective growth rates was maintained, and consequently the coefficient reached by 1974 remained relatively constant. Even in periods when the growth of the product slowed down (as in 1975 and 1981) or enjoyed a moderate recovery (1976-1980) the coefficient tended to be kept stable. In 1982, on the other hand, the fall in investment easily exceeded the decrease in the product, affording yet another proof of the depth of the crisis.

In the context of this picture of global trends the domestic investment coefficient in relation to the gross domestic product differs remarkably in size in the various countries, and also, up to a point, as regards the trends it follows. Trends towards variation, however, are very similar in this short period of the last three years, in comparison with the average levels of the coefficient during the years that went before.

In the second half of the last decade, among the 19 countries considered, diverse situations arose in respect of the investment coefficient. Six of the countries recorded an investment coefficient amounting to approximately 25% of the domestic product or more; the coefficients of another six range from 20 to 25%. In the seven remaining countries, whose indexes of gross domestic investment are relatively low, instances are to be found of countries that indubitably exhibit less ability to increase their production capacity.

The crisis very seriously affected the investment effort made up to then by a number of countries in the region, as becomes evident when the investment coefficients for the second half of the last decade are compared with the most recent coefficients available, corresponding to the two-year period 1981-1982. As can be seen in table 5, out of the 19 countries considered, in 1981 ten had an investment coefficient below that recorded in preceding years. In 1982, 13 countries had investment coefficients lower than those attained in the second half of the previous decade. The same year witnessed an increase in the number of countries of the region with extremely low coefficients, which will do very little to further the growth of future production capacity in the economies concerned, especially in view of the fact that from those indexes (of gross domestic investment) amortizations or replacements will still have to be deducted in order to obtain the effective size of the increase in capital formation.

/Table 5

Table 5

LATIN AMERICA: GROSS DOMESTIC INVESTMENT COEFFICIENT IN RELATION TO THE GROSS DOMESTIC PRODUCT

(Values at constant 1975 prices)

Countries	1976-1980	1981	1982
Large countries			
Argentina	28.7	26.2	22.5
Brazil	24.4	21.6	21.4
Mexico	24.8	30.5	21.9
Total	25.2	25.5	21.7
Medium-sized countries			
Colombia	19.5	21.2	21.5
Chile	16.4	21.7	11.2
Peru	12.9	15.9	13.6
Venezuela	33.7	26.5	29.7
Total	23.9	22.2	21.7
Small countries			
Bolivia	18.8	12.0	7.5
Costa Rica	23.6	16.1	10.8
Ecuador	25.8	24.1	21.2
El Salvador	24.3	12.2	11.7
Guatemala	19.9	17.7	14.9
Haiti	16.2	18.5	16.7
Honduras	24.2	22.5	18.1
Nicaragua	15.2	28.2	19.8
Panama	17.3	17.8	18.7
Paraguay	33.0	38.6	34.5
Dominican Republic	22.4	19.9	17.1
Uruguay	15.4	15.5	13.2
Total	21.3	19.9	17.2
Total Latin America	24.6	24.4	21.3

Source: ECLA, on the basis of official data.

/b) Domestic

b) Domestic resources for investment and national saving

Before examining the contribution of national saving and of net external financing to the global financing of domestic investment, it is useful to consider the relations existing between gross domestic product and consumption, on the one hand, and national saving on the other. The difference between the domestic product and consumption represents what may be called gross geographical or domestic saving. This concept provides a more representative indicator of the efforts made in the individual countries to promote their capital accumulation process.

The fundamental differences between gross domestic saving and national saving lie in the fact that the latter is affected by two variables linked to external relations, which play a particularly influential part in its determination. National saving is reduced in relation to domestic saving by net transfers of profits and interests abroad; moreover, when analysis of the question is based on an evaluation at constant prices, national saving increases or decreases according to the favourable or unfavourable effect of variations in the terms of trade, for which in the present study 1975 is taken as the base year.

In 1981-1982, according to the most recent data available, the erosion undergone by national resources on account of the transfer of interest payments and profits, as well as of the unfavourable terms-of-trade effect, has been highly significant for many countries. This is clear from the figures presented in table 6 on trends in the coefficients of domestic saving and national saving, respectively, in relation to the gross domestic product. Thus, for example, in 1982 the coefficient of gross national saving was lower than the coefficient of gross domestic saving in most countries, and in some of them by a considerable margin, as can be seen in table 6. In all these cases a simultaneous influence was exercised by the high index of external profits and interest payments, in relation to the gross domestic product, as well as by the serious losses resulting, in a large number of countries, from the deterioration in the terms of trade. In nine out of the 19 countries considered, the coefficient of gross national saving was lower than that of gross domestic saving by over 5 percentage points, and in another five by up to 5 percentage points. Consequently, in only a small group of countries did the coefficient of gross national saving equal or exceed that of domestic saving, fundamentally because of the terms-of-trade effect in relation to the base year 1975.

/Table 6

Table 6

LATIN AMERICA: GROSS DOMESTIC SAVING AND GROSS NATIONAL SAVING

(Percentages of GDP on the basis of dollars at constant 1975 prices)

Countries	Gross domestic saving						Gross national investment					
	1977	1978	1979	1980	1981	1982	1977	1978	1979	1980	1981	1982
Large countries												
Argentina	36.3	35.2	30.3	24.9	26.1	28.7	32.8	31.1	27.2	23.1	19.9	18.5
Brazil	22.0	21.3	20.5	23.7	24.7	24.2	20.9	19.1	17.6	19.5	17.9	16.3
Mexico	23.0	23.2	23.5	24.3	24.2	22.1	20.6	20.5	21.3	24.0	23.9	20.6
Total	24.5	23.9	22.9	24.1	24.7	23.9	22.6	21.2	20.2	21.6	20.4	18.1
Medium-sized countries												
Colombia	13.9	15.2	16.5	11.5	11.7	9.7	22.7	21.7	21.5	17.6	14.1	13.1
Chile	11.4	10.6	13.7	20.4	14.3	23.4	7.5	5.2	9.7	11.1	-1.1	-2.2
Peru	10.0	15.5	16.7	14.9	12.8	11.7	7.0	9.5	13.4	13.9	10.1	7.7
Venezuela	32.0	25.2	28.1	22.1	20.4	17.5	32.2	22.2	32.2	35.2	33.9	23.2
Total	20.8	19.1	21.2	18.0	15.9	15.2	21.5	17.2	22.9	23.2	19.1	14.0
Small countries												
Bolivia	17.1	11.7	11.4	11.3	7.9	10.0	16.4	10.1	9.0	10.9	5.7	3.9
Costa Rica	9.8	7.5	7.3	12.6	20.3	19.6	19.6	13.8	11.0	12.8	9.7	2.3
Ecuador	18.4	18.4	14.5	15.1	14.0	13.9	19.7	16.2	16.9	18.8	14.1	11.1
El Salvador	9.1	9.7	14.8	3.8	2.0	2.4	32.8	21.3	27.6	7.9	2.2	3.2
Guatemala	6.4	4.5	6.0	5.9	6.3	9.5	20.7	16.7	15.0	13.0	9.9	10.6
Haiti	3.6	5.6	8.1	5.5	2.9	3.9	8.8	8.7	9.9	8.8	5.7	6.1
Honduras	15.9	13.1	16.7	13.3	15.8	16.5	18.5	15.3	15.2	12.2	10.3	9.1
Nicaragua	19.0	10.6	-9.3	-0.7	7.8	11.1	24.9	11.5	-8.7	-1.8	5.7	5.1
Panama	17.6	20.1	22.2	31.3	30.1	28.8	11.9	13.9	12.7	16.6	11.1	15.8
Paraguay	23.6	26.1	26.9	29.7	27.6	22.8	27.2	27.8	28.7	29.7	29.5	22.0
Dominican Republic	30.0	25.8	27.9	20.1	22.1	17.7	19.3	15.9	16.8	13.9	15.2	10.2
Uruguay	14.5	16.3	13.5	12.7	13.7	13.0	14.1	16.8	16.5	14.7	14.7	10.6
Total	16.3	14.9	14.5	14.3	15.0	14.8	19.5	16.0	15.5	14.5	12.4	10.1
Total Latin America	23.2	22.3	21.9	22.2	22.3	21.7	22.2	20.1	20.3	21.3	19.5	16.8

Source: ECLA, on the basis of official data.

/c) The

c) The contribution of national saving and of net external financing to the financing of investment

From the data assembled in tables 6 and 7 on the coefficients of national saving and of net external financing it can be demonstrated that in the last two years considered (1981-1982) the contribution of gross national saving to the financing of gross domestic investment followed a downward trend in a large number of countries, and there was an increase in the proportion covered by net external financing, corresponding to net balance-of-payments positions on current account. This happened despite the decline in investment, especially during 1982.

The explanation of the increase in net external financing lies in the need to offset the significant increments in net payments of interest and profits abroad, and, in many cases, the losses caused by the terms of trade. The situation seems to have worsened during 1983, when in some countries net payments of interest and profits will exceed net external financing.

In short, the crisis called a halt to a major capital accumulation effort made by the region during the 1970s, thanks to which investment came to represent a higher proportion of the product. What is more, despite the slackening of the average growth rate in Latin America as from 1975, in 1976-1980 the region kept up a relatively high average coefficient of gross investment. This situation was maintained during 1981 and gave way in 1982, in which year the coefficient fell to approximately 21%.

4. Employment and wages

Unemployment and underemployment are structural problems in most of the Latin American countries. The 1970s did not signify much improvement in this respect; on the contrary, the problem was exacerbated in many countries, while urbanization helped to make it more visible and to give it a political character which it lacked in rural environments.

At the beginning of the 1980s it was known that the growth rate of the labour force would be very high, scarcely less than 3% per annum. In the second quinquennium of the 1970s there had been only a moderate recovery of economic dynamism; even if this situation had been maintained, an appreciable aggravation of the employment problem could have been predicted.

/Table 7

Table 7

LATIN AMERICA: NET EXTERNAL FINANCING AND GROSS DOMESTIC INVESTMENT

(Percentages of GDP on the basis of dollars at constant 1975 prices)

Countries	External net financing						Gross domestic investment					
	1977	1978	1979	1980	1981	1982	1977	1978	1979	1980	1981	1982
Large countries												
Argentina	-2.4	-3.7	0.9	7.2	6.3	4.0	30.4	27.4	28.0	30.3	26.2	22.5
Brazil	3.3	4.0	4.8	4.4	3.7	5.1	24.3	23.1	22.3	23.9	21.6	21.4
Mexico	1.9	2.8	4.0	4.5	6.5	1.3	22.5	23.3	25.3	28.5	30.5	21.9
Total	2.0	2.5	3.9	4.8	5.1	3.6	24.6	23.8	24.2	26.4	25.5	21.7
Medium-sized countries												
Colombia	-2.7	-1.6	-2.3	2.6	7.1	8.4	20.0	20.1	19.2	20.2	21.2	21.5
Chile	6.1	10.3	8.5	10.8	22.8	13.4	13.6	15.4	18.2	21.9	21.7	11.2
Peru	5.4	1.2	-2.9	0.3	5.8	5.9	12.4	10.7	10.5	14.2	15.9	13.6
Venezuela	8.7	14.4	-0.8	-9.6	-7.4	6.5	40.9	36.6	31.4	25.5	26.5	29.7
Total	5.3	7.6	-0.4	-1.9	3.2	7.7	26.8	24.8	22.5	21.3	22.2	20.8
Small countries												
Bolivia	4.1	9.8	9.2	3.4	6.2	3.6	20.5	20.0	18.3	14.3	12.0	7.5
Costa Rica	9.6	13.6	17.4	17.2	9.7	10.6	29.2	27.4	28.4	30.0	19.3	12.9
Ecuador	6.7	11.6	8.5	7.4	10.0	10.1	26.4	27.7	25.4	26.2	24.1	21.2
El Salvador	-1.0	9.9	-4.5	4.0	10.0	8.5	31.8	31.2	23.2	11.9	12.2	11.7
Guatemala	0.9	6.0	3.8	2.4	7.9	4.3	21.6	22.7	18.8	15.5	17.7	14.9
Haiti	6.8	7.3	7.2	8.9	12.8	10.5	15.6	16.0	17.1	17.6	18.5	16.7
Honduras	9.0	9.6	10.0	13.4	12.2	9.0	27.5	24.9	25.2	25.6	22.5	18.1
Nicaragua	9.8	1.7	-5.2	22.9	22.5	14.8	34.8	13.2	-13.9	21.1	28.2	19.9
Panama	8.6	9.8	11.2	8.6	14.1	10.7	20.5	23.7	23.9	25.2	25.2	26.5
Paraguay	3.2	5.5	7.5	7.7	9.1	12.5	30.4	33.3	36.2	37.5	38.6	34.5
Dominican Republic	2.9	6.3	6.3	9.3	4.7	6.9	22.2	22.2	23.1	23.2	19.9	17.1
Uruguay	4.3	3.1	6.6	9.9	6.0	7.1	18.4	19.9	23.1	24.7	20.8	17.7
Total	4.8	7.9	6.9	8.5	9.1	8.4	24.4	23.9	22.4	23.0	21.6	18.5
Total Latin America	2.8	3.9	3.4	3.9	5.1	4.7	25.0	24.0	23.7	25.2	24.6	21.5

Source: ECLA, on the basis of official data.

/The logical

The logical consequence of the fall in the growth rate in 1981 and the depression throughout 1982 and 1983 has been a very serious increase in overt unemployment and in underemployment. In these circumstances, the problem has grown to proportions exceeding all previous experience since the Second World War. The increment in the economically active population in Latin America during the three-year period 1981-1983 alone amounts to over nine million persons. Naturally, in so far as new sources of work are not created, the great majority of this population, essentially young people, will not find employment. Moreover, everything suggests that many who are at present in work are losing their jobs, whereby the problem is considerably aggravated in many of the Latin American countries.

With regard to the significance of unemployment figures, it should be pointed out that percentages of overt unemployment must be interpreted differently for the developing and for the developed countries. There are differences among the Latin American countries deriving from their degrees of development, but an element common to them all in the unemployment situation is the meagre pittance handed out by the social security system to the unemployed. In the developed countries, in contrast, unemployment insurance provides coverage for high percentages of the number of unemployed and of the average value of their earnings when in work.

Unemployment has been accompanied by sizeable decreases in real wages. In previous periods, according to PREALC studies, this variable did not show a significant relation with the unemployment rate. In contrast, an examination of the data for the last half of the past decade and the first two years of the present one reveals that minimum wages in manufacturing and construction are more closely linked to the level of activity than to a real wage. In this last context, there is nothing to indicate that during the three-year period 1981-1983 the reductions in real wages, notwithstanding their magnitude, have succeeded in significantly counteracting unemployment.

The countries' degree of openness to foreign trade appears to exercise greater influence on real wages. Thus, small countries highly open to foreign trade seem to have confronted the crisis not only with a significant reduction of employment but also with a decrease in real wages. In contrast, others of larger size, which have not introduced drastic innovations into their economic

/policy, have

policy, have even adopted measures to step up real wages notwithstanding the adverse international conditions. In the Southern Cone countries the cost of the adjustment has largely been transferred to real wages. Lastly, the petroleum-exporting countries, after enjoying, up to a short time ago, an economic boom which facilitated the application of more liberal policies with regard to increasing real wages, have had to face internal and external disequilibria which are threatening to cancel out the advances achieved. In short, no common pattern can be traced in the evolution of real wages at the regional level. In this field the differences in the countries' capacity to react to conjunctural problems become apparent, and perhaps it is only possible to hazard an opinion to the effect that the economies which continue to focus attention primarily on the domestic market seem to have had relatively more success in coping with the cost of the adjustment as regards the distribution of the losses incurred by real wages; but this is demonstrable only within the framework of a broad scale of variations.

Bearing in mind that unemployment rates and real wages seem to depend on an appreciable extent upon the level of activity and the degree of openness of the economies, differences are to be expected among the Latin American countries with regard to the first two indicators. These differences may be accentuated by government policy in the field of wages and employment and by the growth of the labour force.

Moreover, negative effects on employment have been especially serious in countries where there has been a slump in construction, given this sector's well-known influence on employment. This happened, for example, in Chile, Costa Rica and Uruguay, where the percentage of overt unemployment notably increased. Even in Argentina the corresponding percentage, which was very low in the past, rose from 2.2% in 1980 to 5.2% in 1982. The effect is also more striking in countries where the urban sector is preponderant; in those where the rural sector carries great deal of weight, unemployment is relatively less in evidence.

5. The public finance and budget situation and the acceleration of inflation

The crisis has been accompanied by major financial disequilibria which have affected the public and private economy and extend to most of the economic sectors.

External indebtedness, on a scale unkown since the Second World War, became prevalent in most of the sectors of production. The way in which financing was transferred to the countries did not follow a common pattern. Above all, there were differences with respect to the domestic agent who received the loan: in some instances it was mainly the State, in others the private sector. In the latter case, there were also disparities in the percentage of such borrowing that was guaranteed by the public sector.

The transfer of external financing to the domestic agents was effected in all sorts of ways. On some occasions the dollar or some other foreign currency was adopted as the unit of calculation; on others, the exchange risk was absorbed by the State or the financial middlemen. The rate of interest, too, was subject to diverse arrangements. Sometimes it was directly transferred to the users, in other cases it was fixed by the domestic financial middlemen, as a result of which it was a good deal higher than the external rates. Lastly, in many instances the State subsidized users, lowering the rates of interest.

With regard to domestic financing policies, too, the situation varied widely. In many countries systems were introduced whereby loan contracts contained clauses tying the debts to foreign currencies, which meant that they were subject to the exchange risk. Loans in domestic currency were also granted on all kinds of different terms, ranging from high real interest rates and credits readjustable in accordance with inflation, to negative real rates. Thus, financial systems, on the outbreak of the crisis, depended in very dissimilar ways and degrees on the exchange rate and the external rate of interest.

