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ECONOMIC DEVELOPMENT: AN APPRAISAL, AND PROJECTIONS 1985-1995

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SUMMARY

The present document reviews the development of Latin America in the 1980s with special reference to three central aspects: the stagnation and contraction of economic activity, the deterioration of social conditions, and the external dependence and vulnerability of the development of the Latin American countries.

The first chapter analyses economic growth during the last three quinquennia, and brings to the fore the depth and extent of the crisis that has weighted down the national economies during the whole of the first half of the present decade. The phases of the evolution that has taken place during this period are identified as follows: a) acceleration of growth during the early 1970s; b) decline of the growth rate in the middle of that decade; c) a period of moderate recovery in its second half; and a phase of crisis as from 1981. The course followed by saving and investment is traced, attention being drawn, inter alia, to the steep drop in gross domestic investment during the crisis and the scale on which national investment resources have been eroded in consequence of the deterioration of the terms of trade and the ever-increasing amount of interest and profits on foreign capital. The social effects and repercussions of the crisis are considered, mainly in relation to income distribution, employment, and situations of poverty, taking into account the fact that even before the crisis Latin American societies were already extremely inequitable. Lastly, consideration is given to the evolution of different macroeconomic variables and their incidence on the scope and depth of the crisis, as well as to the nature of the structural and operational modifications which the adjustments pertaining to the crisis have entailed on the plane of the national economy, with particular reference to the changes noted in the transfer of resources.

In chapter II, with a view to examining the internal and external problems confronting the process of reactivation and economic development of the countries of the region, two scenarios are presented: one, of slow recovery of economic growth, and another of greater dynamism, in which economic growth would be speeded up. As a first step, the elements characterizing each of these scenarios are defined, their objectives and targets are established and the main aspects of their nature and scope are highlighted. Next, each of the scenarios is studied in relation to various subjects: dynamism as a function of economic growth and trends in foreign trade; requirements in respect of domestic investment, saving and external resources; balance-of-payments projections; needs for capital inflows and their net contributions; and the evolution of the external debt and its relation to export earnings. Lastly, attention is drawn to the effects and repercussions of certain variants introduced in a few variables of key importance for the solution of the problems under consideration.

The third chapter contains an appraisal of the initiatives and efforts undertaken by governments and by regional and subregional co-operation and economic integration organizations in the following spheres: intra-regional trade; joint exploitation of natural resources and compensation of regional disequilibria; energy; industry; food and agriculture; science and technology; monetary and financial affairs; technical co-operation; co-operation with countries in special situations; and regional co-operation in negotiations with transnational corporations.

/Chapter IV

Chapter IV outlines the joint action taken by the United Nations regional commissions to promote and support interregional co-operation, and the recent activities of ECLAC, and of other regional commissions, for the purpose of fostering such co-operation in specific sectors.

Chapter V reviews the effects of the international co-operation crisis in the trade, monetary and financial spheres. It also contains an analysis of other international matters of interest which concern the Latin American position in respect of agricultural production and trade, and the evolution of the levels of food self-sufficiency attained; the current difficulties of OPEC, due to changes in market structures which tend to bring down the prices of the member countries' products; the diminished and clearly insufficient role of direct foreign investment in the balancing of Latin America's external accounts; and the increasing trade and financial (mercantile and banking) power of the transnational corporations; the region's achievements in the field of science and technology; and the discouraging prospects for progressive redeployment of industry at the international level. The chapter also includes some considerations relating to transport, as well as to the more general and more recent features of co-operation with some developed areas (United States, the European Economic Community (EEC) and the countries members of the Council for Mutual Economic Assistance (CMEA)).

INTRODUCTION

The United Nations General Assembly adopted, in its resolution 35/56 of 5 December 1980, the International Development Strategy for the Third United Nations Development Decade (IDS). This Strategy provided for the regional economic commissions of the United Nations to consider the feasibility of preparing programmes of action that should serve to support the efforts of developing countries to apply the IDS in their respective regions.

In this framework, the ECLAC Committee of High-Level Government Experts (CEGAN), when it met at Quito, Ecuador, in March 1981, prepared a draft Regional Programme of Action designed to serve as an instrument for facilitating implementation of the Strategy as far as the countries of the region were concerned. The Regional Programme of Action for Latin America in the 1980s (RPA) was adopted at the nineteenth session of ECLAC, held at Montevideo, Uruguay, in May 1981.

The Strategy establishes a mechanism for the analysis and appraisal of economic and social development, as well as for its own implementation, which is promoted on various levels. As regards regional appraisal, it provides that the United Nations regional economic commissions shall carry out the tasks of review and appraisal in their respective areas.

CEGAN submitted the first appraisal of the implementation of the Strategy and of the RPA at the meeting held in Montevideo, Uruguay, from 18 to 23 January 1984.*/

On 20 December 1982, the General Assembly, in its resolution 37/202, decided to establish a Committee on the Review and Appraisal of the Implementation of the International Development Strategy for the Third United Nations Development Decade, with universal membership, to carry out during 1984 a review and appraisal of the implementation of the IDS at the world level.

This Committee adopted by consensus, after long and difficult negotiations, its conclusions on the analysis and appraisal of the implementation of the Strategy. It also decided to append to its conclusions a statement by the Chairman of the Committee on positions formulated in the discussions on key policy issues, with particular attention to the areas of divergence. The General Assembly, in its Decision 40/438, of 17 December 1985, adopted the conclusions of the report of the Committee on the Review and Appraisal of the Application of the IDS. This report is of special importance in relation to the work of analysis and appraisal incumbent upon CEGAN. In its first paragraph, the Committee makes the following observations:

> "The International Development Strategy for the Third United Nations Development Decade remains an important and valid document. First, it represents the broadest consensus yet achieved in the international community on international co-operation for development. Second, it provides a general

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*/ Report of the Eighth Session of the Committee of High-Level Government Experts: Appraisal of the implementation of the International Development Strategy for Latin America and the Caribbean, taking into account the current international economic crisis (E/CEPAL/G.1309).

/framework and

framework and a major instrument for collaboration not only among States but also within the United Nations system itself. Third, the Strategy sets out related goals for the Decade and beyond, linking economic, social and political issues, short- and long-term perspectives, and domestic and international policy measures in specifically defined areas. Fourth, it represents both a reaffirmation that the ultimate responsibility for their development rests with the developing countries themselves, and a commitment from other countries to support these efforts through policies designed to improve the international political and economic environment so as to make it more conducive to development and through international co-operation designed to reduce the gap between developed and developing countries. The successful implementation of the Strategy will contribute to the establishment of a new international economic order."

The report later goes on to say in paragraph 9:

"... countries reaffirm the continuing validity of the goals and objectives of the Strategy and renew the commitment they undertook to give effect to the policy measures for their attainment. They also recognize that the reactivation of the development process in the developing countries is essential for the sustained recovery of the world economy. In the light of evolving needs and developments, countries are convinced of the urgent need for substantially greater efforts towards the implementation of the Strategy and have accordingly considered how best the necessary political impulses might be generated and the required policy measures intensified or adjusted."

In these circumstances, the present meeting of CEGAN acquires special importance. It will be the occasion for a review of the economic and social evolution of the countries of the region, and an appraisal of the degree of implementation of the Strategy and the Regional Programme of Action during the first five years of the present decade, when the countries of the region are labouring under the weight of a profound depression, and the course of economic and financial events, both on the national and on the international plane, has shown, in essential respects, characteristics and orientations totally different from those indicated or proposed in the Strategy and the Regional Programme of Action.

The Secretariat has prepared the present document as a contribution to the deliberations of this meeting of CEGAN.

I. ECONOMIC DEVELOPMENT AND ITS APPRAISAL

A. THE PHASES OF ECONOMIC GROWTH DURING THE PAST FIFTEEN YEARS

1. The phases

A brief review of the course of economic growth in the countries of the region from the beginning of the 1970s to the present will do a great deal to clarify the nature and scope of the economic and financial crisis besetting the countries' economies and will also help to provide a frame of reference for the analysis of the possible prospects and implications of the subsequent evolution of those factors which have played a part in the stagnation and contraction of the economic process. In a number of important respects, the problems being experienced have originated or built up as a result of sweeping structural and conjunctural changes, both internal and external in nature, which have occurred during the past decade.

Four phases of this process can be identified: the culmination of the rapid economic growth experienced during the first half of the 1970s; the sharp decrease in the rate of growth seen in the mid-1970s; the moderate recovery occurring during the second half of that decade; and, finally, the economic and financial crisis of recent years, which still holds the countries in its grasp.

In overall terms these phases have with a certain time-lag, generally matched the phases of economic growth in the industrial countries and, to a certain extent, the evolution of international trade as well.

The fifth phase, which will come after the crisis, is still an unknown quantity. The upturn in economic activity seen in 1984, although very slight, gave the impression that it might be the harbinger of the beginning of a recovery from the crisis, as was occurring in the industrial countries. However, the available economic indicators for 1985 demonstrate that, with very few exceptions, the countries' economic and social situation continues to deteriorate and that the economic growth of the region as a whole has been only slightly greater than its population growth.

2. The peak of economic vitality: 1970-1974

During the first four years of the 1970s, the region as a whole achieved a rapid rate of growth of the gross domestic product, averaging somewhat more than 7% per year. This was the highest rate of the entire postwar period. Nevertheless, not all the countries of the region showed the same amount of dynamism. Brazil's economic growth (11% on average) carried great weight in the regional average; the rates of Ecuador and the Dominican Republic were also high. Other countries whose growth rates were lower than the regional average nonetheless managed to improve upon their performance of previous years.

In addition, Venezuela --and, to a lesser extent, other oil-exporting countries-- benefited from rising oil prices in 1973 and 1974 and these increases had a significant impact on the expansion of real national income in such countries.

/Various factors

Various factors played a part in this regional economic boom, including the following; the intense economic dynamism of the industrial countries, which reached its peak in 1973; the improvement in the terms of trade, particularly during the period 1972-1973; national economic policies designed to further economic development; the promotion of the expansion and diversification of exports; and a greater degree of external openness in the economies of the countries of the region.

3. Changes in internal and external conditions and a slowdown in the rate of economic growth: 1974-1975

External conditions changed substantially in 1974: the oil-importing countries were faced with higher petroleum prices, but continued to expand their imports and achieved a high rate of economic growth. Under these conditions, greater use was made of external financing, which in large part was obtained from private foreign banks. Although it is true that, in absolute terms, most of this financing was concentrated in a very few countries (Brazil and Mexico), it is no less true that this phenomenon tended to spread to all the countries. This was the beginning of the process of indebtedness which was to take on greater proportions in the years to come, until it finally spawned the external debt crisis that is now one of the main problems hindering the economic reactivation.

By 1974 the non-oil-exporting countries were already suffering from the effects of the worldwide economic depression (the growth in the domestic product of the industrial countries had come to a standstill). These effects included the slackening of demand for Latin American exports and a deterioration in the region's terms of trade which was due partly to the increase in oil prices and partly to declining commodity prices.

These external factors' recessionary impact on the region intensified in 1975. Here, too, the weakness of external demand for Latin American exports can largely be explained by the recession in the industrial countries, inasmuch as the gross domestic product of the seven main industrial countries (as denominated by the OECD secretariat) as a group, after having shown no growth in 1974, headed towards a decline in 1975. In some cases the Latin American countries' exports of goods and services held at the same level, while in other cases they decreased. The situation worsened as a result of a more marked deterioration of the terms of trade and began to affect the oil-exporting countries as well. The volume of the imports of goods and services of non-oil-exporting countries diminished, and the rate of economic growth in the region as a whole was only 3.7%, whereas it had averaged 7.5% in earlier years.

Despite this slowdown in economic growth and the decrease in imports, the countries' deficits on their balance-of-payments current accounts rose further, especially in the cases of Argentina, Chile, Mexico, Peru and other countries with smaller economies and populations. The country recording the largest deficit on its external current account for the period 1974-1975, however, was Brazil.

It is interesting to note that two-thirds of the amount of net external financing (US$ 12 billion in 1975) obtained by the non-oil-exporting countries as a group was used to cover the countries' trade deficits and the remaining third to pay for their net external commitments in respect of interest and profits.

/The course

The course taken by the oil-exporting countries (Bolivia, Ecuador and Venezuela) was substantially different. The volume of their exports dropped off steeply and their terms of trade also declined, although to levels that were still much higher than those of the other countries. They nonetheless continued to expand their imports, and their gross domestic product grew at an average rate of a little under 6% annually during the period 1974-1975. Venezuela's surplus on its balance-of-payments current account diminished, while Bolivia and Ecuador recorded deficits on their current transactions.

4. A moderate recovery of economic growth: 1976-1980

a) The pace of growth

After the decline in the economic growth rates seen in 1975, a moderate recovery took place during the second half of the 1970s; this recovery was frequently subject to factors which engendered a great deal of instability and was marked by major changes in basic features of the countries' economic structures and operations which were in step with the changes occurring in the world economy, particularly as regards capital movements and financing for developing countries.

This recovery of economic growth was far from attaining the intense dynamism seen during the early 1970s. The gross domestic product is estimated to have grown by approximately 5.5% per year during the second half of the 1970s whereas, as mentioned earlier, its rate of expansion was somewhat over 7% annually during the period 1970-1974. Growth rates varied widely from one country to another, however (see table 1). Brazil and Mexico, which had high rates of growth, had a preponderant influence on the regional picture. In contrast, six of the 19 countries under consideration had a very slow average growth rate --less than 4% annually-- and some of these countries' gross domestic products actually decreased. All in all, however, the average growth rates of the vast majority of the countries were higher than they had been in 1975.

b) The outstanding features of this period

There is no doubt that the economic and financial process occurring during the second half of the 1970s exhibited a number of distinctive features; the countries' economies functioned within a context of major domestic and external changes which were later to lead to the economic and financial crisis and, particularly, to the external debt crisis now weighing down the economy of the countries of the region.

Among the various factors and circumstances which distinguish this phase of the economic evolution of the countries of the region, mention may be made of the following: the economic recovery of the industrial countries and of world trade following the 1974-1975 crisis; major changes in connection with external financing, both at the institutional level and as regards the availability of resources, interest rates, and lending terms and conditions; the expansion of foreign trade; and changes in the national economies' structure and in the way they function.

/Table 1

Table 1

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): ANNUAL GROWTH RATES OF THE GROSS DOMESTIC PRODUCT, AT 1975 PRICES

(Percentages)

Countries	1970-1974	1975	1976	1977-1980	1981-1985
Large countries	8.2	4.6	6.2	6.2	1.2
Argentina	3.6	-0.5	-0.5	2.6	-2.4
Brazil	11.1	5.5	9.7	6.3	1.6
Mexico	6.7	5.6	4.2	7.3	1.7
Medium-sized countries	3.6	0.3	5.0	3.3	-0.1
Colombia	6.8	2.3	4.4	4.9	2.3
Chile	1.1	-11.9	3.3	9.2	-0.8
Peru	4.9	4.4	3.0	1.7	-0.3
Venezuela	2.4	0.9	6.8	1.7	-1.2
Small countries	6.4	6.1	7.3	5.7	0.1
Bolivia	5.4	7.4	6.4	2.6	-4.1
Costa Rica	7.0	2.1	5.5	5.2	-0.4
Ecuador	13.3	5.2	10.0	6.0	2.7
El Salvador	5.4	5.5	4.2	0.1	-2.5
Guatemala	6.5	2.2	7.4	5.2	-1.4
Haiti	4.7	2.3	7.0	5.2	0.0
Honduras	3.8	-3.5	6.7	7.1	0.7
Nicaragua	6.2	1.4	6.0	-5.1	1.1
Panama	6.4	2.2	2.0	7.3	1.9
Paraguay	7.2	7.6	6.9	11.1	2.4
Dominican Republic	9.3	4.6	6.3	4.5	1.9
Uruguay	0.5	5.8	4.8	4.9	-3.2
Latin America	7.1	3.7	6.0	5.5	0.9

Source: ECLAC, on the basis of official figures.

/i) The

i) The economic recovery in the industrial countries

The economic recovery in the industrial countries was relatively intense at the start, after two years of stagnation. In 1976 the economic growth rate for the seven largest OECD countries as a group rose by 5%; this recovery took place in all the countries in that group, although it varied in degree. Subsequently, the strength of the recovery tended to decline, but an average growth rate of approximately 4% per year was maintained during the period 1977-1979.

Beginning in 1980, a recessionary trend emerged which was to persist in the following years, as will be discussed below. The gross domestic product of the seven main industrial countries grew by only 1% that year; unemployment began to rise, and inflation --using the consumer price index as a yardstick-- expanded over 12%. The second worldwide increase in oil prices heightened the inflationary process already underway in the industrial countries.

The repercussions of the recession in the industrial countries are generally reflected, with some distortions, by the economic indexes of the countries of the region. The truth of the matter is that the crisis of the mid-1970s was deeper and more extensive in the industrial countries than in the region as whole. Judging from the overall variations in the gross domestic product, in the industrial countries the crisis took the form of a process of stagnation and contraction which lasted for two years, whereas in Latin America the decline was less intense and was confined to the year 1975. Furthermore, as already noted, in 1980 the growth rate of the gross domestic product of the industrial countries and of world trade slowed down markedly, while the gross domestic product of the region as a whole expanded by 6%. Although there were major differences from one country to another, the industrial nations embarked upon a recovery from the crisis in 1983 which gathered steam in 1984; the countries of the region, however, only showed slight signs of a weak upturn which, with very few exceptions, did not take hold the following year.

It is clear that external financing has been one of the factor which has cushioned the region, at least in some years, from the negative effects of the recession in the industrial nations, just as it has served to intensify economic upturns during other periods.

ii) External financing

The changes taking place with regard to external financing were the most distinctive features of the economic and financial situation during this period.

The private international banking system was assuming increasing importance as a new source of external financing. These banks made it easier for the countries of the region to gain access to the abundant international supply of resources, which had been augmented by the surplus funds of the oil-exporting countries. The proportion of the region's net capital inflows represented by direct investment and the share provided by public financial institutions declined, while an increased percentage of financing came from private sources.

/Net external

Net external financing tended to increase more than the gross domestic product in real terms; by 1980, such financing had come to represent 3.9% of the gross domestic product, which was a significantly greater percentage than had generally been recorded in the past. External savings also tended to represent an increasing proportion of gross domestic investment. Furthermore, net capital inflows were often larger than the countries' deficits on current account, and international monetary reserves therefore tended to rise during this period.

At first, the use of external financing was boosted not only by the expansion of the international supply of resources, but also by low interest rates, which were negative in real terms. Beginning in 1978, however, floating interest rates rose considerably and began to be a factor in the increase in remittances of profits and interest abroad. This upward movement of interest rates coincided with the second increase in oil prices; in consequence, the oil-importing countries were faced with worsening balance-of-payments deficits, which in turn created a need for more external financing.

iii) The expansion of foreign trade

Exports of goods and services by the region as a whole grew more rapidly during this period than they had at any other time since the end of the war. Their volume expanded by approximately 8% per year during the period 1977-1980, this overall increase being primarily the result of the export performance of Brazil, Mexico, Chile, Peru and Argentina, as well as of some small countries whose exports of goods and services exhibited a rate of increase higher than the regional average. However, the exports of nine of the 19 countries considered either remained at roughly the same level or even diminished.