The financial crisis caused particularly serious disruptions in countries that had adopted a neoliberal position in their external economic relations and above all in their financial relations, or in those in which this attitude did not prevail but a high percentage of the external debt corresponded to the private sector and was not guaranteed by the State. In 1982 many private groups whose size made them of national significance were in a state of virtual bankruptcy; and notwithstanding the liberal policy supported by both the internal and the external groups affected, they themselves exerted pressure on the public sector to take charge of the situation. The numerous formulas adopted to this end were reflected in heavy pressure on the budget and reductions in the level of external reserves. To cope with these pressures, the government had to guarantee

/internal and

internal and external renegotiations and to increase public outlays in order to settle serious financial imbalances. When the latter step was taken, the outlays in question greatly accelerated inflation or enforced the curtailment of other expenditure, with undesirable effects on the social and production sectors.

Paradoxically, in many countries high domestic interest rates, devaluations of the currency and other adjustment measures, while creating grave problems for most of the sectors, have transferred far from negligible resources to other groups. The boom in the foreign exchange markets, both official and parallel, to be noted in many countries, or the sums deposited in the banks at high real rates of interest, betray the possession of abundant funds by private-sector groups. The liquidity existing in the hands of this sector and the potential impact of its transfer from one use to another imposes severe constraints on the definition and implementation of policies implying alterations in exchange rates or rates of interest.

In these circumstances an almost unmanageable internal financial situation has been created: the economic agents try to transfer their financial burdens to others, looking mainly to the public sector. The pressure on public expenditure, real or financial, is stepped up precisely when unemployment and the fall in real wages might call for the public sector to come to the aid of the lower income groups, upon whom the effects of the crisis today are bearing much harder than on the rest.

In many countries this state of affairs was superimposed upon public expenditure policies which, since before the crisis, had been resulting in heavy deficits financed by internal and external borrowing. Deserving of special mention in this respect is the behaviour of public enterprises, which in some countries have played a central role in the transformation of production and in economic growth.

It goes without saying that the financial disequilibria that preceded and followed the crisis, together with the struggle of the economic agents to transfer them to other socio-economic sectors, have helped to speed up inflation.

/As from

As from 1981 inflation accelerated in the region, mounting from 53% in 1980 to 61%, 86% and 130% in the three-year period 1981-1983 (see table 8). This acceleration has not been very intensive in most of the Caribbean and Central American economies. In contrast, in some countries where inflation has traditionally been moderate, such as Bolivia, Costa Rica and Ecuador, in 1982 it verged on 300%, 80% and 66%, respectively.

The highest rates of inflation have occurred in the countries of largest economic and demographic size. In Argentina, the rate of inflation, which was about 200% in 1982, virtually doubled in 1983. In Brazil it rose in the same years from 100% to 175%, and in Mexico it remained at around 100%, despite a slight downward movement in 1983. In Peru and Uruguay, too, rates of inflation accelerated sharply; the former exceeded 120% in 1983, and the latter soared from 20% in 1982 to 62% in 1983.

It should be noted that in several countries the acceleration of inflation actually coincided with a contraction in economic activity and an increase in unemployment and underemployment. Inflation appeared alongside adjustment policies directed towards the curtailment of expenditure and even, in some instances, the reduction of nominal wages. Currency devaluations, difficulties in maintaining previous sources of financing and the efforts of the agents of production to transfer the burden of the recession seem to have influenced the speeding-up of the inflationary process.

The panorama thus outlined cannot but arouse concern, since at a time when it is essential to bring about a recovery of production and employment, policies have to cope with serious financial and budget imbalances. Attempts to eliminate or reduce this disequilibrium by means of further curtailments of economic activity might lead to rates of unemployment and to an income distribution pattern which would give cause to fear an exacerbation of social conflicts and of violence.

Table 8

LATIN AMERICA: EVOLUTION OF CONSUMER PRICES

(Variations from December to December)

Countries	1975	1976	1977	1978	1979	1980	1981	1982	1983
Latin America a/	57.8	62.2	40.0	39.0	54.1	52.8	60.8	85.6	130.4
Countries with traditionally high inflation	68.9	74.5	47.1	45.7	61.9	61.5	71.7	102.8	153.6
Argentina	334.9	347.5	150.4	169.8	139.7	87.6	131.2	209.7	401.6b/
Bolivia	6.6	5.5	10.5	13.5	45.5	23.9	25.2	296.5	249.0c/
Brazil	31.2	44.8	43.1	38.1	76.0	86.3	100.6	101.8	175.2b/
Colombia d/	17.9	25.9	29.3	17.8	29.8	26.5	27.5	24.1	17.0b/
Chile	340.7	174.3	63.5	30.3	38.9	31.2	9.5	20.7	23.7b/
Mexico	11.3	27.2	20.7	16.2	20.0	29.8	28.7	98.8	91.9b/
Peru	24.0	44.7	32.4	73.7	66.7	59.7	72.7	72.9	124.9b/
Uruguay	66.8	39.9	57.3	46.0	83.1	42.8	29.4	20.5	62.7b/
Countries with traditionally moderate inflation	8.7	7.9	8.8	9.8	20.1	15.4	14.1	11.4	15.7
Barbados	12.3	3.9	9.9	11.3	16.8	16.1	12.3	6.9	3.5e/
Costa Rica	20.5	4.4	5.3	8.1	13.2	17.8	65.1	81.7	12.6c/
Ecuador f/	13.2	13.1	9.8	11.8	9.0	14.5	17.9	24.3	65.9c/
El Salvador	15.1	5.2	14.9	14.6	14.8	18.6	11.6	13.8	15.4g/
Guatemala	0.8	18.9	7.4	9.1	13.7	9.1	8.7	-2.0	0.0h/
Guyana	5.5	9.2	9.0	20.0	19.4	8.5	29.1	...	...
Haiti	-0.1	-1.4	5.5	5.5	15.4	15.3	16.4	-1.7i/	...
Honduras	7.8	5.6	7.7	5.4	18.9	15.0	9.2	9.4	9.6g/
Jamaica	15.7	8.3	14.1	49.4	19.8	28.6	4.8	7.0	12.1e/
Nicaragua	1.9	6.2	10.2	4.3	70.3	24.8	23.2	22.2	...
Panama	1.4	4.8	4.8	5.0	10.0	14.4	4.8	3.7	1.9c/
Paraguay	8.7	3.4	9.4	16.8	35.7	8.9	15.0	4.2	14.0j/
Dominican Republic	16.5	7.0	8.5	1.8	26.2	4.2	7.4	7.1	2.8
Trinidad and Tobago	13.4	12.0	11.4	8.8	19.5	16.6	11.6	10.8	16.7e/
Venezuela	8.0	6.9	8.1	7.1	20.5	19.6	10.8	7.9	6.4c/

Source: International Monetary Fund, International Financial Statistics, November 1982, and official data supplied by the countries.

a/ The totals for Latin America and the partial figures for groups of countries correspond to the average country variations, weighted by the population in each year.

b/ Variation between November 1983 and November 1982.

c/ Variation between October 1983 and October 1982.

d/ Up to 1980 corresponds to the variations in the Manual Workers' Price Index; from 1981 onwards to the variation in the National Total, which includes workers and employees.

e/ Corresponds to the variation between July 1983 and July 1982.

f/ Up to 1982 corresponds to the variation in the Consumer Price Index in the city of Quito, and in 1983 to that of the National Total.

g/ Corresponds to the variation between August 1983 and August 1982.

h/ Corresponds to the variation between April 1983 and April 1982.

i/ Corresponds to the variation between September 1983 and September 1982.

j/ Corresponds to the variation between June 1983 and June 1982.

/B. TRADE

B. TRADE IN BASIC COMMODITIES AND MANUFACTURES AND ECONOMIC RELATIONS WITH OTHER AREAS

1. Basic commodities

a) Evolution of the international market

The main feature of the present economic situation is the spectacular drop observed in commodity prices on the international market. The downward trend which began as from the last quarter of 1980 is different from previous trends in that it has been more prolonged and widespread, affecting both the minerals and metals sector and that of agricultural raw materials and almost the whole range of foodstuffs and beverages.

An idea of the gravity of this fall can be gained by looking at the combined commodity price index prepared by UNCTAD,2/ which (if petroleum is excluded) shows a drop of 16.1% in 1982 after a decline of 15.6% in 1981 (measured in current dollars). This total drop of over 30% is the biggest in the last twenty years. Furthermore, even though this may be attributed partly to the strengthening of the dollar with respect to other convertible currencies, there was also a very significant contraction in prices in terms of SDRs, with declines of 7.5% and 10.5% in 1981 and 1982, respectively.

This drop in prices is even more serious if considered in terms of constant dollars. The real prices of a considerable number of products in 1982 were less than half the levels reached in 1950, and some of them did not even reach the level of the 1930s.

The drop in prices may be attributed fundamentally to the stagnation and later reduction of industrial production and real income as a result of the world economic recession, which helped to weaken import demand for these products; to the substantial reduction in stocks (which is due in turn to the unprecedented levels of interest rates and the reduction in demand), and to the appearance of production surpluses resulting from the investments made during the previous period of high prices. The present market prices of many primary commodities are below their production costs.

In addition to the immediate causes, there are other long-standing factors which have contributed to the present crisis. Over the long term, the demand for primary commodities has grown only slowly, because the amount of materials used

/per unit

per unit of production has been reduced as a result of technological advances; the proportion of final expenditure accounted for by the actual product itself has gone down because of the increase in the importance of publicity, packaging and other services; the demand for natural raw materials has been restricted as a result of the invention of synthetic materials, and there has been a reduction in demand as a result of the increased protection of national agriculture in the OECD countries.

At the same time, the supply of primary commodities has shown an upward trend, since the developing countries have needed to increase their volume of exports in order to increase their foreign exchange income. This situation, which generates an excess of supply in the long run, creates a downward trend in prices.

In overall terms, for the developing countries as a whole, it is estimated that the drop in basic commodity prices has led to a shortfall in export income of around US$ 8 billion in 1981 and almost US$ 13 billion in 1982.3/

b) The situation in Latin America

In order to appreciate the dependence of the Latin American countries on their basic commodity exports it is only necessary to consider that, although the relative importance of the latter went down in the last decade, they still represent around 80% of the total value of Latin American exports (or, if fuels are excluded, around 40%).

It is for this reason that the performance of this sector, from the point of view of the volume of basic commodities exported and the prices obtained, carries considerable weight in the economies of the countries of the region (see table 9, which presents an overall view of the evolution of the main basic commodity export prices for Latin America).

The repercussions of the drop in the prices of the region's basic commodities may be appreciated from the index of prices for the main basic commodity exports of Latin America prepared by ECLA. This quarterly index covers the 24 main commodities exported by the region (26 if petroleum and petroleum products are included). The weightings assigned to the three commodity groups making up Latin America's exports were calculated taking into account the average value of exports of these items in the period 1979-1980. Thus, if petroleum is excluded

/Table 9

Table 9

LATIN AMERICA: PRICES OF MAIN EXPORT PRODUCTS

(Dollars at current prices)

	Annual averages								Growth rates					
	1970-1980	1977	1978	1979	1980	1981	1982	1983 January-September	1978	1979	1980	1981	1982	1983 January-September
Unrefined sugar a/	12.8	8.1	7.8	9.7	28.7	16.9	8.4	8.4	-3.7	24.4	195.9	-41.1	-50.3	-
Coffee (mild) a/	121.8	240.2	185.2	183.4	178.8	145.3	148.6	137.9	22.9	-1.0	-2.5	-18.7	2.3	-7.2
Cocoa a/	86.3	172.0	154.4	149.4	118.1	94.2	79.0	93.6	10.2	-3.2	-21.0	-20.2	-16.1	18.5
Bananas a/	11.8	14.0	13.7	15.7	18.9	19.2	18.4	21.5 b/	-2.1	13.9	21.2	1.6	-4.2	16.8
Wheat c/	125.1	105.6	131.9	164.4	177.4	178.5	163.0	162.0	24.9	24.6	7.9	0.6	-8.7	-0.1
Maize c/	127.5	114.4	132.5	154.8	210.3	181.0	137.4	155.9	15.8	16.8	35.9	-13.9	-24.1	13.5
Beef a/	82.2	68.4	97.1	130.9	125.9	112.2	108.4	111.4 b/	42.0	34.8	-3.8	-10.9	-3.4	2.7
Fishmeal c/	354.7	454.0	410.0	395.0	504.0	468.0	353.0	439.8	-9.7	-3.7	27.6	-7.1	-24.6	24.6
Soya c/	232.4	280.0	268.0	298.0	296.0	288.0	245.0	268.2	-4.3	11.2	-0.7	-2.7	-14.9	9.5
Cotton a/	61.2	73.9	72.9	77.4	94.2	85.8	72.8	82.0 b/	-1.4	6.2	21.7	-8.9	-15.2	12.6
Wool a/	131.5	153.6	157.4	190.5	194.5	178.2	154.6	144.8	2.5	21.0	2.1	-8.4	-13.2	-6.3
Copper a/	69.6	59.3	61.9	90.0	98.6	79.0	67.2	74.9	4.4	45.4	9.6	-19.9	-14.9	11.5
Tin d/	3.9	4.9	5.8	7.0	7.6	6.4	5.8	5.9	18.4	20.7	8.6	-15.8	-7.8	1.7
Iron ore c/	18.3	20.2	19.7	24.0	28.9	25.9	27.1	25.3 b/	-2.5	21.8	20.4	-10.4	4.6	-6.6
Lead a/	25.3	28.0	29.9	54.6	41.1	33.0	24.8	19.6	6.8	82.6	-24.7	-19.7	24.8	-21.0
Zinc a/	29.7	26.7	26.9	33.6	24.6	38.4	33.8	33.3	0.7	24.9	3.0	11.0	-12.0	-1.5
Bauxite c/	103.5	134.8	138.4	152.6	212.5	216.3	208.3	183.6 b/	2.7	10.3	39.3	1.8	-3.7	-11.9
Crude petroleum e/														
Saudi Arabia	10.0	12.4	12.7	17.0	28.7	32.5	33.5	29.6	2.4	33.9	68.8	13.2	3.4	-11.6
Venezuela	10.1	12.4	12.4	16.8	27.6	32.0	32.0	28.4	-	35.5	64.3	15.9	-	-11.3

Source: UNCTAD, Monthly Commodity Price Bulletin, Supplements 1960-1980 and vol. III, No. 2, February 1983; International Monetary Fund, International Financial Statistics, Yearbooks 1981 and vol. XXXVI, No. 8 August 1983.

Note: Unrefined sugar, FOB Caribbean ports, for export to the free market; Coffee, Colombia mild arabica, free alongside ship, New York; Cocoa beans, average of daily prices (futures), New York/London; Central American Bananas, CIF Hamburg; Cotton, Mexican M 1-3/32", CIF Northern Europe; Wool, clean, combed, 50's quality, United Kingdom (New Zealand Wool Marketing Corp., Clacton-on-Sea, England); Beef, frozen and boneless, from all sources, United States ports; Fish meal, from all sources, 64-65% protein, CIF Hamburg; Wheat, United States, No. 2, Hard Red Winter, FOB; Maize, Argentina, CIF North Sea ports; Soya, United States, No.2, yellow, in bulk, CIF Rotterdam; Copper, cash payment quotations on the London Metal Exchange, electrolytic copper in bars; Tin, cash payment quotations on the London Metal Exchange; Iron ore, Canada, Mount Wright, C. 65% FE, CIF North Sea ports; Lead, cash payment quotations on the London Metal Exchange; Zinc, cash payment quotations on the London Metal Exchange; Bauxite, Guana (Baltimore); Petroleum, Saudi Arabia (Ras Tanura), Venezuela (Tía Juana).

a/ Dollar cents per pound.
b/ Average for January-August.
c/ Dollars per ton.
d/ Dollars per pound.
e/ Dollars per barrel.

/the relative

the relative weights are as follows: food and beverages, 57.1% (tropical zone products, 48.4% and temperate zone products, 8.6%); agricultural raw materials, 20.8%, and minerals and metals, 22.2%.4/

According to these calculations, prices in the food and beverages group as a whole fell by 32% in the period 1980-1982. The tropical products subgroup, which comprises such products as sugar, bananas, coffee and cocoa, registered a drop of 34%, while the temperate zone products subgroup, including such products as wheat, maize and meat, dropped by 24%. The index corresponding to the group of agricultural raw materials, which includes such products as cotton, wool, hides and skins, soya bean oil and fish meal, fell by 16%. Minerals and metals also dropped (by 23%). For the 24 commodities as a whole, the index registered a decline of 27% between 1980 and 1982. In the case of petroleum and petroleum products, the index was 10% higher in 1982 than in 1980, but suffered a serious decline with respect to 1981.

It should be noted that the food and beverages sector, which is of fundamental importance for the countries of the region, suffered the sharpest fall. It is also worth noting that, compared with the basic commodity prices of other developing regions, Latin America was most seriously affected by the grave crisis suffered by this sector.

Analysis of the price index prepared by ECLA (excluding petroleum) for the first quarter of 1983 indicates a rise of approximately 2.4% compared with the last quarter of 1982, although additional drops continued to be noted in the prices of certain products such as raw sugar, coffee, wool, zinc and bauxite. If the calculation is expanded to include petroleum, the price of which fell on the international market, then the index would have gone down by 1.5%.

In the second quarter of 1983, the index (excluding petroleum) continued its general upward trend, although this was only moderate, and an increase of 4.2% was registered. This phenomenon may be attributed principally to reactivatio of demand on the United States market on the one hand, which was reflected in increases in stocks, and to the bad weather conditions which led in a number of countries to a reduction in crops of soya beans, cocoa, sugar, cotton and bananas. It should be noted, however, that this increase in the prices of the main basic commodities was offset by the drop in the price of petroleum. If

/petroleum is

petroleum is included in the ECLA index, it is seen that Latin America suffered an overall drop of 4.9% in the second quarter of 1983 compared with the first quarter.