The expansion of imports (10% annually) was a more widespread phenomenon, although there were still differences to be observed from one country to another. At least eight countries' imports increased at an overall annual rate of less than 4% and there were some countries in this group whose imports showed no growth or decreased in absolute terms.

iv) Changes in the countries' economic structure and manner of operation

During this period, the countries of the region generally followed a policy of relative openness to the exterior and of domestic expansion whose application largely relied upon the availability and use of external financing, accompanied of course by the indebtedness that this involved. On the whole, the countries maintained deficits on their trade balances for goods and services, this being the means by which they were able to expand the supply of goods and services available for consumption and investment over and above the increase in their gross domestic products. The oil-exporting countries were in a relatively more comfortable position, particularly during the late 1970s, because their terms of trade were improving and their real income was increasing faster than their gross domestic product. The oil-importing countries, however, saw their balance-of-payments deficits grow, their terms of trade deteriorate, and the level of interest payments soar as a result of the increase in interest rates and their growing external indebtedness. Obviously, a process of this sort is an extremely vulnerable one and places real limitations on the autonomy which should surround development strategy and policy decisions.

/5. The

5. The crisis in the countries' economies during the period 1981-1985

Beginning in 1981, the countries of the region were engulfed by the severe economic and financial crisis from which they have still not managed to free themselves. In a later section of this document an analysis is made of the scope of the crisis, the factors which played a part in its onset and the adjustments that have been made in the countries' economies. Here, the discussion will be confined to the course taken by the countries' economies and the enormous gap which exists between the growth targets set forth in the Regional Programme of Action and the stagnation actually being observed.

During the last two years of the past decade, the annual rate of economic growth for the region as a whole was approximately 5.5%. The rate dropped to less than 2.0% in 1981, decreased in the following two years by a cumulative percentage of approximately 4% and then showed an upturn of 3.3% in 1984. Preliminary estimates indicate that the increase during 1985 will have been somewhat less than 3%. If Brazil is excluded from the calculations, however, the region's economic growth rate will have only been 0.8%. This largely contradicts the interpretation whereby the upward trend seen in 1984, though weak in comparison to what the countries of the region had experienced prior to the crisis, might presage the beginnings of a recovery. The fact is that, in absolute terms, the gross domestic product of 1984 was barely equal to the gross domestic product of 1980. Moreover it is estimated that in 1985, after four years of stagnation, the level of the gross domestic product (excluding Brazil) was only 2.1% higher than it was at the beginning of the decade. What is more, the per capita product is estimated to have dropped by around 10%. Unlike what had occurred in earlier periods, the trends seen with respect to the gross domestic products of most of the countries in the region have been more similar during this crisis, as regards both slumps and upturns in economic activity. This would indicate that analogous or regionwide factors are at work which have determined the nature of the main economic trends seen during this crisis. Over the past two years, however, one or two countries have once again begun to have a disproportionate impact on the aggregate figures for the region. Brazil is a case in point, inasmuch as its more rapid economic growth in 1985 has had a significant influence on the regional average.

6. The outlook and economic growth targets for the 1980s set forth in the Regional Programme of Action

a) The outlook for the 1980s

The Regional Programme of Action for Latin America in the 1980s (RPA) */ contains an appraisal of the development problems to be faced by the countries of the region during this decade. With respect to the prospects for the 1980s (see paragraphs 19 to 23), it was stated in the RPA that the majority of the countries would begin the 1980s in adverse conditions of extreme vulnerability as regards

*/ This Programme was approved in ECLAC resolution 422 (XIX). For its text, see Cuadernos de la CEPAL, No. 40, Santiago, Chile, 1981.

/external variables.

external variables. It went on to say that this situation was particularly serious for some Central American and Caribbean countries and that these nations' possibilities of raising their growth rates in the 1980s would thus depend on the degree of financial support they could receive on concessionary terms. The problems to be faced included, inter alia, the high level of indebtedness and the heavy burden of servicing external debts; the problems affecting the continuation of financing through the private international banks; prospects as regards the economic growth of the industrialized countries and their impact on Latin American exports; the effects which the intensification of protectionist measures in those countries might have; and the persistent increase anticipated in the real prices of imports. It was also stated in the RPA that important changes must therefore take place in the structure, operation, policies and institutional organization of the world economy and in national policies. In this connection, it was added that in the short term there was no sign that basic factors were at work which might play a spontaneous part in bringing about a significant improvement in this situation, and that strategies and policies had to be adopted which would lead towards a new orientation of the development process with a view to achieving specified economic and social goals. In this regard, it was noted that in the preparation of a regional programme of action or in the preparation of national development plans, the aim was to propose the changes in both internal and external conditions and policies which would be necessary in order to deal with social problems and speed up economic development. The task was therefore seen as being a matter of establishing objectives and goals of a normative or indicative nature which would be reasonably feasible if structural and institutional changes were promoted, along with the implementation of policy measures forming an integrated programme of action.

These internal and external changes were the framework for the objectives and goals set forth in the International Development Strategy (these being of a general nature and applying to all developing countries as group) and in the RPA (concerning the application of that Strategy in the countries of the region).

It is also important to note that, bearing in mind the report of the Committee for the Review and Appraisal of the Implementation of the International Development Strategy, the General Assembly agreed (decision 40/438 of 17 December 1985) that the goals and objectives established in the Strategy remain valid and have not lost their significance. Clearly, this is also true of the goals and objectives put forward in the Regional Programme of Action which, as stated previously, is the regional instrument adopted by ECLAC for the implementation of the International Development Strategy.

b) Economic growth targets

It is useful to compare, even if only in outline, the goals of the Regional Programme of Action with the actual situation as it stands at the end of the fifth year of the Programme. Such a comparison not only points up the enormous gap which exists between the actual situation and the legitimate aspirations expressed by the countries with respect to their growth and development during this third Development Decade, but also testifies to the depth and scope of the economic and financial crisis affecting the countries of the region.

/The quantitative

The quantitative goals of the Regional Programme of Action are as follows:

i) To double the per capita gross domestic product within a period of no more than 15 years. This would be equivalent to an overall annual growth rate for the gross domestic product of 7% per year, which is the target set forth in the International Development Strategy. During the past five years, according to a comparison of the data for the beginning and the end of this period, the gross domestic product for the region as a whole grew at an average of less than 1% per year. The product of over half the countries either showed no growth or declined in absolute terms, and in those countries whose product did grow, the increase was very slight. The exception to this rule was Brazil, which recorded significant expansion in 1985.

ii) The approximate target for the agricultural sector was 4.8% per year; the actual increase has been only 2.3% annually.

iii) The target set for the manufacturing sector was 8.5%; in fact, the sector has suffered an average decrease of approximately 1% per year.

iv) The volume of exports was to have grown by 8% annually; the actual rate of increase was 3.7% per year, on average.

v) The volume of imports was to have grown by the same amount as exports, i.e., at an annual rate of 8%. In fact, imports have dropped by approximately 10% per year.

vi) Gross domestic investment was to have represented 29% of the total product. The average coefficient for the period 1981-1984 was slightly over 20%, however, and was showing a downward trend: in 1984, it was around 17%.

vii) The target for national savings was set at 26%; in the first four years of the 1980s, the coefficient actually registered was only 17.4%.

viii) The targeted coefficient for net external financing was 3% of the total product. The average coefficient for the first four years of the Decade was indeed virtually the same as this target, but it should be borne in mind that the coefficient given in the Regional Programme of Action was based on expectations of a highly dynamic economy, whereas the actual coefficient was recorded during a period of stagnation or of feeble upturns in the economic activity of the countries of the region. Moreover, during the period 1983-1985 large volumes of resources were transferred to the exterior.

/B. DOMESTIC

B. DOMESTIC INVESTMENT, SAVING AND EXTERNAL FINANCING

1. The contraction in gross domestic investment

The trend followed by domestic investment, as was to be expected, was similar to that of the domestic product, which was considered above.

In the opening years of the last decade, when the highest rates of economic growth since the war were recorded, investment received a strong impetus too and grew much faster than the domestic product. In no less than ten countries out of the 19 countries considered, gross domestic investment increased by an annual average of 10% or more. Towards the middle of the decade (1975), at a time of marked decline in the rate of economic growth, investment continued to rise faster than the gross domestic product, although less vigorously than in previous years. Later on, during the second half of the last decade, the slight recovery in economic growth was accompanied by a moderate increase in domestic investment. During the most recent years of the crisis, however, investment has stagnated in many countries or even shrunk at a faster rate than the domestic product. In these circumstances, the coefficient of investment (the ratio between this and the gross domestic product), which had shown a tendency to rise, underwent a marked decline after 1980; i.e., this coefficient grew during boom periods and declined during slumps. The scale of these changes is an extremely significant index, reflecting the depth reached by the crisis in the countries of the region.

Aggregated statistical information on the coefficients of gross domestic investment in petroleum-exporting countries and non-petroleum-exporting countries reveals the remarkable shrinkage which has affected gross domestic investment during these crisis years: as far as the region as a whole is concerned the coefficient declined from 26.1% in 1980 to 17.1% in 1984 (see table 2), and a similar trend is apparent in each of the two groups of countries examined. A country-by-country analysis reveals that in no less than 15 of the 19 countries considered, the coefficients of gross investment for 1984 were lower than in 1980; in nine countries the fall in the coefficients reached the surprising amount of 8 to 14 percentage points. Consequently, in 1984 only two countries recorded an investment coefficient of 24% or slightly more; the coefficients of 10 countries were between 15% and 20%, and seven displayed coefficients below 15%.

If it is borne in mind that these coefficients reflect gross capital formation and consequently do not subtract depreciation or replacement of capital goods, and that moreover they include variations in stocks of goods as well as total public and private investment, it is easy to understand how the crisis has aggravated the traditional problem of the scale of investment as well as its composition and destination. In the case of many countries, these investment coefficients were already considered to be too low and of unsuitable composition and purpose to satisfy the requirements of a more dynamic productive process and achieve specific social aims. In the present circumstances, far greater efforts are required to increase domestic saving and face the social problems --especially unemployment, poverty and a fair distribution of wealth-- which now affect a larger section of the population than before the crisis are far more complex.

/Table 2

Table 2

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES):a/ GROSS DOMESTIC INVESTMENT

(As a percentage of the gross domestic product)

Period	Petroleum-exporting countries b/	Non-petroleum-exporting countries c/	Total
1971-1974	22.5	25.0	24.1
1975	22.5	27.5	26.8
1976-1980	25.9	25.6	25.7
1981-1984	20.6	20.1	20.3
1981	27.8	23.3	25.0
1982	22.0	21.0	21.4
1983	16.0	18.4	17.5
1984	16.0	17.8	17.1

Source: ECLAC, on the basis of official data.

a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

b/ Ecuador, Mexico and Venezuela.

c/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Peru and Uruguay.

2. Domestic resources for investment: domestic saving and its erosion

a) Domestic saving

A measure of the effort made by a society to increase its productive capacity is provided, at the macroeconomic level, by the difference between the gross domestic product and total public and private consumption: i.e., by the surplus of production over total consumption. This represents what may be called gross domestic saving, and defines the volume of resources generated by the economic system which are available for investment.

The coefficient of domestic saving has proved comparatively less unstable than the coefficient of domestic investment, particularly during the crisis (see table 3). At the beginning of the last decade the coefficient of domestic saving rose in line with the coefficient of investment, although at a lower level. Generally speaking this situation continued after the decline in the rate of economic growth in 1975, within a context which, although less vigorous, saw a slight revival during the second half of the previous decade, lasting until 1980 or 1981 depending on the country.

In these recent crisis years, during which a substantial decline has been recorded in the coefficient of investment, the coefficient of domestic saving has evolved in the opposite direction: it has declined less than the coefficient of domestic investment, and remained at a higher level than the latter.

These disparities between gross domestic saving and gross domestic investment may be attributed to the trend followed by real transfers of external resources, i.e., the differences between imports and exports of goods and services at constant prices. Generally speaking, before the crisis the countries increased their investment resources through the net contribution of real transfers generated by a surplus of imports over exports; they are now feeling the effects of the opposite phenomenon, and find themselves obliged to generate a volume of domestic saving which, in addition to covering domestic investment, has to finance a transfer of real resources abroad resulting from the surplus of exports over imports. Nevertheless, the path followed by domestic saving and its ratio in comparison with other variables is far from being uniform in all the countries of the region. Thus, the three largest countries show higher coefficients of gross domestic saving than the majority of the other countries. Generally speaking, it may be asserted that within this group of countries the coefficients of such saving tended to rise during the second half of the last decade, and have remained relatively high throughout the crisis. The coefficient of gross domestic investment, for its part, began to decline as from 1982, when the transfer of real resources changed direction; the surplus of exports over imports came to exceed 7% of the gross domestic product of this group of countries.

The four medium-sized countries (Chile, Colombia, Peru and Venezuela) present differing features which render an overall analysis difficult. Consequently, it is desirable to consider each of them separately. Colombia has a rather low coefficient of gross domestic saving; this continued to decline during the last decade, and in in the opening years of the present decade it averaged 11.6%. Net transfers of

/Table 3

Table 3

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): a/ GROSS DOMESTIC SAVING

(As a percentage of the gross domestic product)

Period	Petroleum-exporting countries b/	Non-petroleum-exporting countries c/	Total
1971-1974	30.5	21.7	24.8
1975	25.2	23.8	24.3
1976-1980	23.3	24.0	23.7
1981-1984	21.3	23.4	22.6
1981	22.2	23.2	22.8
1982	19.8	23.1	21.9
1983	21.7	23.2	22.7
1984	21.4	24.1	23.1

Source: ECLAC, on the basis of official data.
a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.
b/ Ecuador, Mexico and Venezuela.
c/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Peru and Uruguay.

/real resources,

real resources, expressed in terms of the import surplus, for their part, came to 10% of the gross domestic product. In Chile, the coefficient of domestic saving tended to rise during the second half of the last decade, and an average coefficient of 20.5% has been recorded during the crisis. However, the investment coefficient fell to 14.8%, and a net outflow of real resources equal to approximately 6% of the gross domestic product occurred. The coefficients of saving and investment in Peru have been comparatively low. In recent years (1981-1984), domestic saving was estimated at an average of 13.9% of the gross domestic product, i.e., virtually the same as domestic investment. Since the beginning of the last decade there has been a clear decline in domestic saving in Venezuela, and in recent years an average index of 18.3% has been recorded; the coefficient of gross domestic investment is somewhat higher (21.1%).

The small countries present a variety of situations. Generally speaking, it may be said that the coefficient of domestic saving is lower than that of the large countries, but that there is a positive transfer of real resources, with the result that the investment coefficient is somewhat higher than the coefficient of domestic saving. So far this decade, the coefficient of saving is close to 17%, while the import surplus represents 2% of gross domestic product; the investment coefficient, for its part, is close to 19% of the gross domestic product.

b) The erosion of investment resources

Within the analytical framework which has been adopted, and at the macro-economic level, two factors of particular importance in determining the level of domestic saving affect the resources available for investment. These are the terms-of-trade effect and net external transfers of interest and profits on foreign capital.

It is easy to understand that a gain in the purchasing power of exports of goods and services may be considered as an increase in the resources available for investment, while a loss diminishes the real value of such resources. Similarly, net payments of interest and profits on foreign capital directly reduce the resources which could be used for investment. If domestic saving is adjusted by these two factors, this gives national saving, which is the notion used in conventional analysis.

In the present analysis, the terms-of-trade effect has been calculated on the basis of 1975 prices.

The scale of the erosion affecting the resources available for investment, caused by the joint action of the deterioration in the terms of trade and net payments of interest and profits, is quite striking (see table 4). The non-petroleum-exporting countries as a whole suffered an erosion of their investment resources equal to approximately 3% of the gross domestic product in 1980 and to more than 8% in 1984. This meant the erosion of one-third of gross domestic saving as far as this group of countries was concerned. The erosion of investment resources has not been so severe in the case of the petroleum-exporting countries: in 1984 these countries still enjoyed a positive terms-of-trade effect. However, this group of countries also shows a tendency towards a growing deterioration in its terms of trade and towards an increase in external transfers of profits and interest on foreign capital.

/Table 4

Table 4

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES):a/ TERMS-OF-TRADE EFFECT AND NET EXTERNAL FACTOR PAYMENTS

(As a percentage of gross domestic product)

Period	Petroleum-exporting countries b/		Non-petroleum-exporting countries c/		Total	
	Net external factor payments	Terms-of-trade effect	Net external factor payments	Terms-of-trade effect	Net external factor payments	Terms-of-trade effect
1971-1974	2.0	-6.2	1.7	1.5	1.8	-1.2
1075	1.5	0.0	1.7	0.0	1.6	0.0
1976-1980	2.0	1.4	2.3	0.3	2.2	0.7
1981-1984	3.7	3.3	4.6	-3.2	4.3	-0.8
1981	3.6	5.1	3.6	-2.1	3.6	0.6
1982	4.9	3.4	4.9	-3.2	4.9	-0.7
1983	4.6	2.2	4.9	-3.8	4.8	-1.6
1984	4.8	2.4	5.0	-3.6	4.9	-1.4

Source: ECLAC, on the basis of official data.
a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.
b/ Ecuador, Mexico and Venezuela.
c/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Peru and Uruguay.

/Not only

Not only is there a difference between the two groups of countries under consideration, in the degree of erosion of investment resources but there are also variations between the countries in each group. Thus, in 1984 the joint incidence of the two factors was as follows: up to 5% of the gross domestic product in Mexico and Guatemala; between 5% and 10% of the gross domestic product in Brazil, Peru, Bolivia, Ecuador, Uruguay, El Salvador, Honduras and Nicaragua, and more than 10% in Argentina, Chile, Costa Rica, Panama and the Dominican Republic. There was no erosion, or there was even an increase, in Colombia, Haiti, Paraguay and Venezuela.

c) The impact of changes in the terms of trade

As may be seen from the figures set out in table 4, the terms-of-trade effect, expressed as a percentage of the gross domestic product, is extremely significant and varies according to whether the countries concerned are petroleum-exporting countries or not.

In the case of petroleum-exporting countries, the terms-of-trade effect has always been positive. Since the base year 1975, its size has varied considerably; in 1981 it represented rather more than 5% of the gross domestic product. Since then it has declined, and in 1984 corresponded to 2.4% of the product, i.e., rather more than 10% of domestic saving.

In non-petroleum-exporting countries, since 1980 the external terms of trade have been below their 1975 level. In 1984 the effect of the deterioration corresponded to 3.6% of the gross domestic product and approximately 15% of gross domestic saving in this group of countries.

d) Net payments of interest and profits on foreign capital

Net payments of interest and profits on foreign capital have grown continually since the middle of the last decade, and as a percentage of the gross domestic product they are remarkably similar in the two groups of countries under consideration. As far as the region as a whole is concerned, in the second half of the 1970s net payments of interest and profits corresponded to 2.2% of the gross domestic product; in 1984 this proportion was almost 5%, i.e., these external payments meant a more than 20% erosion of gross domestic saving.

3. National saving and net external financing

a) National saving

For the reasons described above, the magnitude of gross national saving is in principle lower than that of domestic saving. There are very few exceptions to this rule and they concern a few countries which have enjoyed a positive terms-of-trade effect which outweighs external payments of interest and profits. This is the case, as already mentioned, in Colombia, Haiti, Paraguay and Venezuela, whose coefficient of national saving in 1984 was higher than the coefficient of domestic saving.

/The coefficients

The coefficients of national saving of the non-petroleum-exporting countries have followed a declining trend in recent years, which has accompanied the decline in the coefficient of domestic investment (see table 5).

National saving in the petroleum-exporting countries has also declined during the crisis, but to a lesser extent than in the other countries. This is because in the 1983-1984 biennium the petroleum-exporting countries recorded a current account surplus estimated at approximately 3% of their domestic product.

b) Net external financing

In the case of the non-petroleum-exporting countries net external financing (defined as the current account balance of the balance of payments, of opposite sign), grew until it reached the high coefficient of 5.8% of the gross domestic product in 1982 (see table 5). In the following three years this coefficient declined so much that in 1985 it is estimated to have been less than 2%, a far lower figure than that reflected by the external accounts of this group of countries in the first years of the last decade. In this respect, it should be mentioned that those years were characterized by vigorous expansion, in marked contrast with the stagnation displayed by economic activity during the present crisis.

The group of petroleum-exporting countries was also affected by a process which led to a growing balance-of-payments deficit. During 1981 and 1982 this deficit was 4.0% of the gross domestic product, and had to be covered at least in part from the reserves. However, what distinguishes the evolution of the external financing of this group of countries is, as already noted, the surplus registered on the external current accounts during 1983 and 1984.

c) The shares of national saving and external saving in investment financing

In the group of non-petroleum-exporting countries, significant changes took place in the share of external saving in investment financing (see table 6). During the second half of the last decade, external saving represented slightly more than 13% of domestic investment in this group of countries; this proportion rose to 28% in 1982, but declined to 12% in 1984. In other words, the share of national saving declined up to 1982 and then rose during 1983 and 1984.

The group of petroleum-exporting countries, for its part, shows significant differences as regards the shares of national saving and external saving in investment financing. During the second half of the 1970s, external saving represented approximately 13% of investment: i.e., a similar proportion to that registered in the group of non-petroleum-exporting countries. This share increased in 1981 and 1982, although it remained below that of the other group of countries. However, the most important divergences were recorded in 1983 and 1984, when the petroleum-exporting countries as a whole recorded a surplus on their external current account, with the result that the coefficient of national saving was higher than that of domestic investment by an annual average of more than 20%, as may be seen from table 6.

/Table 5

Table 5

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): a/ GROSS NATIONAL SAVING AND NET EXTERNAL FINANCING

(As a percentage of gross domestic product)

Period	Petroleum-exporting countries b/		Non-petroleum-exporting countries c/		Total	
	Gross national saving	Net external financing	Gross national saving	Net external financing	Gross national saving	Net external financing
1971-1974	22.3	0.2	21.5	3.5	21.8	2.3
1975	23.7	1.8	22.2	5.4	22.7	4.1
1976-1980	22.6	3.3	22.2	3.4	22.3	3.4
1981-1984	20.8	-0.2	15.8	4.3	17.6	2.7
1981	23.7	4.1	17.6	5.7	19.9	5.1
1982	18.0	4.0	15.2	5.8	16.2	5.1
1983	15.5	-3.3	14.7	3.7	15.0	1.1
1984	19.0	-2.9	15.7	2.1	16.9	0.3

Source: ECLAC, on the basis of official data.

a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

b/ Ecuador, Mexico and Venezuela.

c/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Peru and Uruguay.

/Table 6

Table 6

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES):a/ SHARE OF NATIONAL SAVING AND NET EXTERNAL SAVING IN THE FINANCING OF GROSS DOMESTIC INVESTMENT

(Percentages)

Period	Petroleum-exporting countries b/		Non-petroleum-exporting countries c/		Total	
	National saving	Net external financing	National saving	Net External financing	National saving	Net External financing
1971-1974	99.1	0.9	86.0	14.0	90.5	9.5
1975	92.9	7.1	80.4	19.6	84.7	15.3
1976-1980	87.3	12.7	86.7	13.3	86.8	13.2
1981-1984	101.0	-1.0	78.6	21.4	86.7	13.3
1981	85.3	14.7	75.5	24.5	79.6	20.4
1982	81.8	18.2	72.4	27.6	76.1	23.9
1983	127.0	-27.0	79.9	20.1	93.2	6.8
1984	118.0	-18.0	88.2	11.8	98.3	1.7

Source: ECLAC, on the basis of official data.

a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

b/ Ecuador, Mexico and Venezuela.

c/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Peru and Uruguay.

C. THE SOCIAL PROBLEM

1. RPA pronouncements on social development

The Regional Programme of Action devotes special care to the identification of the economic and social development problems with which the countries of the region are confronted, and indicates targets and objectives for development strategies and policies. It draws attention to the significant process of economic growth and social change which the region has undergone since the Second World War, but stresses the fact that the nature of this process has led and is still leading to the formation of extremely inequitable societies. The economic structure is characterized by a very high degree of concentration of wealth and income in small segments of the population, while at the time broad masses have struggled along in conditions of extreme poverty and even of abject destitution; simultaneously, there has been a frequently rapid expansion of intermediate social sectors, and this has had important economic, social and political implications.

The factors determining these structures or inherent in them --adds the RPA-- relate to the lack of social participation, the concentrative tendencies of the prevailing economic system and the appropriation of a large proportion of income by small social groups, in so far as this income is used to increase superfluous and constantly diversified consumption, and the type of consumer investment which follows the patterns of industrial countries with higher levels of per capita income.

With regard to development strategies and policies, the following are among the aspects to which the RPA gives consideration:

a) development must be conceived as an integrated process characterized by the attainment of economic and social objectives and targets which will ensure the effective participation of the population in the development process and in the distribution of its benefits;
b) the central problems of development concern aspects of the structure and functioning of the economic and social process; they are inherent in this process, and their solution calls for institutional and structural changes, at the internal level and in the sphere of the world economy, such as will alter the functioning of the economy and society with a view to attaining specific economic growth and social welfare objectives in the framework of equitable societies;
c) economic growth is a necessary, but not in itself a sufficient, condition for ensuring full social and human development. To reach this goal it is indispensable to promote more equitable income distribution and greater participation of all social groups, with the aim of shaping fairer and better-integrated societies.

2. Central themes of economic and social development

In the framework of these RPA pronouncements, four central themes can be identified, which are interrelated and are of special significance for the social dimension of development: economic dynamism or lack of dynamism, and its social repercussions; the unemployment problem; personal income distribution; and situations of poverty.

a) Five years of economic stagnation and contraction of the per capita product

It is true that, as the Secretariat has emphasized in earlier appraisals, economic growth must be accompanied by deliberate action to promote employment and more equitable income distribution. In a situation like the present, however, in which there is no economic growth, and given the atmosphere of recession and uncertainty overshadowing the economic and social scenario of the countries of the region, it is equally true that social pressures become even more acute, the sectors that would necessarily have to give way harden their resistance to change, and yet more prejudicial effects are produced on the broad masses of the population that are low down on the ladder of personal distribution of wealth and income.

It is useful to analyse the evolution of the per capita gross domestic product, which may be regarded as a macroeconomic indicator of the course followed by the average living conditions of society as a whole. The relevant information is presented in terms of annual rates of variation of the per capita gross domestic product in the different periods that were defined when the phases of global economic evolution during the last three five-year periods were reviewed (see table 7).

In the early 1970s, a time of high economic dynamism, the per capita gross domestic product showed the highest growth rate in the whole of the period under analysis (12.6% per annum). In 1975, when the global rate of economic growth declined appreciably, the per capita product of the region as a whole virtually stagnated. During the second half of that decade, characterized by a modest recovery of economic growth, the rate of increase of the per capita product also recovered; but even so the average rate of growth (2.0%) was lower than in the early years of the decade. In the period of crisis a drop in the per capita product during the first three years of the 1980s was followed by a very weak upturn in the two-year period 1984-1985. Very few countries made a favourable contribution to this recent evolution; outstanding among them is Brazil, by reason of the relatively high increase recorded in 1985. In short, the per capita product of the region as a whole fell between 1980 and 1985 to an annual rate of 1.5%. This experience presents one uncommon feature: in each and all of the 19 countries under consideration the per capita product declined during this period, albeit the decreases may differ in size. For the region as a whole, the per capita product for 1985 is almost 10% lower than in 1980; for many countries the difference is still greater.

/Table 7

Table 7

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): ANNUAL GROWTH RATES OF THE PER CAPITA GROSS DOMESTIC PRODUCT, AT 1975 PRICES

(Percentages)

Countries	1971-1974	1975	1976	1977-1980	1981-1985
Large countries	4.0	0.8	1.6	3.1	-1.1
Argentina	1.9	-2.1	-2.1	1.0	-4.0
Brazil	8.5	3.0	7.2	3.9	-0.6
Mexico	3.3	2.2	1.1	4.3	-0.9
Medium-sized countries	0.2	-0.8	0.5	0.7	-2.4
Colombia	4.5	0.1	2.2	2.7	0.1
Chile	-0.7	-13.5	1.7	7.6	-2.3
Peru	2.0	1.5	0.3	-0.9	-2.8
Venezuela	-1.2	-2.6	3.1	-1.7	-4.0
Small countries	3.2	4.4	4.6	3.9	-2.6
Bolivia	2.9	4.8	3.7	-0.1	-6.6
Costa Rica	4.3	-0.4	2.6	2.1	-3.0
Ecuador	10.0	2.1	6.8	3.0	-0.2
El Salvador	2.4	2.5	1.2	-2.8	-5.3
Guatemala	3.6	-0.5	4.5	2.3	-4.1
Haiti	2.4	0.0	4.5	2.7	-2.4
Honduras	0.6	-6.5	3.1	3.3	-2.7
Nicaragua	2.8	-1.7	3.0	-7.7	-2.2
Panama	3.5	-0.5	-0.6	4.3	-0.3
Paraguay	3.8	4.2	3.5	7.5	-0.7
Dominican Republic	6.4	1.8	3.7	2.0	-0.5
Uruguay	0.3	5.6	4.3	4.3	-3.9
Latin America and the Caribbean (19 countries)	2.6	-0.1	2.5	2.0	-1.5

Source: ECLAC, on the basis of official data.

/b) The

b) The unemployment problem

The crisis has seriously aggravated the unemployment problem. In the first place, the labour force has tended to grow larger owing to the increase in the economically active population and the rise in rates of participation, and also, as regards the urban labour force, because of rural migration. Secondly, the economic growth rate prior to the crisis and the policies then adopted were inadequate to absorb the constant increment in the manpower supply in the modern sector and even in traditional activities. These situations have become much worse during the long period of contraction and economic stagnation through which the national economies are currently passing. In these conditions, the possibilities of absorbing manpower in modern activities have indubitably been limited, and a very appreciable increase in occupation in marginal or traditional activities has taken place. Furthermore, it must be emphasized that at the present time the unemployment problem affects not only the wage-earners, but also social segments situated in the intermediate personal income distribution brackets. Later on, in the conclusions of chapter II, which deals with the future economic growth scenarios of the countries of the region, a quantitative study of this problem is made, which clearly reveals the very unfavourable prospects envisaged for the attainment of specific employment targets within reasonable periods.

c) Extreme concentration and personal income distribution

Personal income distribution is extremely concentrated in the countries of the region, although they differ widely from one to another as regards per capita income and the modalities of distribution. The usual indicators of inequality place the countries of the region in an intermediate position in comparison with other countries; they show that the inequality existing in the region is higher than that found in other developing countries with a lower per capita product, and also higher than that characterizing the market-economy industrial countries.

On family income distribution in the region, the RPA presented the following data: 44% and more of total income was concentrated in 10% of families, while 40% of the families at the lower end of the scale received only 8% of total personal income.

Obviously, the crisis, far from contributing to an improvement of income distribution, has accentuated inequality, in conditions even more prejudicial to the broad masses of the population in the lower income distribution brackets. This has happened in consequence of the increase in unemployment, the fall in real wages and the limitations imposed on social services, all of which has undoubtedly reduced the share of wage-earners and increased the proportion corresponding to other social groups. In this connection, it is highly likely that the relative position of upper income groups on the distribution scale has varied, inasmuch as some groups, for example, those connected with financial activities, have improved their position more than others. It should be noted, moreover, that the changes have come about in the framework of a process of stagnation and constraint, in which the per capita product has shown relatively large decreases in many countries; consequently, the modification of distribution patterns has an economic and social significance different from that which would stem from similar changes within a more dynamic process of economic growth. In any event, it is clear that the social cost of the crisis has been very unfairly distributed.

/d) Situations

d) Situations of poverty

It is estimated that at the beginning of the last decade 30% of families in the region as a whole lived in conditions of poverty; that is, their income was not big enough to cover the expenditure required to meet minimum standards of living. Furthermore, it was considered that in all likelihood half of these families lived in conditions of extreme poverty, in indubitable contrast with the high level of consumption which is found among the social segments situated in the upper distribution brackets, and which tends to spread to the upper middle sectors as well.

The proportion of the population in conditions of poverty has shown a significant downward trend in the past decade or two, if situations of poverty are defined in relation to the amount of income that families should receive in order to meet the needs of specific living conditions. It is estimated, however, that this decrease in the percentage is not enough to reduce the quantity of poor families in absolute terms.

Obviously, the crisis of recent years, through its concrete manifestations in the decline of the per capita product, the fall in real wages and the increase in unemployment, has done much to raise the proportion of families living in conditions of poverty.

D. THE CRISIS AND THE EXTERNAL BOTTLENECK

1. The scale of the crisis

a) Contraction and stagnation of the national economies

The crisis has overshadowed the region throughout the first half of the present decade. It might be said to have begun in 1981, albeit the storm had been brewing for some time, and it has not yet been weathered. Nor, up to now, can some positive movements noted in the last two years be diagnosed as symptoms of gradual recovery.

In 1981, the region's gross domestic product grew by less than 2%, after having done so at a rate of 6% in 1980; gross domestic investment followed a downward trend; the terms of trade deteriorated significantly, cancelling out the increase recorded in the volume of exports, so that the external purchasing power of exports remained practically static in absolute terms; and imports of goods showed an appreciable slackening of the high growth rate noted in previous years.

In 1985, according to provisional estimates, the gross domestic product of the region as a whole increased less than in 1984, notwithstanding Brazil's high growth rate and its incidence on the aggregate figure. The volume of exports and imports of goods contracted in 1985, and the terms of trade deteriorated yet further, as a result of which the purchasing power of exports of goods was considerably reduced. The balance-of-payments deficit on current account increased, and so did the net inflow of capital; and the global balance, in the context of stagnation, instability and uncertainty indicated in general terms by the macroeconomic variables studied, was apparently stabilized.

In brief, the gross domestic product of the region as a whole (19 countries) in 1985 exceeded by only 4.5% the figure for 1980, five years before. Inter-country differences are noteworthy, however. If Brazil is excluded of gross domestic product, the rest of the countries as a whole would be virtually the same in 1985 as it had been in 1980. From analysis of the data in table 1, it can be inferred that in nine of the 19 countries considered in the table, the domestic product would be lower than in 1980; in another nine it would be higher; and in one it would have undergone no variation at all (still in relation to 1980).

Mention has already been made in the preceding section of the fall in the per capita gross domestic product during the crisis and of the unusual circumstance that this deterioration was recorded in practically all the countries under consideration (see table 7).

b) The fall in domestic investment

The course followed by gross domestic investment affords another eloquent indicator of the extent and depth of the crisis in the Latin American and Caribbean economies. For the region as a whole, gross domestic investment remained virtually stationary in 1981, fell by 10% in 1982, dropped still more steeply (20%) in 1983, and then stagnated again in 1984. This evolution is fairly representative of the trend of gross domestic investment in the different groups of countries in the region.

The sharp reductions in investment during the two-year period 1982-1983 were linked with the contractions undergone during those years by the gross domestic product and yet more closely with the decreases in imports that occurred in both years. The explanation of this lies in the recession burdening the national economies and also in the high imported content of domestic investment.

Furthermore, the gross domestic investment/gross domestic product percentage coefficient is associated with capital formation and therefore with the rate of economic growth. In this connection, two observations may be made: one is that the decline in the investment coefficient from 26% in 1980 to 17% in 1984 is consistent with the recession and stagnation of the national economies; the other is that after a relatively long period of low accumulation in real terms, the reactivation of economic life will require short-term impetus to be given to a process of saving and investment which will substantially raise the coefficients in question. In the analyses of two economic growth scenarios for the countries of the region which are presented in chapter II, it is estimated that the investment coefficient should climb to 20.4% by 1990, in a scenario of slow recovery, and to 22.7% in a scenario of accelerated economic growth. These considerations give an idea of the inadequacy of investment at the present time, and, in addition, highlight the greater domestic saving effort which would be called for, especially if it is taken into account that the proportion of the said investment financed by domestic saving will have to be higher than in the past. Obviously this situation may vary from one country to another, because of factors peculiar to each, and in particular by reason of the degree of idle capacity that each has at its disposal.

c) Exports and the terms of trade

The volume of exports of goods and services pursued an irregular course, with marked inter-country differences in its fluctuations. For the region as a whole, the annual growth rate during the period of crisis ranged from 7 to 8%, except in 1982 and 1985, in which years the volume of exports declined. The most notable increases were recorded in the group of large countries. In most of the others the volume of exports showed a tendency to contract or remain static. Consequently, figures for the region as a whole mask substantial differences between the various groups of countries.

The exports of goods and services/gross domestic product coefficient followed an upward trend in the region as a whole: from 13.3% in 1980 it went up to 16.1% in 1984. These figures were preponderantly influenced by the large countries, where the coefficient in question rose from 10 to 14%; in the other groups of countries, it dropped or remained relatively constant.

The effect of the variation in the terms of trade in relation to the base year 1975 was different according to whether petroleum-exporting or non-petroleum-exporting countries were concerned. In the latter it showed a progressive deterioration, which for the four years from 1981 to 1984 averaged 3.2% of the gross domestic product.

/In the

In the petroleum-exporting countries the effect was positive, but markedly declining. It is estimated at an annual average of 3.3% of the gross domestic product for this group of countries as a whole.