In the third quarter of 1983, there was an increase of 2.4% compared with the previous quarter for the index including petroleum and petroleum products (2.3% if petroleum and petroleum products are excluded). It should be noted that the general rise in the index in this quarter was due above all to increases in the prices of agricultural raw materials (especially cotton and soya bean oil) and petroleum products. Over the same period, however, there were significant drops in the minerals and metals sector (copper, tin, iron ore) and in tropical and temperate-zone foodstuffs (bananas, wheat and beef).

In terms of constant dollars, basic commodity prices followed their downward trend in the first nine months of 1983 (see table 10). The terms of trade of these basic commodities, which had dropped by 14% in 1982 compared with the year before, continued their deterioration in 1983 with respect to the unit value of the manufactures exported by the developed countries to the developing countries.

Consequently, it may be stated that although the rise in basic commodity prices in the first nine months of 1983 was a positive element, it had only a marginal impact on the Latin American economies. It is worth noting that the average price level for these products continued to be around 20% below that registered in 1980.

c) The impact of the crisis on export income

Because of the sharp drop in basic commodity prices, there was a considerable decline in the export income of all producers. The situation is particularly serious for Latin America because of its dependence on exports of these products. In some cases, the drop in income was due not only to the reduction in international prices but also to a decline in the volume exported. In others, the bigger volume exported only partially offset the drop in prices. This situation has considerably reduced the region's capacity to face up to its heavy debt servicing commitments, while at the same time it has affected investments in this sector, which will undoubtedly have serious consequences in the longer term both for the producer and the consumer countries.

/Table 10

Table 10

LATIN AMERICA: PRICE MOVEMENTS EXPRESSED IN DOLLARS AT CONSTANT PRICES FOR THE MAIN EXPORT PRODUCTS[a/]

(Dollars at constant 1980 prices)

	1970-1980	1977	1978	1979	1980	1981	1982	1983[b/]	1978	1979	1980	1981	1982	1983[b/]
Unrefined sugar	20.8	11.6	9.4	10.5	28.7	17.7	9.0	8.7	-18.2	10.7	174.1	-38.1	-49.1	-3.3
Coffee	190.1	342.2	223.7	198.5	178.8	152.7	159.4	143.4	-34.6	-11.3	-9.9	-14.6	4.4	-10.0
Cocoa	130.1	244.9	186.4	161.6	118.1	98.9	84.8	97.3	-23.9	13.3	-26.9	-16.2	-14.3	14.7
Bananas	19.7	20.0	16.6	17.0	18.9	20.2	19.7	22.4	-16.8	2.3	11.0	7.1	-2.4	13.7
Wheat	208.7	150.4	159.2	178.0	177.4	187.5	174.9	168.4	5.9	11.8	-0.3	5.7	-6.8	-3.7
Maize	213.6	163.0	160.0	167.5	210.3	190.1	147.4	162.1	-1.8	4.7	25.5	-9.6	-22.5	10.0
Beef	142.4	97.5	117.2	141.7	125.9	117.8	116.3	115.8	-20.3	-20.9	-11.2	-6.4	-1.3	-0.1
Fishmeal	606.6	646.7	495.2	427.5	504.0	491.6	378.8	457.3	-23.4	-13.7	-17.9	-2.5	-23.0	20.7
Soya	394.6	398.9	323.7	322.5	296.0	302.5	262.9	278.9	-18.9	-0.4	-8.2	2.2	-13.1	6.1
Cotton	101.1	105.2	88.1	83.8	94.2	90.1	78.1	85.3	-16.3	-4.9	12.4	-4.4	-13.3	9.2
Wool	217.2	218.8	190.1	206.2	194.5	187.2	165.9	150.6	-13.1	8.4	-5.6	-3.8	-11.4	-9.2
Copper	124.2	84.5	74.7	97.4	98.6	83.0	72.0	77.9	-11.6	30.4	1.2	-15.8	-13.3	8.2
Tin	6.0	7.0	7.1	7.6	7.6	6.7	6.2	6.1	1.0	7.6	0.3	-11.4	-7.4	-1.6
Iron ore	30.8	28.8	23.8	26.0	28.9	27.2	29.0	26.3	-17.3	9.3	11.3	-6.2	7.0	-9.3
Lead	40.3	39.9	36.2	59.1	41.1	34.6	26.6	20.4	-9.4	63.3	-30.4	-15.8	-23.3	-23.2
Zinc	50.9	38.1	32.5	36.4	34.6	40.3	36.2	34.6	-14.6	11.9	-5.1	16.8	-10.1	-4.4
Bauxite	160.9	192.1	167.2	165.2	212.5	227.2	223.6	190.9	-13.0	-1.2	28.6	7.0	-1.6	-14.6
Crude petroleum														
Saudi Arabia	14.2	17.7	15.3	18.4	28.7	34.1	35.9	30.8	-13.6	20.3	56.0	18.8	5.3	-14.2
Venezuela	14.3	17.7	15.0	18.1	27.6	33.6	34.4	29.5	-15.2	21.0	52.1	21.9	2.1	-14.2

Source: UNCTAD, Monthly Commodity Price Bulletin, Supplements 1960-1980 and vol. III. No. 2, February 1983; International Monetary Fund, International Financial Statistics, Yearbooks 1981 and vol. XXXVI, No. 8 November 1983.

a/ Deflated by the index of the unit value of exports of manufactures (SITC, chapters 5 to 8) from developed countries to developing countries, on a CIF basis. The estimated deflator for 1983 is based on data supplied by the World Bank in its six-monthly review of estimated commodity prices, June 1983.

b/ Includes only the period January-September 1983. In the case of bananas, beef, cotton, iron ore and bauxite, covers only the period January-August.

/Although no

Although no definitive global figures are yet available for the Latin American countries for 1982, the following examples will illustrate the consequences of the drop in international prices for the export income of certain countries.

Thus, the value of exports of Argentine meat went down by around 16% in 1982 with respect to 1980, although the volume of exports grew by over 13%. If the unit value in 1982 had been the same as that registered in 1980, the export income would have gone up by over US$ 275 million (equivalent to 35% of Argentina's 1982 exports of this product).

In the case of Brazilian coffee, the 1982 export income from this product was 25% below that of 1980. This contraction may be attributed mainly to the decline in the unit value, which was 33% lower in 1982 than it had been in 1980. This decline in income reflects the incidence of the drop of prices, and not the volume exported. If the unit value of 1982 had maintained the 1980 level, the income from coffee would have increased by over US$ 950 million in 1982, equivalent to over 50% of the total value of exports of coffee in that year.

In Colombia, the 1982 export income from coffee was 34% below the 1980 level. If the unit value in 1982 had been the same as in 1980, the export income would have been over US$ 320 million higher: equivalent to 20% of total Colombian coffee exports in 1982.

In Chile, the volume of copper exports in 1982 was 16% higher than in 1980, but the unit value was 30% lower, so that it is estimated that the net export income generated by this product fell by 20%. If the unit value of 1980 had been maintained in 1982, this income would have been US$ 760 million higher: equivalent to 44% of Chilean copper exports in 1982.

Income from tin in Bolivia suffered a severe contraction of approximately US$ 100 million in 1982 (36% of the total value of tin exports in that year), due fundamentally to the drop in the unit value of the country's tin exports to a level estimated to be between 20% and 30% lower than that of 1980.

These examples clearly show the consequences of the drop in basic commodity prices for the economies of the countries of the region. Because of the importance and significance these products have for Latin America, it is difficult to see how it will be possible to emerge from the present economic crisis unless there is a substantial recovery in this sector. It is therefore essential that the

/countries of

countries of the region should lose no time in joining forces and co-ordinating their action with a view to enhancing the value of their basic commodities on the international market, defending their prices and seeking to organize and exert greater bargaining power vis-à-vis the consumer countries. Overcoming the present difficult problems suffered by the basic commodities sector is undoubtedly a complex matter, but it is a vitally important challenge for the countries of Latin America which they must face up to right now.

2. Manufactures

The value of the trade in manufactures 5/ of Latin America 6/ increased over the period 1975-1980 at an average annual rate of 23.5% until it reached a total value of US$ 19 857.3 million in 1980, or 22% of the total exports of goods of the region. There was substantial growth in exports by the engineering industry (mainly transport equipment and non-electrical machinery), whose share in the total value rose to 27.3%. The main suppliers have been the three largest countries of the region (Argentina, Brazil and Mexico), which supply almost 90% of the total. The group of intermediate goods (mainly chemicals and plastic products) represents around 30% of the region's exports of manufactures, and although its share has declined it continues to be the most important group in exports of manufactures. Non-durable consumer goods (above all footwear and clothing) increased their share to 24% despite the growing restrictions applied in the majority of the developed countries. The foodstuffs, beverages and tobacco sector represents around 18% of the total and has been one of the least dynamic sectors, since it includes processed agricultural products which are the subject of considerable protection in the markets of the developed countries.

Latin American exports of manufactures go mostly to the markets of the industrialized countries (54%). Among these, the United States is the principal purchaser (it buys 30% of the total), followed by the EEC with 15%. Only 2% goes to countries with centrally-planned economies, while around 37% of exports of manufactures go to the Latin American market, with Brazil, Mexico and Argentina accounting for 79% of these sales to the region.

The regional groupings also play an important role: exports of manufactures among the member countries of ALADI in 1980 represented 33% of total exports of manufactures by the member countries, while the intra-area exports of the Central

/American Common

American Common Market were much more important, since a proportion of close to 80% of the total manufactures exported by the five member countries went to other countries in the same grouping.

It is worth noting that imports from Latin America represented in 1980 only 1.8% of the total manufactures imported by the industrialized countries. The same percentage had already been reached in 1978, reflecting the growing obstacles which have to be faced by exports of Latin American manufactures in those countries

The Latin American export manufacturing sector was the only one which increased its share in the value of world exports during the last decade. This source of growth for the region seems to have lost its dynamism in the early years of the present decade, however. As a result of the international economic crisis and, above all, as a consequence of the reaction of the industrial countries to that crisis, which has been reflected in a considerable increase in the real level of protectionism, the Latin American trade in exports of manufactures did not increase at all in 1981 and suffered a clear setback in 1982.

In order to illustrate the more recent situation, let us analyse the case of the three largest countries in the region (Brazil, Mexico and Argentina), for which preliminary statistical data are available and whose exports of manufactures represent, together, about 80% of the regional total.

In 1982, Brazil's exports of manufactures came to US$ 10 352 million, that is to say, 13% less than the figure for the year before. In 1980 and 1981, in contrast, Brazil's exports of manufactures had registered increases of 35.9% and 31.6% respectively.7/

In the case of Argentina, the situation was somewhat different, since that country's exports of manufactures did not go down in terms of current values, although the increase in 1982 was only 1.2% compared with 10% in 1981 and 21.6% in 1980.8/

In 1982, Mexico's exports of manufactures went down by 7.6% compared with the previous year's figure, while in 1981 the increase had been only 1.3%.9/

In spite of the comparative advantages enjoyed by some Latin American countries in an increasing number of markets of industrialized countries, exports of manufactures have suffered from the ill-effects of the protectionist measures applied by the latter countries. Exports of manufactures to the international market form the potentially most dynamic part of total exports, and indeed it is

/essential to

essential to export in this way, because this is required by the industrialization process. Latin America cannot renounce to this process, because it will be a key element in its future economic and social development. For these reasons, the region must exploit and promote to the maximum the new possibilities for trade with other developing countries and take full advantage of the Latin American market itself, the importance of which for manufactures has been growing with the passage of time. Furthermore, the region's exports continue to include a relatively low proportion of manufactured goods, and it is essential to increase this proportion in order to expand the share in the most dynamic categories of international trade and in order to give trade with the exterior a more balanced structure. To this end, Latin America must therefore develop joint bargaining power which will give it greater weight in international negotiations so that it can put across its own points of view to counterbalance the protectionist measures prevailing in the North.

3. Protectionism

a) Background

The use of protectionism as part of the trade policy of the industrialized countries has been one of the most outstanding features of the international economy in recent years. It has been put into effect in very different forms and has had important effects on the production and export of primary commodities and manufactures by Latin America.

The exports of the region run into a broad and complex range of tariff and non-tariff barriers in the markets of the industrialized countries. As regards the former, special note should be taken of the negative impact of the sliding scale of tariffs applied according to the degree of processing of the products exported, which has constituted a very serious check on the regional industrialization process. As regards the latter, mention may be made of quantitative restrictions on imports, variable surcharges, safeguard clauses, "voluntary" restrictions, discriminatory practices, countervailing duties, technical barriers to trade, and production and export subsidies. Protectionism has also been accentuated through other forms which take the shape of "agreements" between the parties, to which the countries of the region have been forced to submit as the only way of exporting to some developed countries (for example, the Multifibres Agreement signed within GATT).

/The scope

The scope and scale of these sets of protectionist measures can be appreciated when it is borne in mind that, according to calculations made by ECLA on the subject, in recent years these measures have affected about half of the region's exports (excluding petroleum) to the United States, the European Community and Japan.

In practice, the forms of protectionism referred to above, together with others which it would be too long to list here, have gradually changed the previous situation so that the industrialized countries can now "manage" their trade with the developing countries in general and with Latin America in particular as it suits them best. Thus, they can proceed in a selective and sporadic manner, or, if necessary, apply these measures in a broader, more rigid and more frequent manner. Analysis shows that the domestic demand of these countries is increasingly satisfied, on a priority basis, from home production, while imports are used in a controlled manner to supplement domestic supply.

b) <u>New forms of protectionism</u>

Since the beginning of the present decade, the recession and the rapidly growing unemployment in the industrialized countries have encouraged the intensification of protectionist pressures. This action has helped not only to make the application of the existing barriers more rigid, but also to create new kinds of measures which, taken together, have constituted a very serious additional obstacle to the growth of international trade.

The new protectionism has been characterized by various aspects which are worth noting. First of all, it has evolved without paying much attention to the rules and obligations which should be respected in international trade in line with the provisions of GATT. Secondly, it is essentially bilateral and has tended to depart increasingly from the principle of multilateralism as a way of solving the growing economic and trade problems of the present time. Thirdly, it not only covers restrictions and barriers applied to imports which cross the national frontier, but also extends to external markets through the subsidies given to national exports and industry by means of economic and administrative measures which tend to increase their capacity for competition and their comparative advantages. Fourthly, the level and nature of protectionism has been progressively escalated as a result of the veritable "trade war" going on between the industrialized countries. At the same time, these measures have introduced

/serious rigidities

serious rigidities into international trade as a whole and have affected very particularly the developing countries, which have been able to do very little to withstand these new restrictions. Protectionism has not only had a negative impact on the already depressed international trade, but has also had a special influence on the development strategies of many countries of the region. Fifthly, it has been reflected in the multiplication of agreements on voluntary limitation or "managed" or "regulated" trade, based on reciprocity in the strict sense.

The new rules applied today to the trade in goods between countries, especially between the industrialized countries, are based on concepts foreign to the multilateral system. Among the concepts which have recently come to the fore and are frequently applied it is worth noting the following: i) "unacceptable levels of market penetration" or "maximum market shares", which are concepts whereby the industrialized importing countries can limit imports from certain countries; ii) "minimum viable production", which permits the reservation of a particular share of the domestic market for national industries; iii) "minimum import prices", whereby prices are fixed and any comparative advantage which imports from third countries could have over national production is eliminated; iv) "low cost production" or "undercutting", which is a concept enabling the industrialized countries to limit the advantages of exports from regions or countries where labour is cheap, etc.

As already noted, as well as the measures of protection applied at the frontier, a number of other measures have been added which have had a decisive impact on the possibilities open to various sectors of production for competing on the markets of industrialized countries. The aim of these measures is to give advantages to national industry and agriculture both on the local market, vis-à-vis imports from third countries, and on the external market, in order to maintain or expand existing markets or to penetrate into new ones. The role and participation of the State have been vital in this respect, although in government declarations some countries of the North maintain different theses. Action has been taken through specific financial and administrative measures, among the most widespread of which are: reductions of taxes and duties; cheap credit; manipulation of the exchange rate; help in encouraging the consolidation of inefficient industries into more solid groups; promotion, support and financing for such

/activities as

activities as pure and applied research; accelerated depreciation of capital goods, and a whole range of direct and indirect export assistance measures which include, in particular, export subsidies.

This latter form of aid has been used frequently in the period 1980-1983. It is estimated that the percentage of exports of manufactures which receive subsidies amounts to 13% in the United States, 25% in France, 42% in Japan and 51% in Great Britain.10/ In the agricultural sector, it is estimated that much more than half the volume of world agricultural trade depends on export subsidies. In 1982, such subsidies totalled around US$ 11 billion for the United States and the European Economic Community together. If production subsidies and other types of financial support to the agricultural sector are added, this figure rises to US$ 40 billion.

c) The impact of protectionism on Latin America

The objective of maintaining or improving the income of agricultural producers in the industrialized countries has continued to provide the governments of those countries with arguments to justify ever-increasing protection for their agricultural sectors. This has been achieved through a series of measures ranging from the establishment of guaranteed product support prices to a number of direct or indirect forms of assistance such as the application of restrictive measures at the frontier which tend to raise the world market price of a product to the level of the domestic price. It is estimated that the average level of protection given to the agricultural products of the industrialized countries is equivalent to more than three times the level of protection given to manufacturing.

Protectionism in the agricultural sector has been one of the main obstacles standing in the way of the dynamic expansion of production and trade in Latin America's basic commodities, especially those from the temperate zone (cereals, meat, milk products, edible oils, sugar). The policies followed by some industrialized countries with the aim of ensuring self-sufficiency in this sector have seriously limited the market access conditions for a substantial number of products. Moreover, the surpluses generated by the application of costly support policies are competing on the international market with the exports of efficient developing country producers and have further depressed price levels. Finally, the frequent use by the industrialized countries of export subsidy machinery to promote the sales of their products has caused a definite setback to the developing countries as regards their position on traditional markets and in some cases has even caused them to lose those markets. An example worth quoting in this connection is that of the European Economic Community, which in the early 1970s was the main importer of beef and the second most important importer of sugar on the international market but has now converted itself, since the beginning of the present decade, into the main free market exporter of sugar and the second most important world exporter of beef. The United States, too, has recently introduced new restrictions on imports of meat and sugar.

It is in the field of manufactures, however, that there has been the greatest intensification in protectionist tendencies and the greatest variety of restrictions have been imposed in recent years. In the textile sector, the Multifibres Agreement, which regulates international trade in these products, was extended from 1 January 1982 to 31 July 1986. The protocol extending this agreement includes provisions that further restrict international trade. It has introduced the concept of limitations on imports of textiles and clothing from "dominant suppliers". At the same time, fresh limitations have been introduced in the bilateral agreements between signatory countries of the Agreement.

In 1982, the international trade in steel and steel products continued to be subject to serious obstacles in the main industrialized countries. Imports by EEC countries were the subject of bilateral agreements limiting imports or agreements on prices. In the United States, internal pressures for a reduction in foreign competition also brought results. Thus, ceilings were established and the tariffs on imports of special steels, which are of great importance to Brazil, were increased. The international trade in motor vehicles has also been the subject of strict regulation since 1982.

Various industrialized countries have introduced new restrictions on imports of products which affect the region, especially in such sectors as leather goods and footwear, clothing, and electronic and similar products, thus seriously weakening the growth rate of exports. Likewise, because of the threat of increased protection, there has been a reduction in investment in activities oriented towards the export of manufactures in many countries of the region. Although it is difficult to measure the global repercussions of the increase in protectionism, this phenomenon may be considered to be one of the main problems currently affecting international economic relations and it is standing in the way of a vigorous reactivation of the world economy, since it is applied not only to North-South trade, but also to that between countries of the North.

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4. Latin America and its economic relations with other geographical areas

So far, an effort has been made in this study to present a global picture of the effects of the international crisis on Latin America. It now seems appropriate, however, to look more specifically at what has happened in the region's economic relations and especially its trade relations with the EEC, the United States of America and the member countries of the CMEA, on the one hand, and with the other developing regions on the other. In the case of the former, the reason is that these countries are very important in the trade relations of the Latin American countries, as well as being suppliers of technology, financing and technical assistance. In the case of the latter, the reason is that it is necessary to have a proper conception of the future potential for trade exchanges and for increasing the mutual economic links in which so much hope has been placed, particularly in the present circumstances.

a) The European Communities

In trade relations between Latin America and the EEC, the characteristic feature, as already noted on other occasions, has continued to be the sluggish growth of the Community's market for Latin American exports. Thus, 26% of Latin America's exports went to the EEC in 1970, but in 1981 this proportion came to only 17.5%.

This phenomenon has been aggravated by the special structure of Latin American exports to the EEC. In recent years, barely one-eighth of these exports has corresponded to manufactured goods, whereas the corresponding proportion for Latin American exports as a whole has been approximately 25%.

At the same time, the EEC's share in total Latin American imports has gone down from 23.8% in 1970 to 14.8% in 1981, but as almost 85% of the EEC's exports to Latin America consist of manufactures, the marked asymmetry in the trade in goods between the two areas is clear.

Latin America's position is particularly unfavourable as regards the EEC's trade policy. This is because the set of measures which go to make up the overall protectionist policies of the EEC affect the region more than they affect other developed countries and other developing regions. This protectionism is due mainly to the priority given by the Community to the expansion -and even the incorporation of new member countries- and strengthening of its own Common Market. It may be recalled, in this respect, that half the external trade of the member countries of the Community is of an intra-regional nature.

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From another point of view, it should be mentioned that on account of the Falklands conflict which took place in 1982, the EEC's position with regard to Latin America has acquired a political dimension of a unilateral nature. In view of the economic coercion measures adopted jointly by the member countries of the Community against Argentina, there has been a suspension of the dialogue between the two regions.

The EEC maintains some preferential trade régimes. Among them, special mention may be made of the preferences given by the Lomé Convention to the countries of Africa, the Caribbean and the Pacific (the ACP countries) and the agreements with the member countries of the European Free Trade Association (EFTA) and the countries of the Mediterranean area. Thus, an extensive area of trade preferences has been gradually built up which divides the world economy and adversely affects the principle of multilateralism in international economic relations.

The functioning of the Community's Generalized System of Preferences (GSP) has not succeeded in solving the difficulties encountered by Latin American exports in gaining easier access to the EEC market. On the one hand, the changes made in the Community's system mainly favour the relatively less developed countries, and on the other, the various limitations of the GSP applied by the EEC include in particular the exclusion of agricultural products and textiles.

Furthermore, in addition to the existing limitations as regards beneficiary products and countries, there is the special watch kept over certain products, which provides for the suspension of preferential treatment when a certain fixed quota is exceeded.

As regards trade relations between Latin America and the EEC, the future picture seems likely to be one in which considerable difficulties will continue to exist and there will be few possibilities of any significant improvement in the short term. In view of this, it is obvious that the Latin American countries should organize themselves and make proper use of their bargaining power in order to prevent the discriminatory and protectionist tendencies mentioned above from continuing to spread and grow stronger in the future.

/b) United

b) United States

In spite of the various distorting effects caused by the world recession since the beginning of the present decade, trade relations with the United States have continued to be important for Latin America. The United States is clearly the main country in Latin America's trade exchanges, since approximately one-third of the region's exports go to this market (representing about 13% of the total imports purchased by the United States), while on the other hand almost one-third of Latin America's imports come from this country.

Behind this apparent trade balance, however, there are some important conditioning factors. Firstly, Latin America registers a persistent and significant trade deficit on the reciprocal merchandise trade balance. Secondly, in Latin America's exports to the United States the share of fuels has been rising and is now close to 50% of the total, to the prejudice of basic commodities -which have mainly been affected by the drop in their world prices- and manufactures, which account for rather more than 20%. In contrast, it may be noted that around 75% of the United States' exports to Latin America consist of manufactures.

The traditional asymmetry in the structure of the trade between Latin America and the United States has been getting worse in recent years, and furthermore the maintenance of the United States market's share in the region's exports has been possible almost entirely because of the increased sales of fuels from some Latin American countries.

For this reason, it will be necessary in the coming years to activate and strengthen the negotiations carried on by Latin America in the appropriate forums with a view to solving the persistent difficulties in its trade relations with the United States and combating the accentuation of protectionist tendencies observed in that country. Priority topics in this respect should include the reduction or suppression of tariff barriers (sliding scales and dispersion of customs duties) and non-tariff barriers which hinder the access of Latin America's exportable products to the United States market; the need for the United States to participate and collaborate in the adoption of a set of measures to stabilize international commodity prices; and the expansion and more flexible application of the United States' Generalized System of Preferences (GSP), especially in view of the imminent expiry (in 1985) of the present system.

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Among the existing instruments for hindering the entry of some imported products, especially manufactures, into the United States market, special mention may be made of the 1979 Trade Act which gave the President of that country discretion to make use of the so-called safeguard clause or to impose countervailing duties to deal with the possible presence of export subsidies, depending on whether the respective exporting countries had signed or not the agreement on subsidies adopted at the Tokyo Round held within GATT. It should be noted that although the adoption of this Act did help to make the non-tariff protection instruments more uniform and give them greater clarity, it did practically nothing to restrict their use and it consolidated a procedure which has had negative repercussions for the countries of Latin America.

As regards the Generalized System of Preferences, it is essential that this should be renewed promptly and made permanent, and that it should continue to be generalized, non-reciprocal and non-discriminatory, as originally conceived. In this respect, the countries of Latin America have put forward various important proposals for improving the functioning of the United States GSP. Among these, special mention may be made of those regarding the elimination of the principle of sliding scales of duties; the need for the expansion of the range of products covered; the need for greater flexibility in the procedures necessary for the inclusion of products considered to be of interest for the region; the extension of the concept of "accumulative origin" to cover all systems of economic integration among developing countries, and the elimination of the "competitive need" clause or, at least, the modification of the limiting criterion of 50% and a substantial increase in the value of the minimum value clause.

A recent event of considerable importance in the economic and trade policy of the United States vis-à-vis Latin America was the approval by Congress of a programme known as the Caribbean Basin Initiative. This Programme shows the United States' political concern over the situation in Central America and the Caribbean. The Initiative pursues three main lines of action: increasing trade through the reduction of tariff barriers, economic assistance, and investment incentives.

A central element in the Initiative is the provision of free access, free from tariff duties for a period of 12 years, for the products exported by the subregion to the United States. Nevertheless, the effectiveness of this measure may be reduced by, inter alia, the exclusion of some countries and products

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(such as textiles and leather goods) from the benefits envisaged in the project, as well as the limitation on its period of operation.

Furthermore, the fact that it is left to the discretion of the country granting these advantages to decide whether or not countries are eligible for benefits under these measures, depending on the line followed by their policies, introduces the possibility of discrimination against countries for non-trade reasons.

As regards allocations for emergency economic assistance, the sum of US$ 350 million was approved for the first year. Finally, in order to promote United States investments in the Caribbean, tax reductions will be granted to United States investors in proportion to the amount they invest in this subregion.

c) The European member countries of the Council for Mutual Economic Assistance (CMEA) 11/

In recent years, trade between the Eastern European member countries of CMEA and the Latin American countries has shown some positive features. Among the most important of these, mention may be made of the behaviour of imports by the European CMEA countries from Latin American countries, the total value of which increased substantially over the period 1980-1982, reaching an annual average of approximately US$ 4 billion. As regards CMEA exports to Latin America, no similar progress was registered, and because of their slow growth (except in the case of exports to Cuba) their average level in 1980-1982 was only around US$ 800 million per year.

A global appraisal of recent trends in trade between the Eastern European member countries of CMEA and Latin America (excluding trade with Cuba) reveals the following main features: a) the sharp imbalance in favour of Latin America between exports and imports has persisted (and recently become more pronounced) -a matter of undoubted importance in view of the fact that the trade policy objectives of the parties carrying out this trade include the achievement of reasonably balanced mutual trade exchanges; b) the marked concentration of trade in a few Latin American countries (mainly Argentina and Brazil, and to a much smaller extent Colombia and Peru) has been maintained and lately been intensified, while the trade with the other countries is characterized by small total amounts and great instability; c) when it is borne in mind that in recent years a substantial proportion of the increase in imports by the European CMEA countries from Latin America has corresponded to purchases of cereals (and, to a lesser extent, beef) in Argentina, and

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that the level of these transactions is determined partly by the results of domestic production in the importing countries (mainly the Soviet Union) and by the level of trade between that country and the United States, there seem to be grounds for thinking that this recent expansion in trade lacks a sufficiently solid basis and depends rather, to a considerable extent, on circumstantial factors which may or may not be repeated in the future, and d) finally, although it is true that progress has been made in the field of exports of Latin American manufactures to the Eastern European member countries of CMEA, their relative importance is still very small, they correspond almost entirely to the exports of only two countries (Argentina and Brazil), and their composition is inadequately diversified, since they consist mainly of products of traditional industries.

From a broader point of view, it may be noted that the evolution of trade exchanges between the European CMEA member countries and Latin America has been accompanied by evolution in the instruments and institutional machinery established between the countries of the two areas, especially as regards the negotiation of an extensive and varied system of trade agreements, payments agreements, lines of credit, and broader economic co-operation agreements designed to support the development process of the participating countries. In most cases, under the terms of the trade agreements and economic co-operation accords which have been signed, joint government commissions are set up which serve as channels of information and mechanisms for negotiation on specific aspects of the mutual relations. Although sufficient information and the necessary experience are not yet available for appraising the contribution made by these agreements to the economic development of the signatory countries, it would appear that in a number of specific cases (including those of electrical equipment, fishing, hospital equipment and education and training) they have given satisfactory results which make these a promising form of co-operation.

d) Co-operation among developing countries

During the 1970s, the true potential of economic links between the developing countries was made clear. Thus, reciprocal trade grew rapidly from US$ 11 billion in 1970 to US$ 50 billion in 1975 and over US$ 143 billion in 1981. Total Third World exports increased their share from 20% in 1970 to 26% in 1981. At the same time, the relative importance of the market of the developing countries themselves is even greater in the case of their exports of manufactures, above all

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as a consequence of what is happening in the various intra-regional integration schemes whose trade is included within the above overall figures.

As regards trade between Latin America and the rest of the countries of the South, it may be noted that in 1970 Latin American exports to the rest of the other developing countries did not exceed 2% of the total exports of the region. Partly because of its incipient nature, this trade has gone through a period of rapid expansion, so that in 1981 it accounted for 6% of the total exports of the region, corresponding to a total of US$ 7 billion. The share of manufactures in the total, although it has been growing in recent years, was still slightly under 22% in 1981.

On the other hand, trade between Latin America and the rest of the developing world generated a deficit for the region. In 1981, this negative balance came to some US$ 9 billion, equivalent to 72% of the region's imports of fuels, which is the main category of products responsible for the deficit. There was also a deficit of US$ 1 160 million on the trade in manufactures, while Latin American imports came to US$ 2 600 million. Only in the category of foodstuffs and agricultural raw materials does Latin America show a substantial surplus, amounting in 1981 to US$ 2.7 billion.

All this seems to indicate that trade between Latin America and the other developing countries has considerable possibilities for growth in the future. This impression is strengthened by the fact that, compared with the total imports of the developing countries (excluding the Latin American ones), Latin America's exports to these countries continue to represent very low, albeit rising, percentages: in 1981, for example, they did not even amount to 2%. In contrast, the Latin American market has a relatively greater importance for the exports of the other developing countries (of which it accounts for around 4%), mainly because of the big imports of fuels which the region makes from non-Latin American countries of the South.

It must be acknowledged that there are important factors which unfavourably influence the possibilities of expanding trade between Latin America and the rest of the Third World. These include problems of limited exportable supply; problems of financing, transport and communications; the absence of tariff and non-tariff preferences; the weakness of the South-South trade links in comparison with the strength of those between the countries of the South and the industrialized centres;

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and the shortage of reliable and timely information. It will be necessary to eliminate these drawbacks progressively in order to expand and strengthen interregional trade.

It is only natural that in economic co-operation among developing countries there should be an important trade component. Thus, trade co-operation has always been present in the efforts made by the countries of the South to intensify their links and joint action. As far back as the first Conference on Co-operation Among Developing Countries, held in 1976 in Mexico City, emphasis was placed on the need to carry out studies on this matter and especially on what has come to be termed the Global System of Trade Preferences. At subsequent international meetings on these matters -the United Nations Conference on Technical Co-operation among Developing Countries (Buenos Aires, 1978); the Fourth and Fifth Ministerial Meetings of the Group of 77 (Arusha, 1979 and Buenos Aires, 1983, respectively) and the High-Level Conference held in Caracas in 1981- these matters have been analysed in increasing detail and general principles, standards and specific procedures for the implementation of the various areas of economic co-operation have been established.

There are many areas of possible co-operation among the countries of the Third World, and all of them offer possibilities. Such co-operation must be seen as a process which requires time, however. If Latin America has had to make intensive efforts for a number of decades to strengthen the processes of co-operation and integration, it cannot be expected to achieve this goal at the interregional level without going through the inevitable and necessary prior stages. Nevertheless, the rate of progress must be speeded up and greater dynamism must be imparted to the process, above all at this time of uncertainty and slack activity on Latin America's traditional markets.

IV. LATIN AMERICAN DEVELOPMENT PROSPECTS AND THE NEED FOR NEW POLICIES

The economic and social evolution of the Latin American countries during 1983 gives rise to deep concern, since the negative signs of 1982 have been further accentuated. For many countries, the pressing need to renegotiate the external debt while rejecting solutions which involved declaring a moratorium meant that they had to resign themselves to complying even more rigorously with the so-called adjustment policies. The most seriously affected countries managed to achieve or increase trade surpluses, and in some cases they surpassed the targets previously set. Despite all the efforts and sacrifices made in an attempt to increase their surpluses, however, the drop in the value of exports in both 1982 and 1983 forced a number of countries to reduce their imports in order to attain the goal they had set themselves. This was accompanied, inter alia, by policies of a restrictive nature which generated declines in production, higher unemployment, a further deterioration in installed capacity, discouragement in business circles, reduced investment and the resurgence of inflation.

The fundamental aim of these adjustment policies was to try to solve the problem of the countries' inability to service their external debt. The agreements signed with the International Monetary Fund and the transnational private banking system made it possible to renew expired credits, subject to a promise to make every effort to pay at least part of the interest due. In the present circumstances, the ability to pay interest depends essentially on achieving a trade surplus or gaining access to new credits from the international public banking system. In actual fact, the 1983 trade surplus came to over US$ 20 billion, representing 67% of the total payments of profits and interest to the exterior, while external indebtedness increased yet again, rising to US$ 305 billion.

The assumptions on which these measures were based were that the domestic effects deriving from the need to generate trade surpluses would diminish or disappear with time. It was considered that the recovery of growth in the developed countries should bring with it an increase in export volumes and an improvement in the terms of trade, together with a reduction in real interest rates. Furthermore, the devaluations and other economic policy measures taken would alter price relations, favouring both an increase in exports and a reduction or substitution of imports, thus counteracting the recessive effects of the adjustment policies.

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Despite the recovery being shown by the United States economy, up to the end of 1983 there were no signs of the hoped-for results as regards the economic reactivation of other industrial countries or any increase in Latin American exports or in most commodity prices. In practice, protectionism continues to represent a growing obstacle to export sales, the terms of trade continue to go down, and real interest rates have risen once again. The only element tending to offset to some extent the negative effects of the adjustment policies is the capacity being shown by some countries to operate with a much lower level of imports, without causing their product to contract as much as had been expected. In these circumstances, it is essential to review the prospects for the external economic relations of the Latin American countries in the light of the evolution of the industrial economies, world trade and external financing.