Provisional estimates show that in 1985 the terms of trade deteriorated in both groups of countries.

d) Imports of goods and services

Imports have undergone radical and peculiarly significant changes since the beginning of the last decade. During the early years of the present decade, they tended to rise more than the domestic product. Their dynamism culminated in 1974 and was reduced in 1975, when the rate of economic growth declined. During the second half of the 1970s, characterized by moderate economic growth, imports again increased faster than the domestic product in a large number of countries, although there were cases in which the import coefficient tended to remain constant or to fall to some extent.

During the crisis years, alongside the process of contraction and stagnation of economic activity which spread to all the countries of the region, imports underwent a severe adjustment in their volume and composition. They decreased drastically during the years 1982 and 1983, when their volume, for the region as a whole, contracted by over 20% per annum. In the other crisis years the variations were, broadly speaking, much less significant. In general terms, in all the groups of countries imports evolved on lines similar to these.

In these conditions, the imports/gross domestic product percentage coefficient drastically decreased in the various groups of countries. Thus, in 1980 the region as a whole recorded a coefficient of 16.3%, which dropped to 10.1% in 1984, and in all probability underwent no significant changes in 1985.

A particularly important aspect of these ratios is that they reveal the extreme dependence of the reactivation of economic life and of the growth process on supplies of imported goods. A major proportion of imports (in some countries, almost all of them) consists of three main items: essential intermediate products, fuels and capital goods. Whatever the share of other items, the undeniable fact is that the reactivation of the economies depends to a very high degree upon larger supplies of intermediate products and fuels as well as of capital goods, to expand production capacity. In this sense, the limited availability of goods that have to be imported represents a severe constraint on the supply side which must be taken into consideration in the programming of reactivation and of subsequent economic growth. The two economic growth scenarios for the countries of the region, presented in chapter II, are characterized precisely by the high elasticity of import requirements, especially in the initial phase of the economic reactivation process.

/2. Changes

2. Changes in the structure and functioning of the national economies in consequence of the crisis

a) Changes in the non-petroleum-exporting countries

In the early 1970s, when economic growth was flourishing and net external financing was beginning to increase (balance-of-payments current account position with opposite sign), a substantial part of this financing had as its counterpart a net transfer of real resources, in the sense that imports exceeded exports, expressed in terms of constant prices. During the second half of that decade, and to the years 1980 or 1981 —a period of moderate economic growth—, this structure persisted, with fairly important modifications: transfers of real resources decreased in relation to the gross domestic product and at the same time the amount of interest and profits on foreign capital went up (see tables 8 and 9).

Thus, during the decade in question this group of countries evolved within a structural framework whose essential characteristics were the following:

i) Net external financing stood relatively high; 3.6% of the gross domestic product, which represented almost 15% of gross domestic investment;
ii) Interest and profits on foreign capital followed an upward trend throughout the decade;
iii) Nevertheless, the figure for the net inflow of external financial resources obtained by deducting interest and profits from net external financing signified a positive transfer of resources which, account being taken of the terms-of-trade effect, was reflected in a transfer of real resources. These, although they decreased, represented 2.4% of the gross domestic product, and approximately 10% of gross domestic investment;
iv) Goods and services available for consumption and investment exceeded the magnitude of the gross domestic product, which, in its turn, followed an upward trend, albeit with varying degrees of dynamism, throughout the decade.

In consequence of the changes that took place in the external sector in 1981 or 1982, according to the country concerned, a process with opposite characteristics began, which affected the structure and functioning of the national economies. Its most outstanding features may be summarized as follows:

i) Proportionally, net external financing stayed relatively high in the 1981-1982 biennium, since it represented almost 6% of the gross domestic product, signifying 30% of gross domestic investment;
ii) Net external financing dropped sharply in the two subsequent years;
iii) Interest and profits on capital, for their part, continued to represent a relatively high proportion of the domestic product (5% per annum);
iv) In such circumstances, the net inflow resulting from subtracting net remittances of interest and profits from current balance-of-payments financing was negative. In other words, net external financing was less than the resources spent on net payments of profits and interest. This happened while the group of countries in question were suffering the serious adverse effects of an unfavourable evolution of the terms of trade;

/Table 8

Table 8

LATIN AMERICA (19 COUNTRIES): a/ EXTERNAL FINANCING AND REAL TRANSFERS OF RESOURCES

(Percentage coefficients in relation to gross domestic product at 1975 prices)

Years	Net external financing b/	Net external factor payments	Terms-of-trade effect	Real transfers of resources c/
1971-1974	2.3	1.8	-1.2	-0.7
1975	4.1	1.6	0.0	2.5
1976-1980	3.4	2.2	0.7	2.0
1981-1984	2.7	4.3	-0.8	-2.3
1980	3.8	2.5	1.6	3.0
1981	5.1	3.6	0.6	2.2
1982	5.1	4.9	-0.7	-0.5
1983	1.1	4.8	-1.6	-5.2
1984	0.3	4.9	-1.4	-6.0

Source: ECLAC, on the basis of official data.

a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.
b/ Including net private transfer payments.
c/ Imports of goods and services minus exports of goods and services.

/Table 9

Table 9

NON-PETROLEUM-EXPORTING COUNTRIES:a/ EXTERNAL FINANCING AND REAL TRANSFERS OF RESOURCES

(Percentage coefficients in relation to the gross domestic product at 1975 prices)

Years	Net external financing b/	Net external factor payments	Terms-of-trade effect	Real transfers of resources c/
1971-1974	3.5	1.7	1.5	3.3
1975	5.4	1.7	0.0	3.7
1976-1980	3.4	2.3	0.3	1.6
1981-1984	4.3	4.6	-3.2	-3.3
1980	4.9	2.5	-0.4	2.2
1981	5.7	3.6	-2.1	0.1
1982	5.8	4.9	-3.2	-2.1
1983	3.7	4.9	-3.8	-4.8
1984	2.1	5.0	-3.6	-6.4

Source: ECLAC, on the basis of official data.

a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Peru and Uruguay.
b/ Including net private transfer payments.
c/ Imports of goods and services minus exports of goods and services.

v) In short, these countries had to generate a favourable balance on trade flows in order to offset the negative impact of the terms-of-trade effect and of the external resources deficit;

vi) These countries' inverse real transfer payments had been growing rapidly and came to represent over 6% of the gross domestic product, an exceptionally high figure. Goods and services available for domestic consumption and investment were that much less than the product.

b) Changes in petroleum-exporting countries

In this analysis, the group of petroleum-exporting countries comprises Ecuador, Mexico and Venezuela. Obviously, this grouping incorporates a high degree of heterogeneity in long-term analyses, but the heterogeneity would seem to be somewhat less in analyses covering recent years, at least as regards the directional change in the variables under consideration.

The evolution of this group of countries presents a very different picture from that just outlined for the non-petroleum-exporting countries. Moreover, it must be stressed that the concept of net external financing used here (as throughout the document) is equivalent to the balance-of-payments position on current account, with opposite sign, in accordance with conventional practice, and does not distinguish the share in that financing that may correspond to movements of capital or variations in reserves.

As can be seen in table 10, net external financing increased during the first two years of the present decade until it came to represent as high a proportion as 4% of the gross domestic product. Subsequently, and still on the basis of the aggregate data for this group of countries, the balance-of-payments position on current account showed a surplus estimated as averaging over 3% of the gross domestic product. It is of interest to note that these substantial changes in the balance-of-payments position on current account are associated with a similar evolution in real transfers of resources. In the first two years of the decade, this group of countries recorded a transfer of resources which helped to increase the mass of goods and services available for domestic consumption and investment. In contrast, during the 1983-1984 biennium there was an inverse transfer, in which exports significantly exceeded imports and the difference came to represent over 5% of the gross domestic product, a figure similar to that recorded for the non-petroleum-exporting countries as a whole.

Net payments of profits and interest, as in the non-petroleum-exporting group, also followed a rising trend during the crisis, and approached 5% of the gross domestic product, which suggests a process similar to that characterizing the other group of countries.

Lastly, the terms-of-trade effect has been favourable for this group of countries, still in comparison with the terms of trade in 1975. It must be emphasized, however, that the relevant figure has fallen: from 5% in 1981 to 2.4% in 1984.

/Table 10

Table 10

PETROLEUM-EXPORTING COUNTRIES:a/ EXTERNAL FINANCING AND REAL TRANSFERS OF RESOURCES

(Percentage coefficients in relation to the gross domestic product at 1975 prices)

Years	Net external financing b/	Net external factor payments	Terms-of-trade effect	Real transfers of resources c/
1971-1974	0.2	2.0	-6.2	-8.0
1975	1.8	1.5	0.0	0.3
1976-1980	3.3	2.0	1.4	2.6
1981-1984	-0.2	3.7	3.3	-0.7
1980	1.8	2.7	5.3	4.3
1981	4.1	3.6	5.1	5.6
1982	4.0	4.9	3.4	2.3
1983	-3.3	4.6	2.2	-5.7
1984	-2.9	4.8	2.4	-5.4

Source: ECLAC, on the basis of official data.

a/ Ecuador, Mexico and Venezuela.
b/ Including net private transfer payments.
c/ Imports of goods and services minus exports of goods and services.

II. THE ECONOMIC GROWTH SCENARIOS

A. TWO SCENARIOS OF REACTIVATION AND ECONOMIC GROWTH

In order to undertake a closer examination of the internal and external problems relating to the recovery and economic development of the countries of the region, two scenarios have been devised for the period 1985-1995: one scenario (1.0) projects a slow recovery of economic growth, while the other (2.0) assumes greater dynamism and an acceleration of economic growth.

The basic characteristics of the scenario assuming a slow recovery of economic growth are as follows:

a) Its objectives and goals are divided into two phases: the first covers the period 1985-1990 and posits a target for the economic growth of each country which, by 1990, would bring its per capita gross domestic product back up to its 1980 level. In the second phase, which corresponds to the period 1991-1995, the target set is 3.5% annual growth of each country's per capita gross domestic product;
b) The scenario is examined in relation to a basic solution, plus two variants reflecting the effects and implications of certain changes in variables of particular significance in the context of this scenario;
c) This scenario corresponds to a scenario involving a slow recovery by the world economy and international trade.

Scenario (2.0) of more rapid economic growth is by nature essentially a normative one. Its economic growth targets are higher than those envisaged in scenario 1.0. After five years of contraction and stagnation of the per capita gross domestic product, it is extremely useful to analyse the implications, in terms of domestic and external resource requirements and the nature of the national policy objectives, that can be inferred from a scenario of more dynamic economic development. Furthermore, for the purposes of this document it is also essential to analyse a scenario of a type that would tend to incorporate the basic objectives and goals of the International Development Strategy, as incorporated in the Regional Programme of Action adopted by ECLAC at its nineteenth session as an action tool for promoting the application of the International Development Strategy at the regional level. In this respect, it should be borne in mind that the General Assembly Committee which was formed to appraise the application of the Strategy approved a document reaffirming, by consensus, its objectives and goals.

Some of the specific characteristics of the scenario are:

a) Like scenario 1.0, this scenario also comprises two phases: during the first phase, which extends until the end of this decade, the per capita gross domestic product would expand at a rate of 3.5% per year, while the rate would rise to 4.5% per year during the period 1991-1995, which corresponds to the second phase;

/b) The

b) The scenario is analysed in relation to a basic solution, plus two variants, using the same methodology employed in scenario 1.0; and
c) This scenario would correspond to a more dynamic scenario of the world economy than in the case of scenario 1.0 and should give rise to effective external co-operation, particularly as regards the solution of the debt crisis, greater access to sources of fresh financing, an increase in exports from the countries of the region and stable terms of trade at suitably remunerative levels.

An analysis of each scenario in relation to various factors will be presented below.

Firstly, an attempt will be made to shed light on some important elements which define the nature and scope of the scenarios; secondly, dynamism will be discussed in terms of economic growth and the evolution of foreign trade; thirdly, the requirements of each scenario will be specified in so far as they relate to domestic investment, saving and external resources; fourthly, the balance-of-payments projections will be summarized; fifthly, requirements with respect to capital inflows and their net contribution will be established; sixthly, the evolution of the external debt and the relationship it bears to export earnings will be discussed; and lastly, the effects and repercussions of certain variations introduced into each scenario will be examined.

B. SCENARIO 1.0: A SLOW RECOVERY OF ECONOMIC GROWTH

1. The nature of the scenario: its objectives and basic assumptions

The intensity and persistence of the crisis, the steep drop in the per capita domestic product, the decrease in investment for capital formation, the heavy liabilities represented by the financial servicing of the accumulated debt and the limitations affecting the countries' access to fresh financing, especially from the private banking system, give rise to severe external constraints which, in combination with structural and short-term factors of an internal nature, pose an obstacle to an economic revival in the countries of the region. Although it is true that such a revival essentially depends upon the implementation of appropriate measures to carry out national strategies and policies, it is no less true that the region's economic reativation also depends to a great extent upon external decisions and events such as negotiations and agreements concerning the debt, the setting of interest rates, access to new credits, changes in the terms of trade, the dynamism of the world economy and the orientation of international economic policy.

The slow-recovery scenario has been formulated in order to permit the immediate and future impacts of these various factors to be analysed.

This is in no way a forecast, but rather a hypothesis or a scenario which may be inferred from the prevailing situation and which, if it is to become a reality, will also require a significant degree of international co-operation, despite the apparently modest nature of the objectives that are set out, especially the first phase.

/This scenario

This scenario has been constructed on the basis of a number of assumptions and macroeconomic relationships, including the following:

a) The overall economic growth of each country depends upon the targets established as regards the growth of the per capita gross domestic product during the first and second phases of the scenario and upon the country's population growth rates.
b) Import requirements depend upon overall economic growth and, particularly, upon domestic investment trends, as well as upon certain hypotheses concerning the behaviour of the import coefficient with respect to the gross domestic product which provide some indication of the process of import substitution or containment.
c) Two main factors have been taken into consideration in the export projections: one, of an internal nature, concerns the structural relationship which should be maintained between this variable and the trend and structure of the gross domestic product; the other, of an external nature, relates to the outlook and projections of external demand. With regard to this latter consideration, the assumption is that the growth of the world economy and international trade will be slow, i.e., that what has been called a process of "recessionary growth" will occur which will be an influential factor in the sluggishness of demand for exports from the countries of the region, as well as in the stability of the terms of trade. It is postulated that the terms of trade will remain at the levels recorded in 1984 for the main sectoral components of exports and imports. In one variant of this scenario, the alternative assumption is made that the prices of primary products will rise 2% per year over and above the projected overall inflation rate.
d) For the purposes of preparing projections regarding the balance of payments, capital movements and the trend of the external debt, an overall and uniform rate of inflation of 6% annually is posited.
e) Interest rates, including costs, commissions and spreads, have been set at between 11.5% and 12% for private operations and between 6.5% and 8.0% for operations with public institutions, according to the prevailing conditions in each country. A variation is also considered in which it is postulated that interest rates will drop by two percentage points in each country.

2. Economic growth and the evolution of foreign trade

a) Economic growth

As noted previously, the main targets of economic growth in this scenario are such that by 1990 each country would have brought its per capita gross domestic product back up to its 1980 level, while during the second phase the per capita gross domestic product would expand by 3.5% annually. Hence, if growth were to continue at this rate, the total product of the region as a whole would not double until the year 2000. The rate of overall economic growth during the first phase for the region as a whole would be around 3.8%, with the following distribution by countries:

/a) From

a) From 2.0% to 3.5% in six countries (two large, one medium-sized and three small countries).
b) From 3.6% to 4.5% in six countries (one large, one medium-sized and four small countries).
c) From 4.6% to 7.0% in seven countries (two medium-sized and five small countries).

This research brings out the striking differences in the growth rates which the countries of the region would need in order to achieve the above-mentioned targets. As is well known, these differences are the result of the varying degrees to which the countries' gross domestic products have contracted or stagnated since 1980 and of the significant differences to be found among national rates of population growth.

In short, whereas the growth requirements in relation to these targets are relatively low in the case of some countries --particularly large nations, as well as some medium-sized and small countries-- most of the small countries would need to attain higher rates; in some cases, the required growth rates would be so high that they would be difficult to achieve in the context of this scenario. In other words, a number of countries are faced with the deplorable prospect of not being able to bring their per capita gross domestic product back up to its 1980 level by the end of the decade. This is especially the case for countries in which the prevailing situation is one of marked social tension and even conflict.

The second phase of this scenario corresponds to a more dynamic process, which would take place during the period 1991-1995; the growth target for the per capita gross domestic product was set at 3.5% per year for this phase. Here, too, there are differences in the overall national growth rates as a result of differences in population growth rates. The group of large countries would grow more slowly than their past trends, while the medium-sized countries' growth rate would be 5.8% annually and the rate for most of the small countries would be over 6% annually. Thus, the pace of growth in the region as a whole during the second phase would be 5.5%; at this rate, it would come close to regaining its traditional rate of economic growth.

b) <u>Export trends and import requirements</u>

In this scenario, the volume of exports would expand at what might be regarded as a relatively low rate. In this regard, however, it must be remembered that this scenario is based on a projection of a slow recovery in which the growth of the domestic product would be slow as well, and that, in addition, it is associated with a scenario of little dynamism in the world economy and international trade, especially during the first phase. As a whole, the countries included in the scenario would expand their exports at an annual rate of slightly over 4% during the first phase, with the rate rising to somewhat over 5% during the second (see table 11).

Import requirements would be significantly more dynamic, expanding more than the domestic product and more than exports. A number of factors would play a part in this process, including the fact that, as a result of major adjustments in

/Table 11

Table 11

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES)a/: GROSS DOMESTIC PRODUCT, EXPORTS AND IMPORTS OF GOODS AND SERVICES, AND GROSS DOMESTIC INVESTMENT

(Annual growth rates and percentages)

	1980	1981	1982	1983	1984	Scenario 1.0		Scenario 2.0	
						1985-1990	1991-1995	1985-1990	1991-1995
Gross domestic product	6.0	1.7	-0.9	-3.3	3.3	3.8	5.5	5.0	6.4
Exports of goods and services	4.2	7.8	-2.4	7.2	7.8	4.1	5.1	5.1	6.2
Imports of goods and services	12.9	1.7	-18.4	-26.1	1.6	8.5	7.0	10.1	7.7
Gross domestic investment	6.8	-2.2	-10.7	-20.1	1.1	6.3	8.0	9.6	8.2

Source: ECLAC, on the basis of official data.
a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

/import levels

import levels during recent years, import volumes are now abnormally low in relation to the level of economic activity. The decline shown by the import coefficient vis-à-vis the product cannot be attributed or at least not entirely, to an effective import substitution process: in large measure, this decline stems from the decrease in supply associated with the stagnation and growth setbacks brought on by the crisis. Under these conditions, a recovery of economic growth, even if it were not very rapid initially, would necessarily involve a sharp upturn in imports. It is true that, prior to the crisis, situations of outright over-liberality existed in which imports of non-essential items increased or in which the expansion of imports was excessive; in some instances this occurred to such an extent that a process of inverse substitution tended to occur whereby imports replaced domestic products. Nonetheless, these cases do not invalidate the argument that imports currently represent a severe constraint on economic growth. In view of the above, the heavy demand for imports is partially accounted for by its present low levels.