There can be no doubt that the prospects of the countries of the region will be influenced by the way these external factors develop. At the same time, it must be understood that such recovery as may take place in the industrial countries may well fail to bring with it a spontaneous and immediate reactivation of the Latin American countries to the level and on the terms which existed in the past.

The effects and repercussions which the reactivation of the world economy may have on the Latin American countries must be examined specifically in relation to the conditions and problems, both internal and external, which have been growing up and which are different in both magnitude and nature from the basic conditions of the past decade. Among the aspects which will tend to limit or condition the effects of the reactivation of the world economy, special mention should be made of the following: the changes which have taken place in the international money and financial markets; the high level of indebtedness of many Latin American countries; the protectionism being practiced in the industrial countries, and the technological changes which are being incorporated in those countries' production processes.

The international financial market has undergone substantial changes. The big surplus resources generated by petroleum in the countries exporting that commodity and subsequently recycled, largely through the international private banking system, through loans to the developing countries in general and Latin America in particular have disappeared. In addition, it is necessary to bear in mind the various kinds of repercussions caused to the Latin American countries by

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their high level of indebtedness and burdensome financial servicing commitments. All this will limit access to or availability of external financing.

If the present real price of petroleum is maintained, there is nothing to indicate that the balance-of-payments surpluses of the OPEC countries will be repeated. This fact is particularly noticeable in Latin America, where the net oil exporters have an appreciable external debt. For this reason, there are no grounds for expecting that the transnational banks will be as permissive as they were in the 1970s.

Although the financial and monetary policy of the United States succeeded in reducing the rate of inflation, at the same time it caused a substantial rise, first in nominal and then in real interest rates. Moreover, the fiscal deficits of the Federal Government represent a permanent incentive for keeping those rates high.

In this respect, most forecasts point to the maintenance or increase of the ratio between the fiscal deficit and the product rather than a reduction in it. In view of this fiscal situation and the probable maintenance of restrictive monetary policies, the most likely result is that there will be no significant reduction in real interest rates. Furthermore, in the case of the Latin American countries this situation is aggravated by the surcharges included for various reasons in the renegotiation processes.

At present, there is a more pronounced relative scarcity of external financing and real interest rates have risen, so that the conditions are very different from those prevailing in the 1970s, and it could therefore be said that the share of new external financing is likely to be significantly less than in that decade.

The heavy servicing charges payable in respect of the region's present external indebtedness largely compromise in advance the new external resources which could be derived from the recovery of the centres. As will be shown in greater detail below, a considerable portion of the bigger resources which might be obtained from an increase in export values would not be reflected in similar increases in imports, since it will have to be used to pay these servicing charges.

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It might be supposed that a recovery in the growth rates of the developed countries should be accompanied by an expansion of world trade. This assertion calls for some qualifications today, however. As long as interest rates remain high, there is a positive inflow on the United States capital account, and protectionism is growing, the recovery which has begun in the United States does not seem likely to transmit to the developing countries the dynamic impulse which was so earnestly hoped for. Furthermore, the trade imbalances between developed countries due to the differences in productivity and the rise in the relative value of the dollar vis-à-vis the other currencies are not likely to favour an increase in trade, especially when there is serious unemployment in those countries. For this reason, everything seems to indicate that protectionism will not disappear easily, and indeed, there are many who fear that it will keep on increasing.

The technological changes now underway threaten to increase the developed countries' comparative advantages in the manufacture of the goods of fastest-growing world production and consumption, and, what is even more serious, they threaten to reduce the advantages now enjoyed by the developing countries in certain branches of manufacturing.

Consequently, special account must be taken of these factors when appraising the effects of a recovery in the OECD countries on Latin America.

In these circumstances, it is considered useful to explore and illustrate the nature and scope of the principal problems faced by the Latin American countries, building up a picture of the possible evolution of the economies of the region in the context of the probable policy developments and events in the external context just described. This picture, of course, constitutes neither a forecast of future events nor a set of proposals on the institutional and structural changes and modifications called for at the national and world levels to promote an authentic development process.

The evolution of exports, their purchasing power and interest rates has been estimated on the basis of considerations regarding the economic dynamism of the OECD countries.

A moderate recovery in the growth rates of the OECD countries in the remaining years of the decade (3.5% per year) has been assumed It should be borne in mind, however, that in most of the studies carried out by international agencies the recovery of this group of countries has been linked with the future behaviour of real interest rates. So far, real interest rates continue to be high, and are moreover accompanied by declining rates of profitability.

It has been assumed that, for this rate of growth of the product of the OECD countries, the volume of Latin American exports would increase by a little over 3% per year, while at the same time there would be an improvement in the terms of trade, in contrast with what happened in 1983, when the growth in volume was offset by a drop in unit prices. It should be remembered that in 1982 fuels represented 23% of total exports at 1975 prices, and the growth rate assumed for them is less than that for the remaining products, which would be over 3.7% per year. At the same time, it has been assumed that the terms of trade would not improve equally for all countries, since the influence exerted by the evolution of oil prices would favour some, prejudice others, and be of little importance for a few of them. The study is based on the effect of an improvement in real export prices (excluding fuels) of around 3% per year for the Latin American countries.

The real interest rate to be paid to the transnational private banking system would come to around 6% per year.12/ This would represent an improvement over the situation in 1982, when it was estimated that that rate averaged over 10%. The real interest rate being paid is not independent of the renegotiation conditions. The ratio between debt servicing and the value of exports was already described, with the renewal of the short-term debt being taken into account in that case. It is estimated that in 1982 this ratio represented 127% of total exports.13/ Until a substantial proportion of the debt -especially the short-term debt- is reprogrammed for the medium term, the renegotiations will have to be repeated at short intervals and it is hard to see how the real interest rate, including all the surcharges which are being imposed, can be appreciably below the figure given in this study.

No significant increase in direct foreign investment has been assumed for the region as a whole in the rest of the decade, in spite of the importance which such investment may be expected to assume in some countries.

In the trade and financial circumstances assumed, in which a certain level and purchasing power of exports and a certain level of interest rates have been established, the level of imports must be compatible with the external financing which it is believed possible to procure, bearing in mind the evolution of the countries' payments capacity.

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At the same time, however, recovery of the economic growth rate involves bigger import needs. When both these aspects are taken into account, the ratio of imports to the product resulting from the projections made is much lower than that prevailing in the period of moderate recovery of economic growth (1976-1978), which was similar, in the case of the countries of large economic size and population, to that corresponding to the 1960s. It may be recalled that at that time the levels were the lowest since the war.

The external financing needed is such that the ratio between the debt servicing and the value of exports is slightly lower than the present levels.

Different economic growth options were examined in this context. They include a hypothesis which, as well as being consistent with the assumptions made, provides a good illustration of the depth of the crisis facing the region. According to this hypothesis, the region as a whole will recover in 1990 the level of per capita product which it had in 1980 -an attainment which assumes an overall average economic growth rate of around 4% per year for the period 1984-1990.

The main conclusions which can be drawn from the analysis of this scenario are as follows:

a) The low level of economic dynamism in this scenario brings with it a considerable aggravation of the problem of unemployment and underemployment. Thus, even if the growth rate of the product per person employed in the period 1980-1990 was as little as 2% per year (which is below the historical average of 3.2% registered in the last three decades), it would only be possible to absorb 0.3% per year of the growth in the labour force (estimated conservatively at 2.8% per year). In these circumstances, about 90% of the labour force incorporated in the 1980s would be without work in 1990. Even if transfers took place between the old and new labour force as regards the occupation of jobs, there can be no doubt that an appreciable percentage of the young people reaching active age in this decade would not be able to find work. This means that, by 1990, there would be about 35 million more unemployed than in 1980.

b) During the whole of the remainder of the present decade it is likely that one of the main principles of international co-operation will be contravened, since the physical balance between exports and imports will be favouring the developed countries, so that the region will be transferring real resources to them in an amount likely to exceed US$ 65 billion at 1975 prices.

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c) The variation assumed in the behaviour of imports calls for the introduction of important changes in the policies applied before the present economic adjustment, and the realization of these changes will prove to be difficult in many countries. Thus, a calculation made for the period 1983-1985 shows that the reduction in imports involved in this change comes to around US$ 40 billion at 1975 prices. In those countries where growth in the period 1974-1980 was propelled by industrialization, it will be easier to substitute imports, and indeed this has already begun to take place in some cases, such as that of Brazil. In countries which applied liberal policies and where industrial growth was very small, on the other hand, the task will be more difficult. Moreover, in these countries the import policy provided much of the support for anti-inflationary and wage policies. Consequently, this solution, which is based on balance-of-payments considerations, calls for very important changes in economic policies.

d) The maintenance of a level of debt servicing which represents such high percentages of the value of exports and which involves maturity dates that follow each other and are renewed in periods of less than one year will oblige countries to engage in a continuous renegotiation exercise which will undoubtedly affect the degree of independence with which they can handle their domestic policies. In spite of the reduction noted earlier, debt servicing in the period 1984-1990 is likely to remain close to 100% of the value of exports.

e) External indebtedness will continue to increase as a result of these high levels of servicing costs, in spite of the trade surplus which should be recorded during the rest of the decade. Thus, in 1990 the region's external debt will amount to US$ 451 billion: more than double that of 1980.

If we now look at the scenario as a whole, we see that it completely fails to satisfy the essential objectives of the development process.

In the economic and social fields, the problems of unemployment will become increasingly acute, to such a point that they will almost certainly cause a recrudescence of the violence already being observed in many countries of the region. As regards the satisfaction of the most urgent needs of many social groups which were already living in a situation of extreme poverty at the beginning of the 1980s, no solution whatever is to be glimpsed. As the per capita product will remain unchanged, there will be no progress in this respect in the

1980s. Worse still, so far everything indicates that income distribution has got worse, thus making the situation of the poorest groups even more serious.

In the production field, the decline in investment, the dismantling of installed capacity and the discouragement rife in business circles give grounds for fearing that the production potential likely to be achieved in 1990 will be less than that existing in 1980.

In the field of external relations, it is likely that the degree of independence in the taking of national decisions will have been reduced and the region will be relatively more indebted.

The projection of the present policies contained in the scenario just analysed shows that the intense sacrifice now being made by the region will not solve the main development problems it is facing. It is obviously necessary to seek a different solution, since in the present external trade and finance conditions it is impossible to service the debt in line with the maturities and interest rates laid down in the agreements signed with the developed countries and the transnational banking system.

New conditions could be created which would provide support for scenarios different from that analysed, if substantial changes took place in the conditions prevailing in the developed countries as a result of agreements between the Latin American and developed countries designed to take account of the central problems of their external relations or merely to recognize the downright impossibility, from the economic, social and political point of view, that the countries of the region can keep on respecting the present conditions.

The change in external conditions which would take place in line with the possibilities referred to above would make possible another scenario characterized by fundamental changes in policies and results as compared with the present situation and prospects.

As there are substantial differences between the Latin American countries, the elements which could be taken into account in formulating national policies will be mentioned and analysed here.

The most important changes concern economic growth rates, the selective rehabilitation of sectors of production, structural and institutional changes at the internal level to promote suitable equity in the social distribution of the fruits of economic growth, the role of regional co-operation and changes in the external trade and financial situation.

/The recovery

The recovery of economic growth rates, the selective rehabilitation of sectors of production and the improvement of the employment situation require, as a necessary prior condition, an increase in the level of imports compared with that contemplated in the previous scenario. This increase could be achieved in two ways:

a) Through changes in external trade conditions.

b) Through changes in external financial conditions.

The solution based on an expansion of external trade depends fundamentally on the dynamism of the economies of the developed countries and the external trade policies they decide to apply. It has been estimated that a 6.8% increase in the volume of exports, accompanied by an improvement in the terms of trade which put them at a level similar to that existing in the region in 1975, would make it possible to achieve the level of imports needed to make the 1990 per capita gross domestic product 21% higher than that of 1980. This result, which assumes an annual increase of only 2% in the per capita product between 1980 and 1990, would call for overall growth of the gross domestic product by 6.6% per year from 1983 onwards. Despite the magnitude of this growth rate, the achievements would still be modest in relative terms, as is clear if we consider that the per capita gross domestic product achieved in 1990 would represent only 77% of the target laid down in the Regional Programme of Action.

It was already noted that without a substantial change in the policies applied by the developed economies to permit either higher economic growth or a reduction in protectionism it would be difficult to improve on the projections for exports and the terms of trade contained in the previous scenario.

If the solution to the problem is sought principally through the financial field, then the present debt should be changed into a long-term one with very low real interest rates and substantial periods of grace for servicing payments. An exercise has been prepared in this respect which illustrates the importance of these financial measures. Thus, it has been estimated that in order to attain by 1990 the level of gross domestic product already noted, with the same external debt as in the previous case, but with real interest rates reduced to an average of 1.5% and private indebtedness renegotiated for a term of 10 years with a period of grace of 5 years, it would be necessary for the volume of exports to grow by 5.6% per year. In these conditions, the debt servicing would represent an average

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of only 30% of the export income. Nevertheless, we should not lose sight of the fact that once the period of grace was over the debt servicing would show significant increases unless corrective measures of a more permanent nature were agreed upon. Another solution which has been suggested is that the transnational private banking system, with the co-operation of the governments of the developed countries, should agree to absorb some loss of capital to cover part of the debt.

It may be noted that both these solutions have been applied internally in some Latin American countries where the government has assumed an active role in view of the seriousness of the problems affecting the private sector.

A formula which seems practical for implementing the kind of financial solutions considered here would consist of the issue of long-term State-guaranteed bonds with suitable grace periods and low interest rates which would replace a significant part of the present debt. The period of grace would be of fundamental importance, since it would give an opportunity for the much-heralded recovery of growth rates in the centres to take place. This solution would be still more viable if, in addition, the governments of the developed countries underwrote the issue of these bonds in some way.

Whatever the solution adopted, it must not be forgotten that it is essential to establish new forms of insertion into the international community, find new forms of regional co-operation, and make domestic economic and social changes. The new forms of international insertion should correct the well-known problems of imbalance in international trade and finances. Correction of the trade imbalances calls for the establishment of greater equilibrium between production and domestic expenditure. Thus, to the extent that consumption and investment expenditure contains a higher proportion of manufactures or modern services, then production should place more emphasis on these lines. It is not a question of proposing an autarkic model, but merely of promoting a trade structure different from that which resulted from the policies applied in the 1970s. This strategy will naturally need a reasonable length of time before it can be expected to give results, since at the beginning around 80% of the exports will be made up of basic

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commodities and fuels. In proportion as the changes in domestic production begin to give rise to a structure which permits a greater balance between exports and imports, external trade will be able to play a more important role in overall demand and supply in the economies. For this purpose, it will be necessary to stimulate the production of exportable manufactures and defend the production of those goods which managed in the 1970s to win markets that must now be retained.

In the 1980s, the international financial market has given a revealing lesson regarding the absolute imbalance which exists between decision-taking power and the distribution of the cost of the policies adopted. The costs which United States economic policy has entailed for Latin America through the rise in real interest rates and the fact that little or no consideration has been given to the consequences of these additional costs clearly illustrate this aspect. Furthermore, everything seems to indicate that the international banking system will not be as permissive as it was in the 1970s, and in any case the region is also not in a position to increase its real indebtedness significantly.

In order for external relations to be similar to those postulated for the scenario in question, it would be necessary to make a number of changes in domestic and regional policies, the most important of which are set forth below.

First of all, it is essential to reactivate and restructure the domestic market, not only on account of the economic considerations set forth below, but also for ethical reasons. It is totally unacceptable that the burden of the crisis should continue to fall on the lowest income groups. The goal of equity should become a priority objective of the new development strategies. In the reactivation of domestic demand account must be taken above all of the groups which were already in a situation of extreme poverty before the crisis and whose situation has since got even worse. To this end, it is necessary to stimulate the branches of production which form the backbone of employment and mass consumption: many branches of the agricultural sector are specific examples in this respect. Because of the need to guarantee, in the short term, both supplies of agricultural origin and the productive absorption of a high proportion of the rural labour force, it is advisable to give priority to the recovery of this sector.

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At the same time, the physical and industrial infrastructure must be preserved: the creative effort and accumulation of resources made in the past form a national patrimony which must not be sacrificed in pursuit of conjunctural macroeconomic objectives.

In the efforts to bring about a recovery in investment, close attention should be paid to the elements involved in the policy of containing imports, which it is essential to put into practice as soon as possible and which is already being applied with extreme severity in some countries in 1983. There will be renewed opportunities for development for sectors whose growth rate had been slackening even before the crisis. The manufacturing sector calls for special attention in this respect. In order for this sector to expand, the State must intervene to create the physical, institutional and financial infrastructure needed to give both public and private business circles the time horizon which their activities require.

It is also well known, in this connection, that in previous periods when a process of import substitution was being carried on in the region, side by side with the successes achieved as regards changes in the areas of production and technology, problems of scale, efficiency and faulty linkages were encountered which should now be avoided. Policies as regards the distribution of income and consumption, medium and long-term planning, and regional co-operation and integration could play leading roles in this respect.

The policies on the distribution of income and consumption would make it possible to build up industry on the basis of a more homogeneous economic and social demand structure, which would bring with it great benefits, quite apart from the intrinsic objectives of this kind of measure.

Medium and long-term planning would make it possible to take advantage of the valuable experience accumulated in the region as regards changes in the areas of production and social affairs. The serious consequences suffered by many countries through lack of foresight (and even through the adoption of unsuitable measures) should serve to reassert the value of planning processes. The experience of most of the developed countries confirms the need for the State to be guided in its short-term actions by a long-term social and economic project which gives continuity and guidance to the accumulation efforts called for by all development processes.

Regional co-operation and economic integration should play an important role, since they will give greater space and efficiency to the processes. The restriction of imports and the need to generate trade surpluses referred to earlier mainly concern trade with countries outside the region. There is no reason, however, why the expansion of regional trade should not be effected while still maintaining suitable relations between the share of trade and of the product. Naturally, this process should be based on a broad system of measures which distribute the benefits of integration in an equitable manner, and it should involve in particular the establishment of basic conditions which safeguard and favour the interests of the relatively less developed countries. On the other hand, in making use of the new regional space careful consideration should be given to the role that should be played by the transnational corporations, since if proper attention is not paid to this aspect it would mean opening up to them a market in which they would not have any adequate counterweight.

/V. LATIN

V. LATIN AMERICA AND INTERNATIONAL CO-OPERATION

1. Background

Since the adoption by the General Assembly on 1 May 1974 of the Declaration and Programme of Action on the Establishment of a New International Economic Order, almost ten years of debates, consultations and negotiations among the developed and developing countries in a multitude of forums both inside and outside the United Nations system have gone by, in which it has been sought to apply the essential elements of the new order.

In view of the limitations of the existing system of relations, the shortcomings in the established structures, and the inappropriateness of the prevailing machinery to their pressing needs, the developing countries put forward during this period a series of demands and specific proposals for negotiation, which constituted the central topics of the so-called North-South dialogue. These demands had two fundamental objectives for these countries:

a) to put forward the need to make structural changes in the system of international economic relations in order that these should not be conceived of only as mechanisms for "aid" and other measures destined exclusively for the transfer of certain financial resources from the North to the South, and

b) to gain greater control over the process of the adoption of decisions regarding all international affairs affecting development and to achieve greater participation in the systems determining the course of events and affecting the developing countries' destiny.

Although the developed countries voted in favour of the resolution, motivated particularly by their desire to reach agreement on the ordering of energy resource markets after the price adjustments of the mid-1970s, throughout the process of negotiation there prevailed among them an attitude of skepticism regarding the competence of and possibilities of economic dialogue with the Third World in United Nations forums, as opposed to negotiations in appropriate specialized bodies. This attitude helped to weaken the general framework of negotiations and, in spite of some efforts to get closer to the positions of the developing countries, no agreement was reached regarding the principle of structural changes in international economic relations as a fundamental objective of the North-South dialogue.

The so-called North-South dialogue took place in various forums. It is worth recalling the negotiations carried out by UNCTAD at its fourth and fifth sessions (1976 and 1979); the multilateral trade negotiations held in GATT (1975-1979); the Conference on International Economic Co-operation (Paris, 1975-1977); the initiative for the holding of a round of global negotiations (1979 to date); the Cancun summit meeting (1981) and, more recently, the Ministerial Meeting of GATT in November 1982 and the sixth session of UNCTAD held in Belgrade in June 1983.

If we analyse what took place at these international meetings and negotiations, there are seen to be two fundamental aspects: on the one hand, the central thesis or proposal of the developing countries has been practically the same throughout this period, and on the other hand, the results of all these meetings have been far below the aspirations and initial expectations of the developing countries.

The central proposal of the developing countries, which comprises three subject areas intimately related with each other and decisive for them -basic commodities, trade, and monetary and financial matters- was the creation of a new international framework for economic relations between South and North, with greater participation and decision-making power as regards the "rules of the game".

Thus, in the field of basic commodities they sought a new approach and a new structure for their trade, with a view to correcting the existing shortcomings not only as regards prices (something which had already been sought in previous approaches) but also as regards export income, the terms of trade, systems of marketing, distribution and transport, and the processing of raw materials in the producer countries.

In the trade sector, they proposed basically to halt and reverse protectionist tendencies and advance towards the liberalization of international trade through clear commitments as regards standstill agreements, safeguard clauses, subsidies, the reduction of tariff and non-tariff barriers and the withdrawal of other existing restrictions and undertakings regarding structural adjustments. In addition, they sought to arrive at a set of rules and principles aimed at achieving a juster and more equitable international trade system capable of really achieving differential treatment in favour of the developing countries.

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In the area of monetary and financial matters, the objective of the developing countries was to build a new international monetary system which would be in keeping with their needs and would permit them to have greater participation in the taking of decisions which affect their interests. As regards the serious and growing shortage of resources, the aim was to secure the expansion of financial flows from international financial institutions, especially the IMF, and to channel them to the developing countries through an additional allocation of Special Drawing Rights; an increase in official development aid; access to private capital markets; greater participation in the development financing provided by public multilateral agencies, and an increase in direct private investment in line with the priorities and sectors decided by the recipient countries.

As well as seeking important changes in these three priority aspects, the developing countries promoted many other actions of co-operation with the industrialized countries in such areas as the transfer of technology, maritime transport, trade with the Socialist countries, and the special problems of island or landlocked countries. In addition, they promoted a substantial programme of action in favour of the less developed countries, while at the same time progress was made in studies aimed at strengthening co-operation among the developing countries themselves.

2. Some results

If we compare the proposals made by the developing countries with the actual commitments or resolutions emerging from these conferences, we clearly see the lack of positive results, and the frustration of the developing countries with regard to international co-operation is clearly evident.

On repeated occasions, the developing countries concentrated the expression of their dissatisfaction on various fronts, among which mention may be made of the following:

a) In the area of basic commodities, they emphasized that, after six years of negotiations on 18 commodities within the framework of the UNCTAD Integrated Programme for Commodities, it has only been possible to reach two new agreements (those on rubber and jute); four existing international agreements have been renegotiated -those on sugar, cocoa, coffee and tin- and the Agreement Establishing the Common Fund for Commodities has been negotiated.14/

/The rubber

The rubber agreement is a traditional-type agreement aimed at the stabilization of prices, within a negotiated fringe, through the establishment of an international buffer stock. Although the negotiations arose from the Integrated Programme for Commodities, it has not so far been possible to agree on any other type of measures within this agreement. In the case of jute, the results are very limited, since the agreement does not have any economic provisions and the international measures provided in it are limited to certain research and development projects, reduction of costs and trade promotion. The existing international agreements which have been renegotiated have maintained their original objectives of price stabilization.

b) With regard to the Common Fund which arose out of the negotiations in UNCTAD, the developing countries noted that this has proved to be a much weaker mechanism than that originally projected. It has much fewer resources and less power than initially foreseen; and its potential usefulness depends ultimately on the existence of international commodity agreements which need this mechanism and become associated with it. Nevertheless, this Fund could become an important innovation in international economic relations and it also has a number of interesting elements.15/ The text of the Agreement Establishing the Common Fund was approved in 1980, but this new financial institution has not yet come into effect, since it has not proved possible to comply with the requirements for this as regards member countries and capital. To date 108 countries have signed the Agreement, but only 53 of them have ratified it. In order for it to come into force it must be ratified by 90 countries representing two-thirds of the capital directly contributed to the Fund. The contributions of the countries which have so far ratified it amount to 36.25% of the total capital, but there are many developing and developed countries which have not yet done so. According to the time limits laid down by the sixth session of UNCTAD, in order for the Fund to come into effect on 1 January 1984 the above requirements should have been completed before 30 September 1973, but this did not take place.

c) As regards international commodity agreements, the developing countries stressed that there has been no acceptance of their proposals on better terms of access to the markets of the developed countries, on greater participation by producers in the systems of marketing and distribution of such commodities, nor regarding a higher degree of processing of raw materials in the developing countries. All these subjects remain under study, but there has been no action

/regarding them.

regarding them. Finally, the developed countries have not agreed to enter into negotiations for expanding the coverage of compensatory financing.

d) As regards international trade, the developing countries have noted that in GATT the negotiations have been concentrated mainly on the trade problems raised by the relations between the United States, Japan and the European Communities, and have either failed to consider -or have considered only in a marginal manner- the objectives of the developing countries.16/

e) As regards the more recent negotiations, they noted that, in spite of the critical situation through which the world economy is passing, no progress has been made as regards arrangements for doing away with protectionist measures, or organizing programmes to facilitate the structural adjustment, or laying down multilateral guidelines to guarantee the stability of the Generalized System of Preferences; nor has any significant progress been made as regards countervailing and anti-dumping measures or safeguard clauses and subsidies. Finally, no progress is being made in the efforts to formulate a new set of juster, more equitable and more effective rules and principles for international trade. The Ministerial Meeting of GATT held in November and December 1982 is a good example of this lack of progress.

f) In the financial and monetary area, they note that there has not been any progress either as regards the developing countries' demands for a fresh allocation of Special Drawing Rights (SDRs), a significant increase in IMF quotas, or the expansion of the Compensatory Financing Facility, nor has there been progress in the initiatives aimed at the reform of the international monetary system, such as the possible convening of an international conference on monetary and financial questions.

Some developed countries, for their part, have taken the view that the existing co-operation institutions and machinery are sufficient for increasing and strengthening international trade relations, and that structural changes such as those demanded by the developing countries are therefore not necessary. Recently, some industrialized countries have emphasized the role of the automatic adjustments resulting from full application of the market laws. In addition, they have shown dissatisfaction with the number of negotiating fronts involved in the proposals of the developing countries and the difficulty of tackling them all together in a negotiation effort.

/This list

This list of the different attitudes of the parties involved is illustrative of the way the North-South dialogue has gone on so far and the consequent feeling of frustration and disenchantment which is to be observed. The appeal for dialogue and negotiation made by the Group of 77 in the Buenos Aires Platform did not succeed in bringing about any substantial change in the expected results of the sixth session of UNCTAD held in Belgrade in June 1983.17/

3. The outlook for the international negotiations

What has happened in recent years as regards the international negotiation process has given rise to a series of obvious facts which call for serene and realistic analysis by all the parties involved, with a view to rescuing the international negotiations from their present state of stagnation. Such an analysis is all the more necessary at critical times like the present, which call more than ever for the stimulation of active and vigilant international co-operation to match the pressing needs of the developing countries.

Mention has been made on several occasions of some attitudes and positions which could be changed in order to make the negotiating process more dynamic. The following would appear to be the main aspects which could be borne in mind by the negotiating parties:

a) The fundamental disparity of criteria, approaches and objectives between the industrialized countries and the developing countries as regards the important matters being negotiated in the North-South dialogue. In view of the bases, rules and power relations governing these negotiations, their result has inevitably been unbalanced, to the detriment of the developing countries.

b) The deterioration of multilateralism as an approach for solving the critical economic and financial problems. There is a growing tendency to tackle problems by bilateral means and not through collectively negotiated commitments. As a result, on many occasions the burden of adjustment has been transferred to the international community in general and the developing countries in particular.

c) The decision taken by the majority of the industrialized countries to give firm priority to the trade and financial negotiations held within the framework of GATT, the IMF and the World Bank, rather than those held within the United Nations system and, in particular, UNCTAD. Without denying the fundamental

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role of those institutions in their areas of competence, it is essential to recover the vital role that should be played in this process of negotiation by political dialogue and technical debate within the world organization and its respective organs.

d) The multiplicity of negotiating fronts, although essential for progress towards integral forms of international co-operation, is frequently reflected in an excessive number of problems to be negotiated and lack of operational selectivity which militates against the effectiveness of the negotiation processes.

e) The lack of firm political decisions to advance towards the restructuring of the international trade, monetary and financial system to fit it better for the promotion of more harmonious and equitable development. While not denying the complexity of this objective and the time that may be needed for its fulfilment, it is important for the entire international community to make progress in this direction.

f) The lack of any decided reassertion of the thesis that there can be no sustained and lasting reactivation of the world economy without a significant recovery of the economies of the developing countries, and that for this purpose it is not enough merely to have reactivation in the centres and the spreading of its effects to the periphery: it is also indispensable to carry out concerted and active international co-operation actions.

g) The fundamental role which the industrialized countries continue to assign to the so-called free play of market forces as a central element of the structural adjustment, and their opposition to government intervention at the international level, although they frequently resort to such intervention at the national level.

All the above considerations should lead the developing countries to re-examine the prioritities of their future international action. If they do not succeed in substantially strengthening their bargaining power and capacity in order to bring about a change in the results of the negotiations, or if they cannot reach agreement with the developed countries on new realistic and effective bases for tackling the future stages of the negotiations, the most likely result will be that the North-South dialogue will be doomed in the future to frustrations similar to those registered in the past.

/The bargaining

The bargaining power of the developing countries depends to a considerable extent on themselves. Consequently, the first essential step is to greatly heighten co-operation and solidarity among their members. It is also obviously necessary to re-examine objectives, procedures and strategies with a view to future negotiations with the industrialized countries, so that the dialogue can be more effective and can be reflected in more positive results for the developing countries and the international community as a whole.

/VI. REGIONAL

VI. REGIONAL INTEGRATION AND CO-OPERATION

A. THE OVERALL PICTURE AS REGARDS INTEGRATION AND CO-OPERATION

The last few years have been marked by severe challenges and tensions for regional integration and co-operation. In some cases, these have been the result of policies of opening-up the international economy because of the belief that this would also open up prospects for a very dynamic increase in exports to the industrialized centres. In other cases, the reason has been financial permissiveness in the procurement of external resources and a general resistance to conditioning national policies to the needs of integration and co-operation.

The most visible result, as explained in greater detail in the analysis made of each integration scheme, has been a reduction of the share of intra-regional exports in the total exports of Latin America (see table 11). After having risen in 1979 to 16.5%, this share went down in 1980 to 15.2%, recovered a little to 15.9% in 1981, and finally dropped to 15% in 1982.

This decline affected all the regional integration schemes, i.e., ALADI, the Andean Group and the Central American Common Market, the only exception being CARICOM, which increased the share of subregional exports in its total exports from 7.4% in 1981 to 8.2% in 1982.

The above figures show to what extent the efforts to consolidate the growing links among the member countries of the integration schemes have had to yield, on the one hand, to the international crisis, and on the other to national policies in which the component of co-operation with the other Latin American countries has either been completely absent or insufficient.

On the other hand, in the face of the problems caused by the breakdown of a financial order which seemed to promise a solution to the structural imbalances in trade caused by the asymmetrical insertion of the countries of the region into world trade, the circumstances now make it necessary to recognize the value of regional integration and co-operation as suitable instruments for finding a way out from Latin America's development crisis.

Finding a solution to the present problems is a more complex matter than in the past, however, and the seriousness of the situation calls for strategies appropriate to the new needs of countries and societies very different from those which went before them, both as regards their degree of development and as regards their economic and social aspirations.

/Table 11

Table 11

LATIN AMERICA: INTRA-INTEGRATION SYSTEMS, INTRA-LATIN AMERICAN AND TOTAL EXPORTS

(Millions of dollars at current prices, FOB)

	1960	1965	1970	1975	1978	1979	1980	1981a/	1982a/	Growth rates 1960-1970	1970-1980	1960-1980
ALADI												
Total exports	7 344.8	9 388.7	13 786.7	29 664.2	44 630.1	60 729.0	79 569.1	85 719.0	80 574.0	5.7	20.0	12.7
Exports to Latin America	-	-	1 583.5	5 031.2	7 174.3	10 011.8	11 962.5	13 431.2	11 729.2	...	22.0	...
Exports to Latin America as a percentage of total	-	-	12.4	17.0	16.1	16.5	15.0	15.7	14.6			
Intra-ALADI exports	566.6	841.9	1 266.0	4 010.2	5 838.4	8 574.6	10 879.3	11 933.6	9 811.7	8.4	24.0	15.9
Exports to ALADI as a percentage of total	7.7	9.0	9.9	13.5	13.1	14.1	13.7	13.9	12.2			
Exports to ALADI as a percentage of exports to Latin America	-	-	79.9	79.7	81.4	85.6	90.9	88.8	83.7			
Andean Group b/												
Total exports	3 586.8	4 346.0	5 419.1	12 897.8	16 293.4	23 937.5	30 064.5	29 822.6	26 637.0	4.2	18.8	11.2
Exports to Latin America	-	-	569.0	2 055.3	2 404.2	3 412.9	3 922.8	4 401.6	4 268.1	...	21.0	...
Exports to Latin America as a percentage of total	-	-	10.5	15.9	14.8	14.3	13.0	14.8	16.0			
Intra-Andean Group exports	24.5	52.7	91.6	477.1	634.5	1 075.1	1 182.6	1 513.0	1 200.7	14.1	29.0	21.0
Exports to Andean Group as a percentage of total	0.7	1.2	1.7	3.7	4.2	4.5	3.9	5.1	4.5			
Exports to Andean Group as a percentage of exports to Latin America	-	-	16.1	23.1	28.5	31.5	30.1	34.4	28.1			
Central American Common Market												
Total exports	444.2	762.5	1 105.4	2 309.4	3 974.0	4 462.5	4 942.5	4 239.0	4 131.7	9.5	16.2	12.8
Exports to Latin America	-	-	313.7	645.9	965.7	1 034.2	1 172.0	1 125.7	993.0	...	14.1	...
Exports to Latin America as a percentage of total	-	-	28.4	28.0	24.3	23.2	23.7	26.6	24.0			
Intra-CACM exports	30.9	132.8	287.1	541.3	862.8	898.7	994.3	921.9	775.1	25.0	13.2	19.0
Exports to CACM as a percentage of total	7.0	17.4	26.0	23.4	21.7	20.1	20.1	21.7	18.8			
Exports to CACM as a percentage of exports to Latin America	-	-	91.5	83.8	89.3	86.9	84.8	81.9	78.1			
Exports to CACM plus Panama as a percentage of exports to Latin America			95.3	83.9	94.5	92.7	90.7	88.4				
CARICOM c/												
Total exports	543.7	750.2	1 000.1	3 028.5	3 190.2	3 908.1	5 498.4	5 137.0	4 591.2	6.3	18.6	12.3
Exports to Latin America	-	-	63.2	259.7	297.6	439.6	593.9	657.4	701.6	...	25.0	...
Exports to Latin America as a percentage of total	-	-	6.3	8.6	9.3	11.2	10.8	12.8	15.3			
Intra-CARICOM exports	21.3	27.1	42.3	216.8	204.7	255.7	352.5	379.5	377.8	7.1	24.0	15.1
Exports to CARICOM as a percentage of total	3.9	3.6	4.2	7.2	6.4	6.5	6.4	7.4	8.2			
Exports to CARICOM as a percentage of exports to Latin America	-	-	66.9	83.5	68.8	58.2	59.4	57.7	53.8			
Latin America d/												
Total exports	8 532.5	11 518.6	15 212.2	36 182.8	52 712.2	70 265.6	91 325.7	96 585.8	90 329.2	6.0	19.7	12.6
Intra-regional trade	749.9	1 275.3	1 969.7	5 964.8	8 536.5	11 583.3	13 882.9	15 357.9	13 513.4	10.1	22.0	15.7
Intra-regional trade as a percentage of total	8.8	11.1	12.9	16.5	16.2	16.5	15.2	15.9	15.0	...	1.6	...