Another more specific factor involved in the increase of imports is the expansion of investment occurring in the economic growth process, the import content of which is greater, in relative terms, than that of the domestic product.

Past experience and the projections made in this scenario clearly illustrate the main features of the process under examination. Imports of goods and services would increase at a rate of somewhat over 8% per year during the first phase, when the domestic product would be growing at an average annual rate of 3.8%. During the second phase, imports would expand at a rate of 7% per year, while the domestic product would grow by 5.5%. The increase in gross domestic investment would gain speed in the course of the two phases of the scenario, and this acceleration would be more intense than that associated with the domestic product. During the crisis years, and especially between 1980 and 1984, the volume of the gross domestic product was relatively stagnant, although it did show some fluctuations; against the background of this stagnation, imports declined to such an extent that the volume of imports in 1984 was only half that of 1981. It may well be said that the high growth rates for imports entailed by this scenario would partly be due to the low levels of external supply seen at the present time. The evolution of the import coefficient with respect to the domestic product provides some additional data to be considered in evaluating the significance of these macroeconomic aspects in the scenario in question. This coefficient, which was 16.3% in 1980, had dropped to 10.1% by 1984. According to the projections of this scenario, the coefficient would rise to 12.9% in 1990 and to 13.8% in 1995, i.e., it would still be lower than it was during the early 1980s (see table 12).

3. Investment, saving and external resources

a) Gross domestic investment

One of the most significant features of the crisis is the trend observed as regards gross domestic investment for capital formation. In absolute terms, such investment decreased considerably, and in 1984 it still showed virtually no growth.

/Table 12

Table 12

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES)a/: EXPORTS AND IMPORTS OF GOODS AND SERVICES AND GROSS DOMESTIC INVESTMENT

(Coefficients with respect to GDP and percentages)

	1980	1981	1982	1983	1984	Scenario 1.0		Scenario 2.0	
						1990	1995	1990	1995
Exports of goods and services	13.3	14.1	13.9	15.4	16.1	16.5	16.2	16.3	16.1
Imports of goods and services	16.3	16.3	13.4	10.2	10.1	12.9	13.8	13.2	14.0
Gross domestic investment	26.1	25.0	21.4	17.5	17.1	20.4	22.9	22.7	24.7

Source: ECLAC, on the basis of official data.
a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

/In order

In order for there to be a reactivation of economic growth, gross domestic investment must expand more rapidly than the domestic product. For the region as a whole, the corresponding coefficient, which stood at 17% in 1984 (considered a low level), should rise to over 20% in 1990 and to around 23% in 1995 (see table 12). With some slight differences, the trend would be similar in the various groups of countries.

b) Saving and external resources

In this scenario, the coefficient of domestic saving vis-à-vis the gross domestic product would be relatively high: 24.0% during the first phase and over 25.0% during the second phase, which would put it above its 1980 level (see table 13). One particularly interesting feature of this scenario is the persistence of the structural change which began in 1982 with the reversal in the direction of transfers. Exports would continue to exceed imports by an amount equivalent to between 2.3% and 3.6% of the gross domestic product throughout the period covered by this scenario. This coefficient of inverse transfers was higher during the period 1983-1984.

In view of this process, the coefficient of domestic saving must necessarily be greater than the coefficient of gross domestic investment, the difference between the two being equivalent to the inverse transfers in question.

It should also be noted that in this scenario there would be some decrease in the relative magnitude of the erosion of investable resources caused by the adverse impact of the deterioration in the terms of trade and by payments of profits and interest on foreign capital. The coefficient corresponding to the terms-of-trade effect would remain more or less constant owing, in part, to the assumption of stability incorporated in this scenario; the coefficient of the external payment of profits and interest would tend to drop from its 1984 level of 4.9% to an average of slightly over 3% in this scenario. Under these conditions the coefficient of national saving would rise from 16.9% in 1984 to 18.6% in 1990 and to 20.5% by around 1995. Consequently, gross national saving would tend to play a larger part in the financing of gross domestic investment than it did in 1980. The coefficient of net external financing would be around 2% in this scenario, which would be far below the level it reached in the early 1980s, but somewhat higher than what it has been in recent years.

This overall regional trend tends to reflect the experience and projections of the large countries and some of the medium-sized ones, due to the great weight carried by the large countries in the regional sphere. Actually, some medium-sized countries and most of the small countries would show marked differences, in comparison to other groups of countries, with respect to the pattern of evolution of their own scenarios. Thus, in the scenario for the small countries as a group, the coefficient of gross domestic saving (19.0%) would be significantly lower than the coefficient for the large countries as a group; in addition, this coefficient would also be lower than the coefficient of gross domestic investment. This is because the small countries would again begin to receive transfers of real resources, in terms of import surpluses, thus experiencing the opposite process from what would be occurring in the large countries.

/Table 13

Table 13

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES)a/: INVESTMENT, SAVINGS AND EXTERNAL RESOURCES

(Coefficients with respec to GDP and percentages)

	1980	1981	1982	1983	1984	Scenario 1.0		Scenario 2.0	
						1990	1995	1990	1995
Gross domestic investment	26.1	25.0	21.4	17.5	17.1	20.4	22.9	22.7	24.7
Gross domestic saving	23.1	22.8	21.9	22.7	23.1	24.0	25.2	25.8	26.8
Net external factor payments	2.5	3.6	4.9	4.8	4.9	3.6	2.8	3.5	2.8
Terms-of-trade effect	1.6	0.6	-0.7	-1.6	-1.4	-1.9	-1.9	-1.9	-1.9
Gross national saving b/	22.2	19.9	16.2	16.4	16.9	18.6	20.5	20.5	22.1
Net external financing b/	3.8	5.1	5.1	1.1	0.3	1.8	2.3	2.2	2.5

Source: ECLAC, on the basis of official data.
a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.
b/ Including net private transfer payments.

/4. Projections

4. Projections of balance-of-payments components

Sweeping changes occurred in the structure of the external variables of the countries in the region during the crisis. The main impact of these changes has been a sharp drop in the value of imports and an even more pronounced increase in transfers of profits and interest on foreign capital, while the trend in the value of exports of goods and services has been very uneven, with a tendency to contraction and stagnation in some years. Thus, for example, their value rose significantly in 1984, only to drop once again in 1985. What is certain is that since 1982 or 1983 a trade surplus has been generated which has primarily been due to the decrease in imports of goods and services; this surplus has provided an increasing amount of the resources needed to cover net payments of profits and interest. In the light of these adjustments, net external financing declined considerably. It is quite clear, however, that this readjustment was accomplished at the cost of recession and decline in activity in the countries' economies, and that it had an extremely high social cost.

The projections made in this scenario (see table 14) for all the countries as a whole would indicate a tendency towards a gradual decline in the trade surplus measured in dollars at current prices, at the same time that net payments of profits and interest on foreign capital would continue to rise. This would give rise to an increasing need for net external financing to cover the deficits on the balance-of-payments current account. In terms of dollars at current prices, net external financing (US$ 1.8 billion in 1984) would climb to approximately US$ 25 billion in 1990 and this figure would more than double by 1995. It is important to note that these figures are expressed in dollars at current prices and therefore incorporate the overall rate of inflation, which was assumed to be 6% annually in this scenario. As a percentage of export earnings (again at current prices), these needs for net external financing would not reach the high levels of the early 1980s. Throughout the period covered by this scenario, net external financing would average 15%, whereas this proportion was 40% in 1982.

Not all the countries fit into the picture which has just been described, however. The small countries would once again increase their trade deficit as well as their net payments of profits and interest to the exterior, while the need for fresh external financing to cover the deficit on the blance-of-payments current account would represent over 40% of export earnings (at current prices) from goods and services in this scenario.

5. Gross capital inflow requirements and their net contribution

a) Gross capital inflow requirements

An estimate was made of the gross capital inflows that would be needed in order to finance amortization payments on the debt and the deficit on the balance-of-payments current account and to provide the additional resources required to maintain an adequate level of international monetary reserves. An outline of amortization payments was prepared for this purpose which represents an attempt to reflect, on average, the terms and conditions in effect during 1984 in each of the countries.

/Table 14

Table 14

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES)a/: BALANCE ON CURRENT ACCOUNT

	1980	1981	1982	1983	1984	Scenario 1.0		Scenario 2.0	
						1990	1995	1990	1995
	(Millions of dollars at current prices)								
Exports of goods and services	105770	114076	101956	100650	112239	194593	332490	205933	369770
Imports of goods and services	115900	126603	104332	75222	77218	172014	322331	188784	364817
Trade surplus (+)	10130	12527	2376	-25428	-35021	-22580	-10160	-17149	-4953
Net external factor payments	18411	28393	38432	34869	37628	48001	65808	50276	73234
Net external financing	28087	40347	40717	8793	1878	25085	55026	32791	67659
	(Coefficients with respect to exports of goods and services and percentages)								
Imports of goods and services	109.6	111.0	102.3	74.7	68.8	88.4	96.9	91.7	98.7
Trade surplus (+)	9.6	11.0	2.3	-25.3	-31.2	-11.6	-3.1	-8.3	-1.3
Net external factor payments	17.4	24.9	37.7	34.6	33.5	24.7	19.8	24.4	19.8
Net external financing	26.5	35.4	39.9	8.7	1.7	12.9	16.5	15.9	18.3

Source: ECLAC, on the basis of official data.
a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

/These gross

These gross capital requirements for the 18 countries as a group (see table 15) would rise to an average of approximately US$ 70 billion annually for the next three years; in 1990 requirements would total US$ 90 billion and they would be far greater in 1995. With respect to the scope of these figures, it must be noted that in large measure they refer to nominal capital inflows, due to the already mentioned fact that the total amount of amortization payments to be paid has been computed; thus, in the next three years amortization payments would be somewhat over US$ 50 billion annually rising to approximately US$ 60 billion in 1990. The difference between these figures and those given for gross capital inflows would correspond to fresh financing for the balance-of-payments current account and the adjustment of reserves in order to maintain a given ratio with respect to the value of imports. These gross capital requirements would represent a large proportion of the current-price value of exports, estimated at 50% throughout the period covered by this scenario.

b) The net contributions of foreign capital

An analysis of what is referred to in this document as "the net contribution of foreign capital" provides a very good illustration of the degree of instability and the expansionary forces sparked off by a process of indebtedness such as that which has been occurring in the countries of the region. The level of foreign capital contribution can be ascertained by subtracting amortization payments and net payments of profits and interest on foreign capital from the gross capital inflow requirements. Viewed from a different angle, this net contribution is equivalent to the sum total of import surpluses with respect to exports and the increase in monetary reserves.

At present, and particularly during the period 1982-1985, the net contribution has been negative to an extent rising from approximately US$ -17 billion in 1982 (see table 15) to an average of around US$ -28 billion in the three following years, thus totalling some US$ -100 billion for the period 1982-1985. The trend is associated, inter alia, with three factors: one is the decrease in capital inflows and the difficulty experienced in obtaining fresh financing (particularly private international funding), due to the reaction of credit sources to the high cumulative level of indebtedness and the difficulty the countries have had in making financial service payments on a regular basis; a second factor, which is linked to the above, has been the changes in policy (made either voluntarily or imposed by circumstances) aimed at modifying the countries' trade balance position by creating a surplus based on a reduction of imports; while a third factor is the increase in the financial service on the external debt and, particularly, in payments of profits and interest on foreign capital.

As a whole, the region would continue to record a negative net contribution during the first phase of this scenario; the level of this negative flow would decline, however, and during the second phase it would tend to be cancelled out.

The trends or structures reflected by these data for the region as a whole would not apply to all the countries. Throughout the entire period covered by the scenario, the large countries as a group would continue to suffer a negative net contribution (of over US$ -20 billion in 1990 and in 1995). In contrast, according to these projections the small countries would receive a considerable positive net contribution throughout the entire period of the scenario.

/Table 15

Table 15

LATIN AMERICA AND THE CARIBBEAN (18 COUNTRIES)a/: EVOLUTION OF THE EXTERNAL DEBT AND ITS FINANCIAL SERVICING

	1980	1981	1982	1983	1984	Scenario 1.0		Scenario 2.0	
						1990	1995	1990	1995
	(Millions of dollars at current prices)								
Interest paid on the external debt	21031	31483	39567	35550	39479	48709	67589	51562	76487
Payments of principal on the external debt	18244	21433	22208	23838	23864	56269	77239	38177	51033
Total servicing of the external debt	39275	52916	61775	59388	63343	104978	144828	89739	127520
Gross inflow of foreign capital	48204	59603	43407	28460	33865	88091	144951	79333	133829
Net contribution of foreign capital	11692	10000	-17002	-29947	-27316	-15486	3535	-8692	10728
External debt	220231	275322	315610	340538	355431	474429	692151	500162	779318
	(Coefficients with respect to exports of goods and services and percentages)								
Interest paid on the external debt	20.2	28.0	39.4	35.9	35.7	25.3	20.6	25.4	21.0
Payments of principal on the external debt	17.5	19.1	22.1	24.1	21.6	29.3	23.5	18.8	14.0
Total servicing of the external debt	37.7	47.1	61.5	60.0	57.3	54.6	44.1	44.2	35.0
Gross inflow of foreign capital	46.2	53.0	43.3	28.8	30.6	45.8	44.2	39.0	36.7
Net contribution of foreign capital	11.2	8.9	-16.9	-30.3	-24.7	-8.1	1.1	-4.3	2.9
External debt	209.9	242.8	311.4	341.1	322.5	246.8	310.8	246.1	213.7

Source: ECLAC, on the basis of official data.

a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay and Venezuela.

/6. The

6. The external debt and the net contribution from external loans

a) The external debt

Estimates regarding the external debt for the entire period covered by this scenario have been based on the current debt level plus the financing of projected annual balance-of-payments deficits and the increase in monetary reserves, minus capital inflows from direct investment.

Based on these factors, the estimates indicate an overall increase in the external debt. For the countries covered by the scenario as a group, the external debt would rise (in dollars at current prices) from about US$ 360 billion in 1984 to US$ 475 billion in 1990 and to US$ 700 billion in 1995 (see table 15).

Comparing the debt with the flow of earnings from exports of goods and services provides one criterion to be considered in evaluating the countries' situation and prospects in relation to their borrowing and debt-service capacities. It is of interest to note in this regard that the Latin American countries have the highest index of debt/export ratio of all the debtor countries. In 1984 the index reached the high level of 323; according to this scenario, the index would improve, dropping to 247 by around 1990 and declining still further, to 211, in 1995.

b) The net contributions of external loans

Capital movements and financial services, excluding the amounts corresponding to direct investments and profits on it, and to interest received, indicate what might be called the net contribution of external loans. For a determined period, this contribution is the difference between the increase in the external debt and the interest paid in the said period. In this scenario the external debt would increase by some US$ 337 billion in the period 1985-1995 (see table 16) and the accumulated interest paid would amount to some US$ 560 billion. This represents a negative net contribution of external loans amounting to US$ -222 billion, which means that the new net loans would be more than offset by the large amount of interest paid, or that the external remittances in respect of interest would be higher than the net loans that this scenario requires.

C. VARIANTS OF SCENARIO (1.0) OF SLOW RECOVERY OF ECONOMIC GROWTH

With a view to analysing the effects and repercussions on the macro-economic variables of this scenario that would be produced by certain modifications of some of its basic assumptions two variants have been considered: one variant (1.1) considers an interest rate reduced by two percentage points and the other (1.2) incorporates the hypothesis that export prices of basic commodities will rise by 2% per year above global inflation during the whole period of the scenario.

A reduction in the interest rate, with the economic growth rate and the other basic assumptions of this scenario remaining constant, would have cumulative effects on the balance of payments, movements of capital and the distribution of domestic resources, as can be seen in tables 17, 18 and 19. In fact, taking as a reference

Table 16

LATIN AMERICA AND THE CARIBBEAN (18 COUNTRIES)a/: EXTERNAL DEBT AND NET CONTRIBUTION OF EXTERNAL LOANS, 1985-1995

	Scenario 1.0			Scenario 2.0		
	Basic	1.1	1.2	Basic	2.1	2.2
External debt at 31 December 1984	355.4	355.4	355.4	355.4	355.4	355.4
External debt at 31 December 1995	692.1	547.7	543.5	779.3	628.5	619.7
Increase in external debt, *31 December 1984-31 December 1995*	336.7	192.3	188.1	423.9	273.1	264.3
Interest paid, 1985-1995	558.6	414.2	520.7	596.5	445.7	556.7
Net contribution of external loans, 1985-1995	-221.9	-221.9	-332.6	-172.6	-172.6	-292.4

Source: ECLAC, on the basis of official data.

a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay and Venezuela.

/Table 17

Table 17

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES)a/: BALANCE ON CURRENT ACCOUNT

	1984	Scenario 1.0 b/ 1990 Basic	1990 1.1	1990 1.2	1995 Basic	1995 1.1	1995 1.2	Scenario 2.0 b/ 1990 Basic	1990 2.1	1990 2.2	1995 Basic	1995 2.1	1995 2.2
	(Millions of dollars at current prices)												
Exports of goods and services	112239	194593	194593	202264	332490	332490	358676	205933	205933	214069	369770	369770	398857
Imports of goods and services	77218	172014	172014	172014	322331	322331	322331	188784	188784	188784	364817	364817	364817
Trade surplus (+)	35021	22580	22580	30250	10160	10160	36345	17149	17149	25286	4953	4953	34040
Net external factor payments	37628	48001	34916	45477	65808	41752	51373	50276	36780	47652	73234	47343	57624
Net external financing	1878	25085	12000	14891	55026	30970	14406	32791	19295	22030	67659	41768	22962
	(Coefficients with respect to exports of goods and services and percentages)												
Imports of goods and services	68.8	88.7	88.4	85.0	96.9	96.9	89.9	91.7	91.7	88.2	98.7	98.7	91.5
Trade surplus (+)	31.2	11.6	11.6	15.0	3.1	3.1	10.1	8.3	8.3	11.8	1.3	1.3	8.5
Net external factor payments	33.5	24.7	17.9	22.5	19.8	12.6	14.3	24.4	17.9	22.3	19.8	12.8	14.4
Net external financing	1.7	12.9	6.2	7.4	16.5	9.3	4.0	15.9	9.4	10.3	18.3	11.3	5.8

Source: ECLAC, on the basis of official data.

a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

b/ Includes the basic scenario and its two variants.