Source: ECLA, on the basis of official statistics.

a/ Provisional figures.

b/ Excluding Chile.

c/ Including only Barbados, Guyana, Jamaica and Trinidad and Tobago.

d/ Including eleven ALADI, five CACM, and four CARICOM countries. In addition, Panama and the Dominican Republic.

/Finally, in

Finally, in order to give a more specific picture of each integration scheme and of the Latin American Economic System (SELA), some details on each of them are given below.

1. The Latin American Integration Association (ALADI)

The 1980 Treaty of Montevideo replaced the twenty-year-old Latin American Free Trade Association (LAFTA) by the Latin American Integration Association (ALADI) and created the legal framework for a complex process of negotiations on what was termed the Historical Patrimony, which was officially concluded on 12 May 1983 at the Fifth Extraordinary Session of the Conference of the Contracting Parties.

On this latter occasion, the Conference adopted three regional agreements on the opening-up of markets in favour of relatively less developed countries (Bolivia, Ecuador and Paraguay) and 39 partial-scope agreements, all of them of bilateral nature except for Agreement No. 26, which sets up multilateral links between Argentina, Chile, Paraguay and Uruguay.

The 1980 Treaty does not provide for quantitative goals or fixed time limits for trade liberation; instead it sets up voluntary machinery for trade promotion, complementation and economic co-operation and prescribes differential treatment according to the level of development of the beneficiary countries. It maintains the final goal of achieving the formation of a Latin American Common Market: an objective to be reached through the gradual multilateralization of the partial-scope agreements and through the establishment of Regional Tariff Preferences (RTP).

The renegotiation of the Historical Patrimony led to the withdrawal of a large number of concessions, most of them of little immediate trade potential, and also to the inclusion of a few new concessions. In many cases, the validity of the concessions has been limited to relatively short periods and import ceilings have been established. The area of application of the concessions has been significantly restricted, although it would appear that these concessions will continue to have some relation with the most important part of the trade among the parties. Furthermore, the relative importance of negotiated trade within total trade has continued to go down: a tendency which began in 1968 and became more accentuated in the last few years of existence of LAFTA.

In 1981, the value of intra-area trade still registered a modest growth rate of 6%, compared with an annual average growth rate of 16% in the period 1960-1980.

/In 1982,

In 1982, the world economic recession, which seriously affected the Latin American economies and caused the gross domestic product of the region as a whole, together with total exports and intra-area exports, to drop for the first time since the end of the war, also brought about a decline in trade within ALADI. In this latter year, intra-area trade represented a little over 12% of total exports. Furthermore, there are indications that in 1983 there will have been an equally significant contraction in the import capacity of the countries.

The difficult economic situation through which the countries are passing would appear to be the main cause of this contraction in trade, although the prolonged process of renegotiation of the Historical Patrimony must also have helped to create a climate which was not very favourable for reciprocal trade. Furthermore, since the end of 1981 the countries have been applying restrictions on their imports which, although they have assumed many forms, have all been ultimately designed to adjust the economy of each country to the difficult balance-of-payments situation. In general, these restrictions -which extend from partial limitations to the total suspension of imports- have been applied indiscriminately to imports from inside and outside the area, affecting both trade flows equally. Reprisals on the part of the countries affected were not long in coming, and at present there is still a generalized situation of trade restrictions which the countries are trying to solve in part through new forms of trade such as the various kinds of compensated trade, that is to say, fuller use of the existing systems of reciprocal payments and credits, the negotiation of temporary quotas, etc.

The Convention on the Settlement of Payments and Reciprocal Credits which was in effect in LAFTA from 1965 onwards and was incorporated into ALADI has functioned from the beginning with great efficiency. With the passage of time, its operational methods have been perfected and the machinery has shown adequate capacity for overcoming the various difficulties which have arisen. In the period from its inauguration up to 1982, it channelled operations for over US$ 50 billion, leaving only an average of around 25% of net debit balances to be paid off. A system with these features is of special importance in the present situation of shortage of foreign exchange and its excellent operation could be a determining factor in the recovery of intra-area trade. A number of measures aimed at perfecting the machinery are being analysed, among them the extension of the period of coverage, the establishment of an instrument for the payment of extraordinary settlements, and another instrument, of a temporary nature, for the financing of bilateral imbalances. Consideration is also being given to the incorporation of various Central American countries into the system and the establishment of a Latin American unit of account.

The only multilateral trade liberalization instrument provided for in the 1980 Treaty of Montevideo is what is termed Regional Tariff Preferences. Through this instrument it is sought to establish a margin of preference as compared with the tariffs applicable to third countries, with this preference being applied in principle to all products and in favour of all member countries. The ALADI Secretariat, with the assistance of various advisory bodies, has already undertaken the necessary technical studies and has carried out preliminary meetings to guide the subsequent process of negotiation. Although the Regional Tariff Preferences are initially of a rather modest nature, there can be no doubt that their approval and gradual building up can provide important support for the cohesion of the countries as a group, in view of their multilateral nature. Similarly, consideration could be given within this context to the initiation of trade negotiations with the other Latin American countries which are not members of the Association: a process which has already been begun by some countries on the bilateral level.

2. The Andean Group

In analysing the progress made by the Cartagena Agreement, it must be borne in mind that this scheme, more than the others existing in the region, has sought from the beginning to set up a many-faceted network of interrelations in the economic, social and labour fields, including the political and cultural areas. Ultimately, its long-term objective is the building up of a true community of nations, although its first steps placed marked emphasis on economic and especially trade matters.

It is precisely in this latter field that the Andean Group has had to face growing problems. As the world economic recession tightened around the member countries of the Andean Group, intra-area trade was seriously affected, and in 1982 it went down for the first time since the Andean Group was set up. The member countries, almost all of which had severe balance-of-payments deficits, imposed sharp restrictions on their imports and applied them indiscriminately to imports from inside and outside the area. The failure to fulfil the commitments to liberalize trade -a problem which has arisen since the very beginning of the process-was aggravated to such an extent that the countries affected began to take trade reprisals. On top of this deterioration, there was the continuing difficulty experienced by the parties in making progress in the negotiations on such essential matters as the establishment of the Common External Tariff and the readaptation of the Sectoral Industrial Development Programmes. These signs of stagnation and retrocession, together with the decline in area trade (which seems to have got worse in the first half of 1983), heighten the awareness that drastic and immediate measures must be taken to check this process of paralysation and deterioration and give new dynamism to the whole set of relations among the member countries.

At the level of the community bodies, many actions were carried out with this objective, resulting in the adoption of the Plan for the Reorientation of the Andean Integration Process, approved at the thirty-fifth extraordinary session of the Commission (July 1983). This Plan provides for eight main areas of priority action: trade; industry; agriculture; foreign relations; finance; science and technology; physical integration; frontier integration and tourism; and the special régime for Bolivia and Ecuador. In the face of the general picture of trade deterioration, the Board has proposed various options which have been presented to governments for their consideration, including:

i) a commitment to refrain from imposing further restrictions or duties on Andean trade as from a certain date;

ii) the withdrawal of all restrictions and duties which infringe the liberalization commitments in respect of products considered to be "non-sensitive";

iii) the negotiation of import quotas for "sensitive" products;

iv) the generation of new trade opportunities through pragmatic forms such as agreements on State purchases, managed trade, the marketing of surpluses and shortfalls, etc.;

v) preparation of a set of measures aimed at restoring subregional preferences.

In the industrial area, the action would be centered on making the present allocations more flexible (promoting exchange agreements and compensating and rationalizing existing production), on the promotion of industrialization through projects for industrial agreements with ALADI countries, and on the special programmes connected with small and medium-sized enterprises.

The agricultural sector has proved to be an area where it is difficult to make progress in integration, and the Andean Group has tried various methods of

/dealing with

dealing with this problem, which have so far only had limited effects. The Reorientation Plan marks the beginning of a new stage -already formalized through the signing of the "José Celestino Mutis" agreement- on agriculture, food security and environmental conservation.

In the field of science and technology, the action envisaged includes, inter alia, the orientation of subregional science and technology policy, the provision of an adequate flow of financial resources for the development of these fields, joint negotiations on the acquisition of technology, and the establishment of an Andean Technological Information System. In the area of infrastructure, efforts will be made to facilitate the transport of persons and goods through the rationalization of procedures and documentations at the entry points into countries. For the tourism sector, an Andean programme of tourist development and integration has recently been defined.

Finally, as regards the special régime for Bolivia and Ecuador, reference has been made to the need for subregional co-operation to be based fundamentally on the execution of specific projects located in these two countries, so as to stimulate the expansion and diversification of their exports. Member countries must facilitate the access of such exports to their markets. The financial strengthening of the Andean Development Corporation and the Andean Reserve Fund should be reflected in bigger flows of financial aid to these countries.

In their joint declaration of 24 July 1983 entitled "For us our Motherland is America", the Presidents of all the member countries of the Cartagena Agreement reasserted their firm support for the process of Andean integration and endorsed the main points of the Reorientation Plan.

3. The Central American Common Market (CACM)

The recent evolution of the Central American Common Market must be viewed in the light of two conjunctural situations which have a very marked conditioning effect on it. This group of countries is perhaps the most seriously affected in the entire Latin American region by the world economic recession, which has brought about a sharp drop in exports and an equally significant contraction in external financing, with all the consequences that are to be expected for the import capacity and growth capacity of the Central American economies. Thus, in 1982 there were drastic declines in the levels of exports and imports of all the countries, with the sole

/exception of

exception of imports by El Salvador, and everything seems to indicate that this situation will be repeated in 1983. At the same time, in 1982 the gross domestic product of the five countries went down by close to 4% after having stagnated in the period 1979-1981. On the other hand, the situation as regards indebtedness and terms of repayment of the external debt of the Central American countries, although varying substantially from one country to another, are broadly no different from those of the majority of the Latin American countries.

Furthermore, mention must be made of the aggravation of the tensions of a political nature in various countries and in the region as a whole. This phenomenon was particularly to be noted in 1982 and 1983, and coincides with sharp disparities between the political attitudes of the governments and the presence of agents from outside the region who have given these tensions an East-West dimension.

As was only to be expected, these two serious conjunctural phenomena finally affected the trade relations among the countries. Whereas in the 1970s intra-regional trade had grown at an average annual rate of 15%, playing an important role as a shock absorber to smooth out depressions in the external sector and rising in 1980 to a record level of around US$ 1 billion, this development became negative in 1981 and 1982, when for the first time trade went down, to US$ 970 000 million and US$ 775 million, respectively. This contraction was even greater than that registered by exports to outside the subregion, so that the share of intra-subregional trade in total exports went down to 19% in 1982. Although it is not easy to forecast the outlook for 1983, it seems likely that there will be a further contraction, probably similar to that of the year before.

The deterioration in trade among the Central American countries was accompanied by a decline in the amount of transactions channelled through the Central American Clearing House, which came to only 664 million Central American pesos (at par with the dollar) in 1982, so that, in contrast with the traditional situation, they amounted to less than the level of trade registered. At the same time, unsettled balances accumulated in the Clearing House, reflecting the reordering of trade and its loss of dynamism. Reciprocal trade has also been severely affected by the use of the new restrictive measures adopted at the national level, as a result of which transactions have increasingly followed different paths from those foreseen in the multilateral arrangements.

/Nevertheless, in

Nevertheless, in order to complete this brief overview of recent developments in the Central American integration process, mention must be made of a number of events of a positive nature which reflect the continued vitality and survival capacity shown by this movement over its long history. In spite of the serious problems affecting them, the Central American countries have so far managed to maintain their ideological cohesion as regards the fundamental and irreplaceable importance of subregional integration as an instrument for their development. In the first place, when the Treaty on Central American Integration completed 20 years of existence in 1981, none of the member countries denounced it, which amounts to the tacit maintenance of all the commitments assumed. Another important event which took place in recent years was the solution in economic terms of the conflict between El Salvador and Honduras. In spite of the great tensions to which these nations were subjected, activities continued in a relatively normal manner in the many forums which guide and accompany the integration process, such as the meetings of ministers and vice-ministers responsible for integration; those of the Central American Monetary Council; the meetings of the Assembly of Governors of the Central American Bank, and various meetings of the ministers of energy, ministers of transport, etc. In addition, the institutions responsible for Central American integration continued to operate normally.

In the same connection, mention should be made of the unanimous election of the new President of the Central American Bank for Economic Integration in September 1983.

Furthermore, in recent years some new institutions connected with integration have been established such as the Central American Electrification Council (1982), responsible for the interconnection of national electricity systems; the Central American Maritime Transport Commission, and the Central American Railways Commission. Joint efforts have also continued for the implementation of Central American tariff and customs reform, for the withdrawal or reduction of the restrictive measures applied to intra-area trade, and for the procurement of additional resources at the regional and international level with a view to reactivating such trade. In this latter respect, special mention should be made of the meeting organized by the Inter-American Development Bank in Brussels in 1983, at which the representatives of Central American governments appeared jointly before the international financial

/community. Finally

community. Finally, the countries managed to adopt common positions in international forums and negotiations such as the assemblies of IDB and the World Bank and the sessions of UNCTAD and SELA.

Some of the above initiatives are still in an embryonic stage, yet for some time past they have had to face up to the sequels of the problems described earlier. Since it is improbable that any rapid solution can be found to the present difficult situation, it seems necessary to concentrate efforts on preserving and consolidating what has already been attained and making progress when possible in the areas which are most favourable for this, such as for example the implementation of co-operation activities with other countries of Latin America and the Caribbean. In this context, mention may be made of the probable participation in the near future of the Central American countries in the mutual payments and credits systems in force among the member countries of ALADI. The areas of maritime and rail transport, the marketing of fertilizers, multilateral or bilateral trade agreements, and joint defence of commodity prices seem to offer the best prospects for such collaboration.

4. The Caribbean Community (CARICOM)

Like the other integration schemes in the region, CARICOM has had to face up to growing problems, many of them originating in the deterioration of the economic situation of its member countries, especially on account of the present world economic crisis. Since the Caribbean countries are relatively small and have a high degree of openness to external trade, the impact of the economic recession has been proportionately very severe. The unfavourable external situation has been reflected in the stagnation of economic growth and the accumulation of growing balance-of-payments deficits by almost all the member countries. At the same time, it may be noted that from 1981 onwards the total exports of CARICOM began to decline drastically, by 6% in that year and a further 11% in 1982. In the latter year, trade among the CARICOM countries remained practically at the 1981 level, however, so that its share in total exports rose to 8%.

Trade within the subregion has encountered difficulties because of the growing balance-of-payments deficits and the extreme shortage of foreign exchange affecting practically all the countries. Restrictions have been imposed on their imports, without making any exception regarding those from CARICOM itself. One of the countries adopted a multiple exchange rate system which was subsequently modified by the addition of a special exchange rate for imports from the region. The financial capacity of the CARICOM Payments Clearing House was overwhelmed by the accumulation of large unsettled balances.

Against the unfavourable background of this state of affairs, the Fourth Summit Conference of Heads of State of the CARICOM Member Countries was held in July 1983. A similar kind of meeting had been held in November 1982, and on both occasions efforts were made to find some possible solutions to the most acute problems affecting the integration scheme. Ways are being sought of expanding the financial capacity of the Clearing House, and consideration is also being given to the possibility of including an "extra window" for medium-term credits. The Caribbean Development Bank was recommended to make its operations more flexible, with the main objective of giving more financial assistance to productive projects, especially in the relatively less developed countries. Governments have indicated their intention of trying to eliminate the restrictions imposed on intra-subregional trade.

For its part, Trinidad and Tobago undertook to keep up its petroleum assistance programme in favour of the less developed countries. Great importance has also been attached in CARICOM to the food security of the region, for which reason it is aimed to achieve a high degree of food self-sufficiency at the regional level as well as achieving adequate levels of nutrition for the population. In the area of transport, the position of the West Indies Shipping Corporation (WISCO) was confirmed as a company which will be preferentially responsible for intra-regional maritime transport, and it was undertaken to rationalize the shipping lines operating in the region in order to guarantee this programme.

Finally, it was decided to hold meetings of Heads of State every year in early July in order to keep up the progress made and advance towards the proposed objectives.

5. The Latin American Economic System (SELA)

The Convention of Panama of October 1975, which gave origin to SELA, laid down as leading purposes of the System the promotion of intra-regional co-operation to accelerate the development of member States and the promotion of a permanent system of consultation and co-ordination of positions, both in international forums and *vis-à-vis* the industrialized countries and the rest of the Third World.

/With regard

With regard to this latter set of tasks, the System has carried out a great deal of work covering such initiatives as the preparation of the region's common position at the last three sessions of UNCTAD, participation in the Paris International Economic Conference (the North/South Dialogue), the channelling of regional reactions with regard to the Falklands conflict, and, more recently, joint organization with regard to the subjects of regional economic security and Latin America's response to the international economic crisis.

The aspects connected with regional co-operation have been channelled mainly through what are called the "action committees", whereby it is sought to achieve specific results in relatively short periods. Participation in these committees is optional, and compliance with their objectives is obligatory only for those countries which have expressed their adherence to them. By their very nature, their proper functioning calls for active participation by the interested countries.