/Table 18

Table 18

LATIN AMERICA AND THE CARIBBEAN (18 COUNTRIES)a/: EVOLUTION OF THE EXTERNAL DEBT AND ITS FINANCIAL SERVICING

	1984	Scenario 1.0 b/						Scenario 2.0 b/					
		1990			1995			1990			1995		
		Basic	1.1	1.2	Basic	1.1	1.2	Basic	2.1	2.2	Basic	2.1	2.2
		(Millions of dollars at current prices)											
Interest paid on the external debt	39479	48709	36549	46873	67589	45245	55609	51562	38999	49677	76487	52338	63748
Payments of principal on the external debt	23864	56269	50642	54149	77239	61659	63536	38177	34392	36827	51033	40995	42608
Total servicing of the external debt	63343	104978	87191	101021	144828	106904	119224	89739	73391	86504	127520	93333	106356
Gross inflow of foreign capital	33865	88091	70304	76390	144951	107027	92841	79333	62986	67910	133829	99641	83313
Net contribution of foreign capital	-27316	-15486	-15486	-22916	3535	3535	-21815	-8692	-8692	-16554	10728	10728	-17355
External debt	355431	474429	416778	445874	692151	547786	543528	500162	443815	472762	779318	628461	619733
		(Coefficients with respect to exports of goods and services and percentages)											
Interest paid on the external debt	35.7	25.3	19.0	23.5	20.6	13.8	15.7	25.4	19.2	23.5	21.0	14.4	16.2
Payments of principal on the external debt	21.6	29.3	26.3	27.1	23.5	18.8	18.0	18.8	16.9	17.5	14.0	11.2	10.9
Total servicing of the external debt	57.3	54.6	45.4	50.6	44.1	32.6	33.7	44.2	36.1	41.0	35.0	25.6	27.1
Gross inflow of foreign capital	30.6	45.8	36.6	38.3	44.2	32.6	26.2	39.0	31.0	32.2	36.7	27.3	21.2
Net contribution of foreign capital	-24.7	-8.1	-8.1	-11.5	1.1	1.1	-6.2	-4.3	-4.3	-7.8	2.9	3.0	-4.4
External debt	322.5	246.8	216.8	223.3	210.8	166.9	153.7	246.1	218.4	224.0	213.7	172.3	157.8

Source: ECLAC, on the basis of official data.
a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay and Venezuela.
b/ Includes the basic scenario and its two variants.

/Table 19

Table 19

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES)a/: INVESTMENT, SAVINGS AND EXTERNAL RESOURCES

(Coefficients with respect to GDP, and percentages)

	1984	Scenario 1.0 b/						Scenario 2.0 b/					
		1990			1995			1990			1995		
		Basic	1.1	1.2	Basic	1.1	1.2	Basic	2.1	2.2	Basic	2.1	2.2
Gross domestic investment	17.1	20.4	20.4	20.4	22.9	22.9	22.9	22.7	22.7	22.7	24.7	24.7	24.7
Gross domestic saving	23.1	24.0	24.0	24.0	25.2	25.2	25.2	25.8	25.8	25.8	26.8	26.8	26.8
Net external factor payments	4.9	3.6	2.6	3.4	2.8	1.8	2.2	3.5	2.5	3.3	2.8	1.8	3.2
Terms-of-trade effect	-1.4	-1.9	-1.9	-1.3	-1.9	-1.9	-0.8	-1.9	-1.9	-1.3	-1.9	-1.9	-0.7
Gross national saving c/	16.9	18.6	19.5	19.3	20.5	21.6	22.3	20.5	21.4	21.2	22.1	23.1	23.8
Net external financing c/	0.3	1.8	0.9	1.1	2.3	1.3	0.6	2.2	1.3	1.5	2.5	1.6	0.8

Source: ECLAC, on the basis of official data.
a/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.
b/ Includes the basic scenario and its two variants.
c/ Includes net private transfer payments.

/the data

the data of the basic scenario, the following modifications in the corresponding variables are observed.

a) In the balance of payments: an immediate reduction would take place in the amount of interest, and this would simultaneously result in a fall in the deficit on the balance of payments (or in an increase in its surplus). Hence there would also be a fall in the accumulated indebtedness, which in its turn would be a further factor in the reduction of the amount of interest.
b) In the movement of capital: there would also be a fall in the requirements in respect of gross capital inflows and the amount of the external debt.
c) In the allocation of domestic resources: the fall in the amount of interest would diminish the erosion of investment resources as compared with the results of the basic scenario, and would increase the coefficient of national saving as a proportion of the gross domestic product, while reducing the coefficient of external saving by the same amount.

Around the year 1990 the differences between this variant (1.1) and the basic scenario (1.0) would be as follows for the group of countries in question:

a) There could be a reduction in the net external factor payments and in the net external financing of US$ 13 billion, which would be equivalent to 6.7% of the total income from exports of goods and services for the year 1990.
b) There would be a decline in requirements for gross capital inflows of US$ 19 billion, which represents 9.8% of the income from exports of goods and services.
c) The total debt would fall by US$ 60 billion, which would represent something over 10% of the debt recorded for that year in the basic scenario.
d) The index of the debt/exports ratio would drop from 263 to 232.
e) The coefficient of national saving would increase by an amount equal to the diminution of the coefficient of net external financing: i.e., one percentage point of the coefficients with regard to the gross domestic product.

The second variant (1.2) assumes the incorporation into the basic scenario of an annual rise of 2% in the export prices of primary products, over and above the global inflation assumed in this scenario. The effects and repercussions of this alternative, as compared with the basic solution (1.0), would be as follows:

a) On the balance of payments: the value of exports would rise and the deficit on the external current account would be reduced (or the surplus increased). This would result in a lower external indebtedness, which in its turn would reduce the amount of interest to be paid.
b) On movements of capital: the requirements in respect of gross capital inflows, along with the amount of the debt, would be lower than those corresponding to the basic solution.
c) On the distribution of domestic resources: there would be less deterioration in the terms of trade in comparison with that of the basic solution, owing to the rise in the prices of primary products. At the same time,

external transfers would be reduced in relation to the amount of interest and, in consequence, the erosion of investment resources would be smaller than that of the basic solution, this being reflected in a larger coefficient of gross national saving.

The most notable differences that would occur in relation to the basic scenario around the year 1990 are the following:

a) An increase in the value of exports amounting to US$ 7.7 billion and a fall in the deficit on the balance-of-payments current account amounting to US$ 10.2 billion; these changes represent 4.0% and 5.2% of the projected export income, respectively.
b) A reduction in the requirements for gross capital inflows by US$ 12.4 billion which represents 6.4% of export income.
c) A reduction in the total external debt by US$ 28.2 billion, which represents 5.6% less than in the basic solution.
d) An increase in the coefficient of gross national saving from 18.6% in the basic scenario to 19.3% in this variant. This difference would tend to increase with the passage of time. Thus, for the year 1995 the projected coefficient of national saving would be 20.5% in the basic scenario and would rise to 22.3% in this variant of the scenario.

D. SCENARIO (2.0): ACCELERATION OF ECONOMIC GROWTH

1. The nature of this scenario: its objectives and basic assumptions

In the initial paragraphs of this chapter consideration was given to the essential aspects characterizing the nature and purpose of this scenario (2.0) which assumes an acceleration of economic growth. Among other aspects emphasis was laid on the essentially normative character of this scenario and the greater dynamism required to achieve the established goals of a growth of the per capita gross domestic product by 3.5% and 4.5% on average during the first and second phases of its course.

As regards basic assumptions and relations, both scenarios maintain those which determine the requirements for domestic investment; the demand for imports; the course of exports; the interest rates on the external debt, and the stability of the terms of trade. This scenario incorporates another basic assumption related to the reprogramming of the debt: that the pending debt and the new debt contracted will be amortized in 10 years and will have a grace period of five years.

As in the analysis of scenario (1.0), the effects and repercussions of two variants of scenario (2.0) are examined. One variant (2.1) incorporates the hypothesis that interest rates will fall by two percentage points, while the other variant (2.2) assumes that the export prices of basic commodities will rise by 2% per year over and above the global inflation rate established.

/2. Economic

2. Economic growth and the evolution of foreign trade

a) Economic growth

The total growth deriving from the goals established for the per capita gross domestic product shows some differences among the countries, owing to the different rates of population growth.

During the first phase the total growth would be 5% per year for the group of countries as a whole: in seven countries it would be somewhat lower than this average and in the 12 remaining countries somewhat higher (see table 11). During the second phase there would be less dispersion in the rates of growth with respect to the regional average of 6.4% per year. Hence, in the period 1985-1995 which covers the course of this scenario, there would be an average growth of somewhat less than 6% per year, that is, a rate similar to that recorded by the region as a whole during the past decade and lower than the goals established in the International Development Strategy and the Regional Plan of Action.

b) The evolution of exports and the requirements for imports

Exports would grow at a rate very similar to that of the gross domestic product. For the region as a whole, they would rise by an average of 5.1% during the first five years and 6.2% during the second five years. The growth of the exports of the large and medium-sized countries would be a little below the average and only the group of smaller countries would record a greater dynamism in the expansion of their exports, owing partly to a greater growth in overall economic activity.

As in scenario (1.0), import requirements would grow at a considerably greater rate than that of the gross domestic product, especially during the first phase of the scenario. For the region as a whole import requirements would rise by an average of around 10% per year during the first five years and 7.7% per year during the second five years.

This high import requirement should not be interpreted as an indication of changes in economic policy in the sense of an indiscriminate opening up of the economic process like that which was effected in some countries of the region and which seriously aggravated the later stage of the crisis and now impedes economic reactivation. On the contrary, the basic postulates of the two scenarios assume that the expansion of exports and an adequate and consistent policy of import substitution are two complementary instruments of the strategy of reactivation and growth. As was indicated in relation to scenario (1.0), this high import elasticity is due, inter alia, to the very low level of supplies of imported goods following the stagnation and drastic contractions suffered by imports from 1981, and to the intense dynamism to be fostered in domestic investment, which will need to increase more than the domestic product and which also has a high import content. It must be borne in mind that, notwithstanding the intense growth, the volume of imports which would be required in 1990 would be only 8% higher than that recorded in 1980. Moreover, the import coefficients with respect to the gross domestic product would be 13.2% in 1990 and 14% in 1995, which are lower than the coefficients of 1980 or 1981.

/3. Investment

3. Investment, saving and external resources

a) Gross domestic investment

In this scenario of faster economic growth, domestic gross investment grows more rapidly than in the scenario of slow recovery, especially during the first phase. For the countries as a whole this growth in investment would be approximately 10% per year during the first phase, while it would continue increasing during the second phase at a rate of 8% per year. Obviously, the coefficients of gross domestic investment would have to increase appreciably in comparison with the depressed coefficients of today. Thus, for the region as a whole, this coefficient would rise from 17.1% in 1984 to 22.7% in 1990 and to 24.7% in 1995.

b) Saving and external resources

The relations that would arise between saving and domestic investment, and the share of saving and external resources in the financing of domestic investment, vary substantially from country to country, reflecting major changes in the structure and functioning of the national economies in respect of their relations with the external variables.

The indexes for the countries as a group reveal aspects which are of particular importance in the development of this scenario (see table 13). The coefficients of gross domestic saving would be higher than those recorded in the previous scenario, reflecting the need for an intense effort of saving in order to realize this scenario. The coefficient of gross domestic saving, in relation to the gross domestic product, would rise from 23.1% in 1984 to an average of 26.0% in the course of the scenario. Net payments of interest and profits abroad, however, would have a lower coefficient than that of recent years, and this, added to the relative stability assumed in the terms of trade, would to some extent reduce the erosion of investment resources. Nonetheless, this erosion would be equivalent to more than 5% of the gross domestic product during the first phase of the scenario. The coefficient of net external financing would be higher than the present coefficient, but markedly lower than that registered in the early years of the decade. This financing would represent 10% of gross domestic investment, so that the 90% remaining would correspond to national saving. Hence, there would be an increase in the share of external resources as compared with the present situation; but it would remain below the percentages of the early years of the decade.

It is the large countries and some of medium size that impose these special features on the trends and structure of the variables in this scenario for the group of countries as a whole. In effect, in the group of large countries the domestic saving coefficient would exceed the coefficient for gross domestic investment by approximately 4.5% of the gross domestic product. This is equivalent to the amount of the real inverse transfers due to the greater volume which exports would continue to record in relation to imports. This means that in the period of this scenario the volume of goods and services available for consumption and investment would be almost 5% lower than the volume of the gross domestic product.

/The other

The other characteristic of this scenario of acceleration is the low coefficient of net external financing, since it would not be more than 1% of the gross domestic product: similar to the level observed in recent years, but notably lower than the coefficient of external saving during the early years of the decade.

In contrast, the group of smaller countries would have a diametrically opposed scenario of evolution. In this group of countries the coefficient of gross domestic investment would have to increase significantly: from 16.7% in 1984 to an average of 23.0% for the whole period of this scenario. This increment would be mainly financed by an increase in the coefficient of external financing, which would rise from 5.2% in 1984 to an average of 10% during the course of the scenario.

4. Projections of the components of the balance of payments

The macro-economic structure of the main components of current balance-of-payments transactions would be similar to that given in the scenario of slow recovery of economic growth. It would naturally differ in the absolute magnitude of the variables, owing to the greater dynamism of this scenario (see table 14). The trade balance would continue to show a surplus, but is would be smaller and would tend to taper off more rapidly in comparison with the slow recovery scenario. This is explained by the greater import needs, even though the export projections are also greater. The growth of net external factor payments is also higher than in scenario (1.0), and this, linked with the lower trade surplus, leads to a current deficit on the balance of payments greater than that recorded in the other scenario.

In this scenario, net external financing would represent from 16% to 18% of the value of exports; this means that, although it would indeed be proportionately higher than at present, its share in the context of the external accounts would nevertheless be markedly lower than that recorded in the early years of this decade.

5. The requirements for gross capital inflows and their net contribution

a) The requirements for gross capital inflows

The requirements for gross capital inflows in this scenario of greater dynamism would be somewhat lower than those in the slow recovery scenario (see table 15). This apparent inconsistency is explained in essence by the basic assumptions of this scenario, which postulates, as indicated above, a rescheduling of the debt with a grace period of five years and an amortization period of ten years, to be applied both to the outstanding debt and to the new debt contracted during the whole period of the scenario. In contrast, in the slow recovery scenario it is assumed that the debt will be refinanced year by year, in accordance with its maturities. In this scenario the gross capital inflow would be some US$ 79 billion in 1990 and would tend to increase by 1995. It would represent less than 40% of current export revenues, which signifies less dependence than that observed in the early years of the decade.

/b) The

b) The net contributions of foreign capital

Despite the magnitude of the gross inflows of foreign capital involved, its net contribution would continue to be negative for the countries as a whole until the early years of the next decade (see table). Subsequently, and up to 1995, the net contribution would be positive. A similar process was foreseen in the slower growth scenario. This means that in the first stage the amount of the net payments of profits and interest would be higher than the net capital inflows, while in the second stage the opposite would be true.

From another equivalent standpoint, a negative contribution would mean that the current value of exports, during part of the course of this scenario, would remain higher than the sum of total imports plus the increases foreseen in the international monetary reserves in order to keep a fixed relation with import needs. For the region as a whole, the net negative contribution around 1990 would be close on US$ 8.5 billion at current prices, while around 1995 the scenario would show a net positive contribution of some US$ 10 billion.

As happened with other variables, this picture of the trend of net foreign capital contributions is largely determined by what would happen in the large countries. In reality, the group of large countries would record negative contributions during the whole course of the scenario. In contrast, the medium-sized and smaller countries, considered as groups, would have a positive net contribution during the whole of the course of this scenario.

An idea of the relative importance of these net contributions in the external accounts and in the balance of movements of financial resources can be inferred from their relations with current export income. In the large countries the negative contribution would represent around 15% of the value of exports; in the smaller countries, in contrast, there would be a positive net contribution representing over 20% of the value of exports.

6. The evolution of the debt and the net contributions of external loans

a) The evolution of the external debt

The external debt would continue to grow throughout the whole course of this scenario and would reach amounts very close to those of the slower growth scenario. The debt of the countries as a whole was some US$ 350 billion in 1984 and would rise to around US$ 500 billion in 1990, reaching US$ 780 billion by 1995, which would mean that the external debt would tend to double its current value in the next ten years.

b) The net contributions of loans

The net loans accumulated during the whole period of the scenario (1985-1995), equivalent to the increase in the external debt, are estimated at some US$ 420 billion in this scenario of faster economic growth, and the accumulated interest which would accrue is estimated at some US$ 595 billion. Consequently, the financial resources sent abroad exceed the net loans received by some US$ 175 billion.

/A reduction

A reduction in the interest rate would diminish both the debt and the interest paid, and therefore would not affect the net contribution of the loans. This is the point illustrated in table 16 in respect of variant (2.1) of this scenario, which assumes a reduction of two percentage points in the interest rates.

In contrast, an improvement in the external terms of trade would increase the negative contribution of the external loans owing to the resulting smaller increase in the debt with respect to the difference produced in the amount of interest paid. This analysis is illustrated by variant (2.2) of this scenario, in which it is assumed that the prices of primary commodities exported increase by an annual average of 2% above the general inflation rate during the whole period of the scenario (see table 16).

E. VARIANTS OF SCENARIO (2.0): ACCELERATION OF ECONOMIC GROWTH

Two variants of scenario (2.0) have been analysed, as in the case of scenario (1.0): variant (2.1) examines the effects of a fall of two percentage points in interest rates, while variant (2.2) determines the implications of an improvement in the terms-of-trade effect as a result of an annual increase of 2% in the prices of export commodities. From a qualitative standpoint, the effects and repercussions of each of these two variants on the structure and functioning of this scenario are the same as those described in the analysis of scenario (1.0). The differences between the two scenarios lie rather in the scale of the variations, and obviously also in the conceptual interpretation of the process, in view of the greater dynamism of scenario (2.0). It should be noted that in the analysis of this variable no account has been taken of the negative effects of this rise in the prices of commodities on other countries of the area which import these products.

To avoid repeating aspects already considered in earlier pages, emphasis will be placed here on the most outstanding modifications introduced by each of the variants described.

As regards the reduction of two percentage points in interest rates, variant (2.1) of this scenario differs from the basic scenario (2.0) in the following main respects around 1990:

a) Net external factor payments would go down by some US$ 13.5 billion, while net external financing would fall by the same amount (see table 17).
b) There would be a fall of US$ 16.3 billion in the gross capital inflow requirements (see table 18).
c) There would be a reduction of US$ 56.3 billion in the external debt (see table), making it less than the external debt recorded in the basic scenario, while the indexes of the debt/exports ratio would go down from 246 in the basic scenario to 218 in this variant.
d) There would be no variation in the net contribution of foreign capital.

/e) The

e) The coefficient of national saving in relation to the gross domestic product would go up from 20.5% to 21.4%, while the coefficient of net external factor payments would fall from 3.5% to 2.5% of the gross domestic product (see table 16).

The effects of a rise of 2% per year in the price of export commodities would be as follows around 1990:

a) There would be an increase of US$ 8.1 billion in the value of exports, with an ensuing rise in the trade surplus and a decline in net external factor payments. In brief, the effect would be a fall of the order of US$ 10.7 billion in the amount of net external financing (see table 17).
b) The gross capital inflow requirements would diminish from US$ 79 billion in the basic scenario to US$ 68 billion in variant (2.2). The net negative contribution of foreign capital would increase and the external debt would fall from US$ 500 billion in the basic scenario to US$ 470 billion in this variant.
c) The coefficient of national saving, in relation to the gross domestic product, would tend to rise from 20.5 to 21.2. The coefficient of the effect of the deterioration in the terms of trade would fall from 1.9% in the basic scenario to 1.3% in this variant, while that of net external financing would fall from 2.2% in the basic scenario to 1.5% in this variant (see table 16).

F. SOME CONCLUSIONS

The main conclusions on the central aspects of development which can be drawn from an analysis of the scenarios described in the preceding sections are as follows:

Although in the scenarios considered no explicit analysis of the degree of employment of the labour force is made, it is important to note that even in the case of the scenario providing for greatest economic growth such employment would not be sufficiently dynamic to cause the employment problem to resolve itself in a reasonable length of time.

Thus, even if the growth rate per person employed in the period 1980-1990 were only 2.6% per year (equal to the levels of the decade 1970-1980 and below the average of 2.9% registered in the last three decades), in the scenario with the highest growth rate productive employment would increase by only 0.4% per year, which is a much lower rate than that of the growth of the labour force (estimated at 2.8% per year). In view of this, about 87% of the labour force incorporated during the decade would be without productive employment in 1990. Although there may be transfers between the old and new labour force in the occupation of job vacancies, there can be no doubt that an appreciable percentage of the young people reaching economically active age would not find work. In these circumstances, the 1980 figures for unemployment and underemployment would have increased by 1990 by around 32 million persons.

In 1995, although the situation would have improved in relative terms, it would continue to be dramatic, since in that year the 1990 unemployment figures would have gone down by only 2 million persons.

It is interesting to note that in order for the persons entering the labour force for the first time in the period 1985-1995 to be provided with productive employment by 1995, assuming that productivity grew at the rate of 2.6 per year already mentioned, it would be necessary for the gross domestic product to grow at an annual rate of slightly over 7%. 1/ during the decade. It should be borne in mind that this means that the 1985 levels of underemployment and unemployment would be maintained until 1995.

Over the whole period, up to 1995, the physical movement of exports and imports would register a surplus in the direction of the developed countries, so that the region would be transferring real resources. The amount of this real transfer over the period 1985-1995 would be approximately US$ 215 billion and US$ 221 billion at 1975 prices in the two scenarios (figures representing 27% of the region's volume of imports of goods and services in the slow growth scenario and 24% in the scenario of greater dynamism). This means a severe erosion of the resources available for investment, to the detriment of domestic investment, which would have to increase significantly after a long period of contraction and stagnation.

In order to recover the economic growth rate a high volume of imports is required, particularly in the present conditions in which the adjustment policies applied by the countries in order to tackle the crisis have caused imports to become a restrictive factor in economic growth. This greater dynamism of imports should not mean a return to the indiscriminate policies applied before the crisis, however, and there should be substantial changes from the past behaviour in this respect.

An aspect of particular importance brought out in these scenarios is that in order to promote economic reactivation new external financing is needed, for the payments of interest commitments on the present and future external debt (and net factor payments in the broader sense) significantly exceed the trade surplus and additional resources will be needed to cover them. Thus, the net external financing that would be needed in the slow growth scenario would amount to US$ 25 billion and US$ 55 billion in 1990 and 1995, respectively, with these figures rising to US$ 33 billion and US$ 67 billion in the scenario of greater dynamism. In the period 1985-1990, these needs would average US$ 19 billion and US$ 23 billion per year, respectively, in the two scenarios. The significance of these figures is clear when they are compared with the US$ 4.2 billion per year obtained by the region in the period 1983-1985. These requirements could be reduced if nominal interest rates went down: thus, for example, a reduction in the average interest rate in the period 1985-1990 from 11.2% to 9.2% per year would reduce the amount of new external resources needed by 50%.

The net contribution of foreign capital, that is to say, the difference between the inflow of capital and the payments of principal and profits and interest on foreign capital, would be negative. In the period 1982-1985, the Latin American countries had to transfer US$ 106 billion in this respect.

/In the

In the scenarios analysed, during the period 1985-1990 the region would have a net negative contribution of foreign capital of US$ 117 billion in the slow growth scenario and US$ 93 billion in the scenario of greater dynamism. The magnitude of these figures shows that the commitments in respect of profits and interest on foreign capital have become so large that their reduction must be a central element in trying to dynamize the economies of the countries of the region.

The servicing of the debt would continue to account for high percentages of the value of exports. Thus, although there would be a steady reduction in relative terms, it would continue to absorb a substantial proportion of export income (55% towards 1990 and 44% towards 1995 in the slow growth scenario). This high proportion --resulting from the conditions prevailing at present-- would oblige the countries to engage in an ongoing renegotiation exercise which would undoubtedly adversely affect their degree of autonomy in managing their domestic policies. Thus, any change in these conditions which involved a reduction in the size of these commitments would help to reduce the pressures on the balance of payments and to increase the degree of autonomy in applying these policies. This is shown by the figures of the scenario of greater dynamism, which provides for a reprogramming of the external debt and in which the debt servicing would represent smaller percentages of the value of exports (44% towards 1990 and 35% towards 1995) than in the slow growth scenario. Even with the reprogramming of amortization payments, however, the amount of interest to be paid, of itself, would continue to absorb a high proportion of the current income from exports.

One of the positive consequences of the effort implicit in the scenarios is that although the external debt would continue to increase, it would go down in relative terms with respect to exports. Thus, the debt for the region as a whole 2/ --which would amount to US$ 475 billion in 1990 and US$ 692 billion in 1995 in the slow growth scenario, thus arriving at a level practically double that of the end of 1984-- would go down in relative terms with respect to exports from 323% in 1984 to 211% in 1995. It is important to note that the increase in the external debt would be similar to the inflation postulated in the scenario: this means that the debt would remain at its real end - 1984 value. The level of risk in respect of their loans would go down for creditors.

Export income is a key variable in trying to handle the problem of the external bottleneck. This means that the factors affecting the evolution of the region's purchasing power are of fundamental importance for the development process: thus, the dynamism of the economies of the industrialized countries, access to export markets, the prices of export products and the evolution of the external terms of trade are elements which would have to undergo substantial changes if the external situation of the countries of the region is to be improved.

The examination of these conclusions with respect to various aspects of the development process enables some general conclusions to be drawn. In the scenarios under consideration, the goals fixed are below those set in the Regional Programme of Action as regards the process of economic growth and change.

/Thus, the

Thus, the growth rate provided for in the scenario which assumes an increase in that rate (already described earlier) would bring the per capita product in 1990 up to a level representing only two-thirds of the target level laid down in the Regional Programme of Action. The deterioration reflected in the present situation is so great that it calls into question such goals as the doubling of the global product by the year 2000 which forms part of the scenario assuming a slow recovery of growth, and which is even further from the goals of the Regional Programme of Action. Furthermore, it should be noted that in order to reach by 1990 the level of global product implied by the target of the Regional Programme of Action (involving growth of 7% per year in the ten-year period 1980-1990), the annual growth rate for the rest of the decade would have to be around 14%.

In the economic and social field, with the present patterns of production and distribution, it would be very difficult to achieve a solution for situations of extreme poverty by 1990. As the 1990 per capita product remains at the 1980 levels in one of the scenarios and increases by less than 1% per year in the other, it does not appear that there can be any reasonable advances in this respect. What is worse, so far everything indicates that income distribution has been deteriorating in recent years, which shows that if the prevailing tendencies are maintained the situation of the poorest sector of the population would grow still worse.

In the field of external relations, the degree of autonomy of national decisions would have been reduced over the period and the region would continue to depend to a large extent on external resources. The fact is that the limitations imposed by these resources and the prevailing external conditions make it unlikely that these economic growth rates can be achieved without substantially changing the conditions prevailing at present.

The projections made in connection with the scenarios described show that the prospects for an acceleration of the economic growth of the countries of the region, considered as a whole, are not promising, at least as regards reaching a goal that would permit the countries to solve the main development problems which they are facing. This is not so much because of domestic restrictions, although it must be acknowledged that these are very important, but rather because of the bottlenecks and vulnerability deriving from the external variables. In particular, the problem of the external debt has become the most important recessionary element for the economies of the region. This means that the strategy for finding a solution must start from the principle that debt servicing must be compatible with the economic and social development needs of the debtors and must not become a factor of economic stagnation or social regression. There is an evident need to seek solutions which reduce the external constraints through substantial changes in the currently prevailing external trade and financial conditions.

Whatever the solution adopted, it is essential to try to find new forms of insertion into the international economy, of regional co-operation and of domestic economic and social change. The new forms of insertion into the international economy must correct the all-too-familiar prevailing asymmetry of

/international trade

international trade and financing. In order to correct the trade asymmetry it is essential to establish a greater balance between production and domestic demand. To the extent that changes in domestic production can give rise to a structure which makes possible greater symmetry between exports and imports, external trade will be able to play a more important role in the total supply and demand of the economies. To this end, it will be necessary to stimulate the production of manufactures for export and to defend the manufacture of products for which markets have been won and must be retained. A certain length of time will naturally be needed in order for this strategy to bear fruit. At present, a high percentage of exports consists of basic commodities of different degrees of processing, and fuels.

The correction of the asymmetries in international finance calls for a change in the policies which the creditor countries have been pursuing in dealing with the debt problem. In this respect, recent experience has shown the total asymmetry which exists as regards decision-making power and the sharing of the costs of the policies adopted. The burden of the adjustment has been borne by the debtor countries --with all the severe recessive effects that this involves-- without the creditor countries making any contribution. Furthermore, the situation which has arisen has caused a severe contraction in the net flows of capital to Latin America. The creditor countries must share responsibility for solving the problem, taking account not only of its financial aspects but also its more general economic, social and political implications.

Notes

1/ It should be noted that it is very difficult to see how a growth rate of the gross domestic product of this magnitude could be associated with such a low rate of productivity.

2/ Comprising the following 18 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay and Venezuela.

/III. REGIONAL

III. REGIONAL CO-OPERATION AND ECONOMIC INTEGRATION

A. GENERAL CONSIDERATIONS

With respect to the fulfilment of the objectives of regional co-operation and integration set forth in the Regional Programme of Action, there can be no doubt that the Latin American Economic Conference (Quito, 9-13 January 1984) and a series of subsequent meetings attended by Latin American Presidents represented a major new development as regards the political will of the governments of the region. The Quito Declaration and Plan of Action gave rise to a number of mandates for overcoming the economic crisis through the revaluation of the regional market in order to revive the nations' economies and through renewed support for regional integration and co-operation processes. These mandates were also extended to regional and subregional bodies such as SELA, ALADI, the Andean Group, CACM and CARICOM, as well as organizations such as ECLAC.

The main areas covered by the mandates contained in the Quito Plan of Action are: financing (in connection with the external debt, machinery to support intra-regional trade, international economic relations and development financing), trade within Latin America, regional food security, co-operation in the field of energy and services. One of the results of the momentum generated at the Quito Conference has been an agreement to initiate a round of negotiations within ALADI in early 1986 with a view to furthering trade within the zone.

A number of different initiatives have been undertaken with the aim of alleviating the serious economic difficulties of the relatively less developed countries of the region. Some of the main steps which have been taken to improve their situation are the co-operation agreement regarding petroleum under which Mexico and Venezuela have been assisting the economies of the Central American and Caribbean countries; the schedules for the immediate opening of ALADI markets for the benefit of Bolivia, Ecuador and Paraguay; the Andean Group's extension of preferential treatment to Bolivia and Ecuador; and the partial-scope agreements signed by some ALADI member countries with countries in Central America and the Caribbean (Cuba). These last agreements help to give ALADI a regional character, in keeping with the spirit of the Montevideo Treaty of 1980.

For its part, the Permanent Secretariat of SELA has promoted five meetings for the purpose of co-ordinating the integration and co-operation schemes functioning in Latin America and the Caribbean and has also acted as the secretariat for these meetings. All the specialized organizations and regional bodies have participated in these meetings as well.

In its activities to encourage and strengthen intra-regional co-operation, ECLAC has made use of a number of elements of horizontal co-operation (TCDC and ECDC) which are incorporated in the programmes of work of the Secretariat's various substantive units. In practical terms, these elements involve the creation of suitable operating conditions to allow the expansion of contacts and links among the national actors, both in government and in the private sector, which are willing and able to participate in the process of exchange provided for by horizontal co-operation machinery. In this connection, special emphasis has been placed on

/the promotion

the promotion or revitalization of co-operation networks in the region for which ECLAC can serve as a support unit through the various activities included in its programme of work. Progress has also been made in developing information processing and exchange capabilities which are essential in order to ensure the provision of effective support for initiatives and opportunities for co-operation in spheres and sectors of interest to the countries, through the activities of the Latin American Centre for Economic and Social Documentation (CLADES).

All in all, the environment in the region as regards integration and co-operation activities can be said to be more favourable now than it was in the first years of the 1980s. There are various reasons for the greater unity shown by Latin America and the Caribbean, including: the increasing democratization of the countries in the region which has given rise to a marked personal rapprochement among presidents and political leaders; the elimination or easing of some geopolitical tensions in South America Peace and Friendship Treaty between Argentina and Chile, the visit of the Foreign Minister of Peru to Ecuador, etc.); the realization of binational initiatives and co-operation agreements (binational hydroelectric enterprises and agreements on nuclear energy between Argentina and Brazil, for example, which are highly significant in geopolitical terms); and, indeed, the needs created by the crisis and the external debt, which tend to create a bond of unity among the countries as a function of the efforts required to deal with them.

B. INTRA-REGIONAL TRADE

1. General features

The Latin American crisis has been reflected in the decline of intra-regional exports from a value of US$ 16 228 million in 1981 to US$ 10 697 million in 1983 (a decrease of 34%). Trade within the region reached its peak in 1981, as did total exports from Latin America and the Caribbean (US$ 97 957 million). As a result of the US$ 5 531 million drop in intra-regional trade, the regional supply coefficient (i.e., the proportion of total Latin American and Caribbean exports represented by exports to the region) fell from 16.6 in 1981 to 11.8 in 1983. In 1984, it remained at virtually the same level (11.7).

The deterioration in trade links reflected by the regression in this indicator affected all the integration schemes (see table 20). This situation is in sharp contrast with the role which integration processes should have played in dealing with the crisis, inasmuch as --given the shortage of external financial resources and the existence of idle production capacity in the economies of the region-- some of the pressure for imports could have been channelled towards regional supply through the use of payments clearing arrangements.

It was not until 13 January 1984 that, in response to the severity and length of the Latin American economic crisis, 27 Latin American and Caribbean countries signed the Quito Declaration and Plan of Action.

/Table 20

Table 20

LATIN AMERICA: INTRA-REGIONAL AND TOTAL EXPORTS OF INTEGRATION SCHEMES

(Millions of dollars at current prices, FOB)

	1960	1965	1970	1975	1978	1979	1980	1981	1982	1983a/	1984a/
ALADI											
Total exports	7 344.8	9 388.7	13 786.7	29 664.2	44 630.1	60 729.0	79 569.1	87 040.9	80 737.8	82 019.7	88 512.1
Exports to Latin America	-	-	1 583.5	5 031.2	7 174.3	10 011.8	11 962.5	14 156.8	11 684.3	9 183.0	10 047.6
Exports to Latin America as a percentage of total	-	-	12.4	17.0	16.1	16.5	15.0	16.3	14.5	11.2	11.4
Exports within ALADI	566.6	841.9	1 266.0	4 010.2	5 838.4	8 574.6	10 879.3	11 913.2	9 758.5	7 053.8	8 046.6
Exports within ALADI as a percentage of total	7.7	9.0	9.9	13.5	13.1	14.1	13.7	13.7	12.1	8.6	9.1
Exports within ALADI as a percentage of total exports to Latin America	-	-	79.9	79.7	81.4	85.6	90.9	84.2	83.5	76.8	80.1
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	29 758.9	26 954.0	24 813.6	24 425.2
Exports to Latin America	-	-	569.0	2 055.3	2 404.2	3 412.9	3 922.8	4 854.0	4 420.2	3 428.7	3 114.3
Exports to Latin America as a percentage of total	-	-	10.5	15.9	14.8	14.3	13.0	16.3	16.4	13.8	12.8
Exports within the Andean Group	24.5	52.7	91.6	477.1	684.5	1 075.1	1 182.6	1 195.3	1 220.2	843.0	744.0
Exports within Andean Group as a percentage of total	0.7	1.2	1.7	3.7	4.2	4.5	3.9	4.0	4.5	3.4	3.1
Exports within Andean Group as a percentage of total exports to Latin America	-	-	16.1	23.2	28.5	31.5	30.1	24.6	27.6	24.6	23.9
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	4 299.2	3 393.7	3 923.5	4 186.8
Exports to Latin America	-	-	313.7	645.9	965.7	1 034.2	1 172.0	1 260.4	969.4	956.8	881.0
Exports to Latin America as a percentage of total	-	-	28.4	28.0	24.3	23.2	23.7	29.3	28.6	24.4	21.0
Exports within CACM	30.9	132.8	287.1	541.3	862.8	898.7	994.3	972.3	761.2	755.1	696.2
Exports within CACM as a percentage of total	7.4	17.4	26.0	23.4	21.7	20.1	20.1	22.6	22.4	19.3	16.6
Exports within CACM as a percentage of total exports to Latin America	-	-	91.5	83.8	89.3	86.9	84.8	77.1	78.5	78.9	79.0
CARICOM c/											
Total exports	543.7	750.2	1 000.1	3 028.5	3 190.2	3 908.1	5 498.4	5 113.0	4 406.7	3 683.4	3 580.5
Exports to Latin America	-	-	63.2	259.7	297.6	439.6	593.9	677.0	728.3	480.3	440.0
Exports to Latin America as a percentage of total	-	-	6.3	8.6	9.3	11.2	10.8	13.2	16.5	13.0	12.3
Exports within CARICOM	21.3	27.1	42.3	216.8	204.7	255.7	352.5	372.9	378.2	317.7	280.0
Exports within CARICOM as a percentage of total	3.9	3.6	4.2	7.2	6.4	6.5	6.4	7.2	8.6	8.6	7.8
Exports within CARICOM as a percentage of total exports to Latin America	-	-	66.9	83.5	68.8	58.2	59.4	55.1	51.9	66.2	63.6
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	97 956.8	89 858.4	90 895.4	97.636.1
Intra-regional trade	749.9	1 275.3	1 969.7	5 964.8	8 536.5	11 583.3	13 882.9	16 227.9	13 481.3	10 696.9	11 443.3
Intra-regional trade as a percentage of total	8.8	11.1	12.9	16.5	16.2	16.5	15.2	16.6	15.0	11.8	11.7

Source: ECLAC, on the basis of official figures.
a/ Estimates.
b/ Does not include Chile.
c/ Includes only Barbados, Guyana, Jamaica and Trinidad and Tobago.
d/ Includes 11 ALADI countries, 5 CACM countries, 4 CARICOM countries, Panama and the Dominican Republic.