So far, 13 action committees have been set up, while a further nine which were proposed have not actually been set up for various reasons. Among those which have or have had the greatest impact, mention may be made of the Committee in Support of the Reconstruction of Guatemala, the Committee on Marine and Freshwater Products, the Latin American Technological Information System (RITLA) and the Committee on Fertilizers Manufacture. The Committee for the Establishment of a Regional Food Security System (CASAR) and the Committee in Support of the Argentine Republic were also set up recently.

In the Biennial Programme of Regional Co-operation for the period September 1982-August 1984 which was approved by the Latin American Council in August 1982, it was decided that priority areas for co-operation would be those of food and agriculture, external trade, science and technology, finance and payments, and information, transport and communications. In response to this Programme, the Food Security Committee was set up.

A relative weakening of regional co-operation is to be observed at the present time, due mainly to the growing insufficiency of the funds available to the action committees. The recent initiative aimed at facing up to the effects of the international crisis on the Latin American economies presents the system with a new challenge which will call for the priority attention of governments and effective support for whatever joint action it is decided to carry out.

/6. Other

6. Other areas of co-operation

Other prominent events in the area of co-operation are the new dynamism achieved in the energy field through the ratification in November 1981, in Santo Domingo, of the Latin American Energy Co-operation Programme (PLACE), which lays down the long-term objectives of such co-operation and determines the activities and projects to be carried out in the immediate future. The Programme is also endowed with a financing fund which is of modest size but sufficient to carry on its activities.

Another concrete initiative in this field is the Mexico-Venezuela Energy Co-operation Agreement with Central America and the Caribbean which has been functioning effectively since August 1982 and has just been extended with some modifications.

Mention should also be made of the increasing contacts between regional integration and co-operation bodies which are undoubtedly facilitating the exchange of information and experience, the co-ordination of policies and positions, and ultimately the convergence of the existing systems, as was demonstrated by the holding of the Fourth Meeting of Latin American Economic Integration and Co-operatio Bodies (Antigua, Guatemala, August 1983). This meeting brought together practicall all the bodies carrying out such functions in the region, and on this occasion they pledged their decided support in their respective fields of competence with a view to contributing to the success of the forthcoming Latin American Economic Conferenc to be held in Quito in early January 1984. At the same meeting, a programme of wor was approved which is designed to present specific proposals at that Conference.

In addition, Latin American co-operation has continued to expand and grow deeper in a large number of other areas and fields of action which it is impossible to list here. By way of example, mention may be made of the activities of such bodies as GEPLACEA, the Union of Banana Exporting Countries, the recently-establishe Action Committee on Regional Food Security, the Latin American Organization for Fisheries Development, and the many organizations of a business nature, all of whic go to make up a vast and complex system of growing interconnection between the countries of the region.

/B. REGIONAL

B. REGIONAL INTEGRATION AND CO-OPERATION VIS-A-VIS THE PROBLEMS OF DEVELOPMENT AND INSERTION IN THE INTERNATIONAL ECONOMY

1. Development, industrialization and integration

The arguments in favour of regional co-operation and integration have traditionally been put forward within a long-term perspective which recognizes the need to overcome Latin America's peripheral status in the world economy and to promote industrialization as the central axis of the process of economic development. Integration has been promoted fundamentally through the expansion and protection of subregional markets with a view to increasing the scale and efficiency of the infant Latin American industry. Likewise, the integration process would use this expanded economic space to create a "launching platform" for the export of Latin American manufactures to the markets of the centres.

These ideas increasingly found concrete expression during the 1960s, when the various subregional integration schemes now existing in Latin America were founded and promoted.

From the 1970s onward, in contrast, the integration process encountered various kinds of difficulties in both its institutional structures and its mechanisms. Without prejudice to the need to make a more detailed analysis of the many specific aspects which influenced this behaviour, there are at least two factors of a general nature which, from the second half of the 1970s onwards, upset the growth of intra-regional trade and reduced the effectiveness of the mechanisms and instruments being used.

The first and most important of these was the change in the world structure of financing, which was characterized by the prevalence of credit of private origin based on the big surpluses of the oil-exporting countries, recycled through the international commercial banking system. The abundant inflow of credits in dollars was accompanied, in a number of cases, by a violent increase in imports from every corner of the globe: a phenomenon which lasted until 1981. The composition of these imports varied considerably among the countries of the region. Thus, while some countries had to pay large amounts for petroleum, capital goods and intermediate inputs, others opened up their economies to external competition and thus brought about a rapid rise in their overall imports.

/All this

All this led to a loss of effectiveness of economic integration and of the reciprocal customs preferences which had been conceived.

The second factor which helped to weaken the vocation for industrialization and integration was the confidence in the dynamic growth of the world economy and the big growth prospects which were believed to exist for Latin American exports in the long term.

The above-described international situation lent transient vigour to the theory of static comparative advantages and led some countries to open up their economies indiscriminately to imports of goods, the massive supply of which created often ruinous competition for national manufactures, in return, it was believed, for the promotion and diversification of exports with comparative advantages. Other countries, which achieved significant growth in the 1970s, took advantage of the financial boom to initiate ambitious investment plans in infrastructure and industrial development, likewise on the basis of huge imports, sometimes of hydrocarbons, because they were confident that the economic and financial conditions prevailing at that time would continue. Similarly, the oil-exporting countries carried out plans involving very large expenditure because they were confident that the high petroleum prices would continue and they therefore counted on future income which turned out to be an illusion as the 1980s began.

At the beginning of the present decade, profound changes took place in the international economy as a result of the crisis of the centres which have made future trends uncertain. At the same time, however, this gives grounds for assuming that the guidelines for a possible and desirable strategy must be based on the strengthening and protection of Latin American production: in the short term, through a reactivation process which reduces the high levels of unemployment, and in the long term, through the raising of the rate of capital formation, based on domestic saving and the use of the region's own capacity for producing the goods required. There is undoubtedly bound to be greater restriction on the use of international financial resources and a more austere attitude will have to be taken in the area of consumption, especially in view of the need to provide domestic financing for future investment efforts.

/In this

In this new international situation, Latin American co-operation and integration are seen to be very valuable ways of reactivating the economies of the region in the immediate future and dispelling, albeit partially, the dark clouds hanging over Latin America's development in the longer term. For this purpose, it is urgently necessary to revitalize and adjust the co-operation and integration instruments already in effect, in order to make the best possible use of the services which they can render in coping with the present emergency and in improving the prospects of development in the long term, in view of the correlation and interdependence which naturally exists between development, industrialization and economic integration.

2. The trends towards bilateralism

The difficult circumstances through which the great majority of the Latin American economies are passing have obliged them to seek various alternatives for reducing imports and forcing an increase in exports with the aim of compensating for the increased balance-of-payments current account deficit caused, mainly, by the servicing of the external debt in recent years.

The future prospects as regards flows of net external resources point to new and still more painful adjustments in the economies of the Latin American countries, in which the tendency to restrict and control imports will be accentuated as a means of continuing to reduce their merchandise trade deficit and, if possible, generate a surplus.

Thus, the creation of a merchandise trade surplus will undoubtedly be a priority objective in most of the countries of the region. This goal can be achieved by two different and complementary ways: the first consists of restricting imports and expanding exports. To the extent that aggregate world demand does not recover a reasonable growth rate, however, in order to reach the goal of increasing exports it will be necessary to overcome both the protectionism of the industrialized countries and the competition from the exportable surpluses generated by an international economy in recession. There therefore remains the alternative way of continuing to reduce imports to the lowest possible levels compatible with viable rates of development, bearing in mind the needs arising from the growth of the population and the legitimate aspirations of the countries which are still far from attaining levels of living acceptable to the majority of their inhabitants.

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The industrialized countries, for their part, have been exerting different forms of control in order to balance their foreign trade. These include in particular the use of their bargaining power to obtain "voluntary" restrictions on exports and the use of practices involving managed trade or trade regulated on a bilateral basis. When the bargaining power of the parties is similar, managed trade can lead to more balanced results in the trade flows, especially as regards their composition and value. The use of measures which restrict trade with countries of a lower degree of development, in contrast, will only accentuate the structural imbalances acting against the latter.

In Latin America, there has been a resurgence of tendencies to bilateralism as a logical consequence of the need to limit the use made of their foreign exchange resources, especially in emergency conditions such as those which the region experienced during the Great Depression of the 1930s and the Second World War, and which it is facing now too.

Within the integration schemes, efforts have been made to ensure that there are no permanent surpluses or deficits among the member countries. This is not always possible, however, since each country has very different export potential.

Because of its undoubted great importance, the search for overall equilibrium in the region's trade should be directed substantially towards overcoming the imbalances in trade with the industrialized countries, not only because of the permanent tendency to trade imbalances caused by the unfavourable evolution of the terms of trade with those nations, but also because of the similar behaviour of the services balance. It is obvious that any attempts to compensate the imbalances with the industrialized regions on an individual basis will always run into the difficulty of the unequal bargaining power.

Within Latin America, there are some rather complex situations such as those of the countries with deficits in the energy field or with only limited development potential. Both these kinds of countries have a natural propensity to register external sector deficits which are reflected not only in their relations with third countries, but also within the integration schemes they belong to.

The problem, at the regional level, is that if all the countries pursue the goal of obtaining a surplus on their intra-regional trade through the reduction of imports, the task will become conflictive and even impossible and the adjustment

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can only be achieved on the basis of reducing trade within Latin America. If each country tries to balance its trade flows with each one of the other countries of the region, the result will be that the bilateral balance will be achieved on the basis of the export potential of the country with the least supply capacity, which will undoubtedly cause total Latin American trade to go down. If, in contrast, what is sought is a multilateral balance in the reciprocal trade of each country with the rest of the region, the balance will be obtained through better use of the export capacity of each country, while at the same time there will be higher levels of intra-regional trade.

Consequently, bilateral agreements could be reserved for that part of the trade which cannot be compensated at the multilateral level and which involves special unbalancing factors, such as net imports of hydrocarbons or other products essential for the development and economic security of countries which display a marked and permanent deficit situation.

The payments compensation agreements of ALADI, CACM and CARICOM are a good example of the way in which a bilateral system, through its primary functioning, can sustain increased volumes of trade with the smallest possible use of convertible financial resources, when the corresponding bilateral operations are turned into multilateral ones. The great challenge, then, is to find additional formulas which will permit the incorporation of higher levels of reciprocal trade within a concept of multilateral balance, so as to make possible the dynamic growth of regional trade.

The interconnection and expansion of the payments compensation systems, the creation of a Latin American unit of account, the incorporation of services in the compensatory machinery and the possibility of obtaining additional resources to finance a greater trade flow -especially by increasing the time limits so as to permit the inclusion of capital goods- would appear to be some of the measures which Latin America should take in the short term if the efforts to achieve a higher level of reciprocal trade which will enable the region to emerge from its complex present situation are not to fall on completely barren ground. Insistence on the attainment of bilateral balances could lead to momentary relief, but in the long run it would result in a clear setback in the search of the solution desired by all the countries of the region, which is to attain greater balance not only in their intra-regional trade, but above all in their trade with the industrialized centres.

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Finally, there can be no doubt that one measure which would help to create an awareness of the need for multilateral approaches in trade is the effective establishment of regional tariff preferences and the halting, in respect of mutual trade within Latin America, of the use of non-tariff restrictive measures.

C. HOW INTEGRATION CAN HELP TO OVERCOME THE CRISIS

1. The initiative promoted by President Osvaldo Hurtado of Ecuador 18/

As already noted, the Latin American countries, like others in the developing world, have been faced with extremely serious economic, political and social situations on account of the recession in the world economy. Furthermore, the policies for adjusting to the new situation are extremely inequitable for Latin America.

The consequences of this phenomenon are manifold. Suffice it to say that with the reduction in their imports they have not only suffered a substantial decline in the level of their economic activity but clear prejudice has also been caused to the efforts made over more than two decades to consolidate trade flows among the Latin American countries and to carry out economic co-operation and integration. Even more serious, however, is the fact that the private banking system has demanded that countries wishing to obtain resources for the payment of interest must reach prior agreements with the IMF, which has imposed severe adjustment policies that have militated against the political, economic and social stability of several Latin American countries.

In this context, Mr. Osvaldo Hurtado, the President of Ecuador, asked the Executive Secretaries of ECLA and SELA to put forward concrete proposals to make possible a joint response by Latin America to the international crisis. This request has set in motion a political process which matured at the meetings of presidential representatives held in Quito and Santo Domingo in May and August 1983, respectively, and which will now culminate in Quito with the Latin American Economic Conference to be held in January 1984, at which a regional programme of action will be adopted to deal with the international crisis.

The request made by the President of Ecuador clearly reflects the concern of a relatively less developed country of Latin America over the scanty or non-existent bargaining power of the countries, taken individually, in the face of the impositions of the international private banking system and the IMF in the present crisis situation. It also emphasizes the awareness that has been growing up that it is not possible to keep on reducing the standard of living of the peoples, since this process has reached the limit of social tolerance. In short, it is a kind of early warning of the risks involved in excessive regional fragmentation in dealing with the challenges raised both by the external sector of the Latin American economy and by the legitimate longing of all the countries for progress.

These facts also explain the favourable reception given by the Latin American governments to the initiative of the President of Ecuador, as reflected not only by the high level of the meetings of presidential representatives in Quito and Santo Domingo at which the ECLA/SELA document was considered,19/ but also, and above all, by the degree of political commitment which exists for a joint initiative by the region to deal with the crisis.

It should also be noted that the Latin American governments are fully aware that the options of the region for dealing with the international situation, although they have technical bases, are fundamentally political. The Latin American Economic Conference therefore amounts to a conference of representatives of Heads of State and Government of Latin America. It is very possible that this institutional formula, which is unique of its kind, will make possible the adoption of substantive political decisions, in view of the leading role which governments have played in all its phases.

The process set in motion by President Hurtado's initiative has enabled the world to appreciate the great prudence and realism displayed by the governments, since it has been agreed that the programme of action to deal with the international crisis should be concentrated on a few areas of undoubted importance with regard to the situation, such as those of trade, financing, and the supply of fuels, food and essential services, with the aim of strengthening the regional integration and co-operation processes and converting them into real variables which will increase the bargaining power of the countries in the international community.

Within these areas, a selective criterion has prevailed with the aim of preventing the Latin American Economic Conference from becoming a forum paralysed in its capacity for political decisions. Priority has been given, in the field of trade, to the halting of the evident deterioration in trade within the region

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and the placing of emphasis on raising it instead to the highest possible levels, and to the joint exercise of regional purchasing power in order to obtain better supply conditions and to promote Latin American exports to the markets of the North as a counterpart to the region's purchases.

Within the broad topic of financing, special attention has been paid to the need to have the financial machinery necessary to support the sought-for expansion of intra-Latin American trade and to maintain common positions in international financial bodies with the aim of securing an increase in world liquidity. In addition, efforts will be made to set in motion an information system on external indebtedness within some of the existing bodies and to ensure that the governments of the region adopt some common criteria as regards debt servicing and exchange information regarding their experience in the application of adjustment policies, so as to help raise the bargaining power of each of the countries and clear the horizon. In this way, long-term development could once again become the central concern of all the countries of the region.

As regards the supply of food and fuels, a meeting of government experts held in Caracas in September 1983 20/ made specific recommendations for reducing the present Latin American vulnerability in these areas, and these recommendations will doubtless be used at the Quito Conference to guide the decisions taken there.

In all this process, it is obvious that the strengthening of regional co-operation and integration and of Latin America's bargaining power with the exterior is essential in order to overcome the adverse situation now faced by the Latin American nations. The political decisions adopted at Quito will also help this strengthening, which is so necessary in the present circumstances.

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Notes

1/ See, for example, Latin American development projections for the 1980s, "Estudios e Informes de la CEPAL" series, No. 6, 1981.

2/ See UNCTAD, Monthly Commodity Price Bulletin, January 1983.

3/ See UNCTAD, Commodity issues: a review and proposals for further action, TD/273, June 1983, para. 14.

4/ If petroleum is included, the relative weights are as follows: food and beverages 29.7%, agricultural raw materials 10.8%, minerals and metals 11.5%, and petroleum and petroleum products 48.0%.

5/ Includes the ISIC headings considered as manufactures and semi-manufactures according to the UNCTAD classification.

6/ Includes 23 countries: ALADI, CACM, Barbados, the Dominican Republic, Guyana, Haiti, Jamaica, Panama and Trinidad and Tobago.

7/ See ECLA, Economic Survey of Latin America 1982, Brazil (preliminary version), October 1983.

8/ See ECLA, Economic Survey of Latin America 1982, Argentina (preliminary version), May 1983.

9/ See Banco Nacional de Comercio Exterior, Revista de Comercio Exterior, Mexico City, June 1983.

10/ See The Wilson Quarterly, Summer 1983.

11/The expressions "Eastern European member countries of CMEA" or "European CMEA countries" will be used to refer to the group of countries made up of Bulgaria Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania and the Soviet Union.

12/ It should be recalled that part of the external debt is with official bodies at lower interest rates.

13/ This figure includes amounts due in respect of short-term debts.

14/ For a detailed study on the negotiations under the Integrated Programme for Commodities, see Aspectos de una Política Latinoamericana en el Sector de los Productos Básicos, E/CEPAL/R.335/Rev.1, April 1983.

15/ Ibid., pp. 22-25.

16/ See, inter alia, UNCTAD, Assessment of the results of the multilateral trade negotiations, Report by the Secretary-General of UNCTAD, TD/B/778/Add.1.

17/ A possible exception is the adoption of the Comprehensive New Programme of Action approved by the United Nations Conference on the Least Developed Countries.

18/ The present document was prepared before the holding of the Latin American Economic Conference convened by the President of Ecuador and held in January 1984 in Quito.

19/ Carlos Alzamora and Enrique V. Iglesias, Bases for a Latin American Response to the International Economic Crisis, E/CEPAL/G.1246, 16 May 1983.

20/ SELA, Ninth Ordinary Session of the Latin American Council, Informe Final de la Reunión de Expertos Gubernamentales sobre Seguridad Económica Regional, SP/CL/IX.O/DT, No. 3, 16 September 1983.