/The Quito

The Quito Plan of Action sets forth a number of commitments with respect to regional trade, including: to refrain from introducing any additional non-tariff restrictions on imports originating from Latin America and the Caribbean, and to phase out existing barriers; to establish a regional tariff preference based on Article 5 of the 1980 Montevideo Treaty; to intensify bilateral or multilateral negotiations among the countries of the region with a view to speeding up the growth of intra-regional trade; to make use of State purchasing power by orienting it towards imports from regional suppliers; to utilize the regional demand for and supply of merchandise to facilitate purchases and sales in the region and in the international market, intensify the industrialization of Latin America and encourage regional enterprises to play a larger part in the provision of equipment; and, finally, to foster countertrade and economic complementation agreements.

Following the Conference at Quito, the Second Meeting of the Council of Foreign Ministers of ALADI, held at Montevideo, Uruguay, on 26 and 27 April 1984, adopted a number of resolutions. Some of the principal ones concern the elimination of non-tariff barriers to intra-regional trade; the expansion of the schedules for the opening up of markets for the benefit of Bolivia, Ecuador and Paraguay; the strengthening of the system for financial and monetary co-operation; and the entry into force of the regional agreement on a regional tariff preference.

Finally, the declarations issued at Lima and at the Montevideo Encounter (29 July 1985 and 2 March 1985, respectively) voiced the countries' firm resolve to make the processes of regional and subregional integration and co-operation more dynamic, and to undertake a round of negotiations within ALADI aimed at securing a greater share in regional supply for products from the member countries on the basis of equitable trading terms. This round of negotiations is scheduled to begin in March 1986.

As of June 1985, 14 pacts had been signed with non-ALADI Latin American countries under the partial-scope agreements of the 1980 Montevideo Treaty. These agreements involve three ALADI member countries (Argentina, Colombia and Mexico) and seven Central American and Caribbean countries (Costa Rica, Cuba, El Salvador, Guatemala, Honduras, Nicaragua and Panama). This is one means by which all the countries of the region may consolidate their integration efforts.

With the support of SELA, five co-ordination meetings have been held among the secretariats of the organizations involved in promoting integration and co-operation in Latin America and the Caribbean; the regional and subregional specialized and advisory bodies concerned with these processes also attended. The last such meeting, which was held in March 1985 at Montevideo, provided an opportunity for reviewing the work done in pursuance of the mandates set forth in the Quito Plan of Action. Studies and technical proposals have been prepared in connection with the great majority of these mandates, and it only remains for them to be implemented by the relevant bodies.

Thus, in the case of non-tariff barriers to intra-regional trade, for example, resolution 5 (II) was adopted by the Second Meeting of the Council of Foreign Ministers of ALADI, and specific proposals have been made for its implementation.1/

/Numerous studies

Numerous studies have also been conducted in order to further the round of negotiations to be held within ALADI. It is hoped that this round will mark the beginning of trade negotiations among all the countries of the region.

With the aim of analysing the problems relating to trade both within and outside the region and of seeking solutions for these problems on a joint basis, ECLAC convened two meetings of foreign trade officials of Latin American countries (10-12 March 1983 and 28-30 January 1985) and a meeting of entrepreneurs from ALADI member countries on the subject of trade and financing (26-28 August 1985). This type of meeting may be repeated at fairly regular intervals in the future, particularly just prior to rounds of international negotiations.

2. Commodities

On many occasions the governments of the Latin American and Caribbean countries have expressed their interest in supporting commodity producer associations and promoting the creation of new associations. The Tenth Meeting of the Latin American Council of SELA was one such occasion. At that meeting, SELA's Second Two-Year Programme for Regional Co-operation covering the period 1985-1986 was adopted (Decision No. 199); some of the objectives laid down in Article 8 of this Programme, which concerns co-operation in foreign trade, are to strengthen the existing associations of commodity exporters in the region and to promote the creation of additional associations in connection with those products of interest to the member States of SELA.

Nonetheless, for a variety of reasons no new associations have been created in the 1980s, while the existing ones (such as the Union of Banana Exporting Countries --UPEB-- and the Group of Latin American and Caribbean Sugar Exporting Countries --GEPLACEA) have been faced with serious difficulties due, among other factors, to conflicts of interest within these groups or the failure of some major producers in the region to participate in them.

In addition, international trade in the commodities produced by the region is heavily dependent upon the behaviour of the industrialized countries' markets for such goods. Trade policies on commodities coming from the region should therefore be applied which will eliminate the overdependence, reduce the great vulnerability of such trade and, in the case of some goods, achieve a greater degree of regional self-sufficiency. One of the most viable options for accomplishing this would appear to be the expansion and strengthening of intra-regional commodity trade, and this is one of the issues to be dealt with at the ALADI round of negotiations.

Many of the commodities which countries of the region export to the rest of the world are also imported by other Latin American and Caribbean countries from nations outside the region. This would seem to indicate that the region itself could provide a greater portion of the supply needed to meet regional demand. It is estimated that the total value of the imports of the 20 food products and agricultural raw materials that could most feasibly be supplied by the region itself amounts to US$ 3 billion. With respect to minerals and metals, there are 21 products which represent a possible US$ 1.3 billion expansion of regional trade. Finally, as regards fuels and lubricants, there are six products (representing US$ 11 billion) which could be bought within the region.

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In order to make this intensification of regional commodity trade a reality where there is a margin of exportable supply (i.e., where no reduction in exports to the rest of the world would be involved), the necessary conditions for providing access to the markets of the Latin American and Caribbean countries must be created. To a great extent, these conditions involve mechanisms for State purchasing, tariff preferences and the elimination of non-tariff barriers, financing such trade on terms as similar as possible to those provided by the suppliers of developed countries, reliability of supply, and some degree of balance in such trade.

Given the shortage of external means of payment, the use of commodities to increase intra-regional trade could contribute to a fuller utilization of installed production capacity and could help to create an opportunity for other regional integration and co-operation activities such as commodity producer and marketing associations.

3. Export promotion

Some Latin American countries have made considerable progress in export promotion since the beginning of the 1980s. The policies and tools they have used are largely in keeping with the basic points of the Regional Programme of Action.

In the countries which have been most successful in this regard, co-operation between governments and entrepreneurs has been stressed. In this respect, they have refined the machinery for export promotion by promulgating regulations and legal standard designed to strengthen the structure underlying the various incentives and to make it more functional. The public and private sectors have jointly carried out advertising campaigns, fostered the creation of associations of producers of exportable merchandise and of domestic enterprises specializing in external marketing, and have promoted participation in international fairs and exhibitions. Looking at the overall picture, it can be seen that despite the severity of the worldwide economic crisis, co-operation between governments and entrepreneurs has enhanced the countries' commercial presence in an increasingly competitive international market subject to strong protectionist pressures from the industrialized centres.

The last few years have also seen significant progress in the structuring of specialized organizations in the field of export promotion. Particular importance has been assigned to export financing and export credit insurance. It should nevertheless be noted that some countries still do not have an adequate infrastructure to support the expansion of their external sales of manufactures and semi-manufactures. Sectoral associations of exporters and of joint marketing enterprises for finished products and inputs have almost always been national initiatives rather than subjects of regional co-operation.

Notwithstanding the advances that have been achieved, it is imperative that action be initiated or reinforced in various fields. It might, for example, be useful to explore other forms of countertrade in which State purchasing could

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serve as an effective means of promoting the placement of manufactures on the international market, as some Latin American countries are already doing. It will also be necessary to make more rapid progress in refining existing payments mechanisms in the region and systems for financing exports. Something similar might be done with respect to the development of export consortiums, international marketing ventures and other joint regional or subregional export schemes. Promoting the remodeling of commercial information services would also appear to be called for. Because of the concepts on which the creation of such services has been based, they have not been able to perform their basic and proper function; a new concept of their role would make it possible to heighten their multinational character through contacts among entrepreneurial associations, ensure that the information provided by such services is shared, and make other desirable changes as well. In the same way, the countries could jointly benefit from studies on the supply of exportable products which furnish the data needed to support promotional efforts on a selective basis, as well as providing useful reference material for trade negotiations.

Meetings of government officials responsible for co-operation among national bodies concerned with the promotion of foreign trade have also been held. As a result of one such specialized meeting, the Latin American Association of Export Credit Insurance Institutions (ALASECE) was created in 1981.

/C. JOINT

C. JOINT ACTION TO EXPLOIT NATURAL RESOURCES AND MAKE UP FOR REGIONAL IMBALANCES

1. Natural resources

The problems faced by the region in connection with natural resource development have become more visible as a result of the crisis. The achievements in this field have been few and have primarily been directed towards creating a greater awareness of these problems rather than actually solving them.

Thus, little progress has been made towards achieving regional self-sufficiency in raw materials. Despite the efforts of the Latin American Energy Organization (OLADE), a substantial part of the petroleum used in the region is still imported. Although the region is a net exporter of petroleum and energy, many of the countries with oil deficits continue to import it from nations of other regions, while the large producers in the region sell the bulk of their output on the world market. A similar situation exists with respect to minerals. Even though the countries of Latin America and the Caribbean are major exporters in net terms (primarily to the United States, Europe and Japan), a number of the main export items, such as copper and iron ore, are also imported from countries outside the region.

Similarly, progress in the rational use of natural resources and the conservation of the environment has been uneven and highly variable. On the one hand, a much better understanding of the importance of these issues is manifested in laws and regulations, development plans, the presence of agencies specializing in this area and the inclusion of environmental considerations in project appraisals. On the other hand, it cannot be said that the countries of Latin America and the Caribbean have put a stop to the degradation of natural resources in the region, and still less have they effected any significant reclamation of the resources which have already been allowed to deteriorate.

Information is available, however, on a great deal of constructive work which has been done, albeit on a limited scale. Efforts have been made to further the efficient use and more flexible substitution of fuels in industries which are heavy consumers of such products (such as thermoelectric power plants and cement plants) and to promote soil conservation and reclamation and the preservation of flora ana fauna threatened by extinction.

In future, the institutions responsible for managing these resources will have to be reinforced by giving them national coverage through the instrumentation of the operational units created for work in these areas (forestry, irrigation, parks and natural reserves, etc.) by providing them with the necessary means to ensure their continuity and the effectiveness of their operations and, above all, by investing them with the appropriate authority to fulfil their functions.

Similarly, little or nothing has been accomplished with respect to the recommendation contained in the Regional Programme of Action concerning an improvement in the returns from commodity exports through an increase in the value added and higher prices. Minerals are a case in point: not only have efforts to increase the value added by mineral processing and manufacture met with very limited

/success, but

success, but the income earned from their exploitation has been steadily declining due to the drop in prices occasioned by the lower demand for these products on the world market. In the period 1980-1984, world demand for 20 different minerals has fallen off in net terms; there has been a small increase in the demand for 11 minerals, while only three show an increasing rate of expansion. These changes in the pattern of mineral consumption have been brought about by conditions in the world economy, input-saving technology and the substitution of other materials for the metals traditionally used in manufacturing.

As a result of this new pattern and the inelasticity of supply, there has been a significant increase in stocks which has caused the prices of some minerals to drop by 40%, seriously affecting a number of Latin American countries. One means of counteracting this trend may be to increase the region's internal demand for minerals, but this course of action would be contingent upon a general economic recovery in the region. Per capita consumption in Latin America is only 10% of what it is in the OECD countries, and this would indicate that there is an enormous potential market which could in large part be supplied by expanding the metallurgical and metalworking industries of the region. If this is to be done, efforts will have to be made to promote integration and to encourage new investments in this area.

In solving these problems, regional co-operation and vertical and horizontal integration will have to play a major role if the region is to win a more powerful position in the export market and boost the supply as well as the intra-regional trade of raw materials and manufactures containing goods based on them.

In this connection, regional organizations and industrial associations such as the Regional Electricity Integration Commission (CIER), Latin American State Petroleum Enterprises Mutual Aid Association (ARPEL), Latin American Energy Organization (OLADE) and the Latin American Iron and Steel Institute (ILAFA) have continued to play an active role in promoting joint activities within the region. The most visible advances are the interconnection of gas pipelines and of electric power systems (the most notable case being that of Central America) and the generation of hydroelectricity on a binational basis. One recent achievement has been the establishment of the Latin American Mining Agency (OLAMI), whose objectives include promoting the vertical and horizontal integration of the mining and metallurgical industry in order to permit economies of scale, to increase the value added and to improve the region's competitive position in the international market.

2. Transport

In response to the economic crisis besetting the region, the next few years may see a significant switch-over from the traditional pattern to mechanisms for economic co-operation which will allow the region to be more successful in meeting the technological and commercial challenges posed by the worldwide transport situation.

The maintenance of all forms of transport is a long-standing problem which has become more severe as a result of the crisis. A lack of ongoing maintenance leads to the gradual destruction of transport facilities; given this situation, the trade-offs between new investments in infrastructure and the maintenance of existing infrastructure will have to be carefully considered. Similar complications exist

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in connection with transport operations, since the shortage of resources and the increasing cost of spare parts tend to give rise to what is virtually a disinvestment in equipment which could have very serious consequences in the long run.

Shipping is a particularly crucial factor in the development of the region. Over 85% of all the countries' foreign trade is transported by ocean-going vessels, and the sound management of this form of transport is therefore of great importance to the region's external economic relations. In view of this fact, the countries have recognized the need to lay the foundations for a greater degree of co-operation in this regard, especially through the establishment of two regional forums: the Operational Network for Regional Co-operation among Shipping Authorities (ROCRAM), which deals with technical matters involved in shipping, and the initiative undertaken within the framework of SELA to formulate joint economic and political strategies in this field.

The maritime transport industry is increasingly being concentrated in an ever-smaller number of shipping companies which use large vessels. Although it is true that this scale of operations tends to maximize the return on investments, a critical evaluation of its effects on the Latin American and Caribbean merchant marines is called for, inasmuch as such a scale can only be achieved by limiting direct service to the busiest ports and using feeder and transshipment services for the smaller ports. The shipping interests of this region may well adopt the tactic of forming their own consortiums or undertaking other types of joint operations in order to compete on an equal footing with the shipping concerns in other regions of the world.

Freight rates are a problem which has existed for quite some time now, since shipping conferences usually set such rates unilaterally without taking the operational improvements made by some countries into consideration. In order to deal with this problem, urgent consideration should be given to the establishment of a regional body which could negotiate collectively with these conferences. This type of arrangement has worked successfully for the 25 countries of Western Africa since 1975.

In so far as land transport is concerned, its limitations are not so much the result of insufficient infrastructure as of the lack of the necessary political will to overcome the traditional barriers to international commerce via truck and railway (e.g., problems relating to transport documents, the co-ordination of border services and the alignment of legal systems). A need exists for an institutional structure that will facilitate such commerce rather than hindering it and for transport companies with the necessary capabilities and experience to provide rapid and efficient service at the regional level.

The countries are aware of these difficulties and for some time now have been trying to encourage the exchange of experiences and the co-ordination of activities in connection with both transport and customs matters through regional forums such as those sponsored by ALADI, the Board of the Cartagena Agreement (JUNAC), the Meeting of Ministers of Public Works and Transport of the Southern Cone Countries, and the Permanent Secretariat of the General Treaty for Central American Economic Integration (SIECA). With the advent of the economic crisis, there has been a still greater need for regional co-operation aimed at eliminating or reducing obstacles to this sort of transport and expanding land-based trade, which is a particularly effective way to reinforce economic integration.

/A means

A means of facilitating land transport which has not yet been utilized effectively is offered by the following United Nations agreements: the International Convention on the Harmonization of Frontier Controls of Goods, the Convention on the Contract for the International Carriage of Goods by Road, and the Convention on the International Transport of Goods Under Cover of TIR Carnets (the TIR Convention). Despite its enormous advantages, the TIR Convention (which has been the object of a special effort by ECLAC in co-operation with ALADI) has still not been implemented due to the steadfast resistance of certain sectors in some countries. Accession to all these agreements in the near future by a majority of the Latin American and Caribbean countries would create particularly favourable conditions for the facilitation of international transport in the region.

Air transport, like other forms of transport, has been affected by the economic crisis in a variety of ways. One example is the increasingly fierce competition among airlines for a larger share of dwindling air traffic which has caused fares to be set at unprofitable levels and aircraft to be used in ways which are economically unsound. The financial straits in which the airlines of the region consequently find themselves also make it difficult for them to gain access to more modern technologies which could help them to improve their competitive position.

In order to stand a better chance of dealing with this situation successfully, it is vital for governments and airlines to co-operate more closely in order to formulate regional policy measures on exchange agreements and air traffic rights. The airlines should also work together to improve their management practices, the specification and selection of equipment, and the use of ground infrastructure.

Traditionally, few co-operative efforts have been made among the countries of the region with respect to urban transport. During the past five years, however, some major co-operative activities have been undertaken concerning the operational aspects of public transport in cities as well as research into the problems of urban transport in general. These efforts constitute a particularly positive step in view of the rapid rates of urban growth in a number of the countries in the region. These activities must now be intensified through an active exchange of ideas, projects and systems which take the real conditions in Latin America and the Caribbean into account.

D. ENERGY

Co-operation in the field of energy, especially within the framework of OLADE, has become much more active since the Declaration of San José was issued in July 1979. On that occasion, 23 countries agreed upon a Latin American response to the instability in hydrocarbon markets and prices.

Subsequently, the Bogotá Commitment was adopted in late 1980, then the Council of Ministers of OLADE was created, and finally the Latin American Energy Co-operation Programme (PLACE) was formulated at Santo Domingo in November 1981. The programme under which Mexico and Venezuela are co-operating in the field of energy with Central America and the Caribbean is of special importance within this policy framework.

The San José Declaration establishes a policy and operational basis for intensifying co-operation in the field of energy. It contains an analysis of the world energy situation and possible responses at the national and regional levels, of measures to increase supply and rationalize demand for energy, and of the problems which exist concerning technology transfer, financial resources, marketing, transport, storage, distribution and refining. Subsequent advances have been largely in keeping with these policy guidelines, which are gradually being implemented.

In August 1980 the programme under which Mexico and Venezuela are co-operating with Central America and the Caribbean in the field of energy entered into operation. This programme involves supply agreements, the granting of highly favourable financial terms for a certain proportion of imports, and even more preferential provisions for the financing of energy projects. By the time the programme had been in operation for five years, major changes had occurred in Mexico's and Venezuela's economic and financial positions. Nevertheless, both countries have agreed to extend the programme for another year, as they have done throughout the period. The main changes which have been made in the programme relate to reductions in supply levels in order to adjust them to the drop in demand caused by the recession. Furthermore, although the financial terms provided for under the programme are still of a concessionary nature, they are now closer to the terms generally extended in international markets. These modifications do not change the essential character of this important tool for regional co-operation, which continues to be one of the most significant examples of co-operation in this field.

Towards the end of 1980, the international picture clearly reflected the intensity of the crisis, which began to have particularly forceful effects on the region. Oil prices continued to rise, reaching US$ 28 per barrel. The main concern of importing countries was to ensure their supply. The Bogotá Commitment of November 1980 was an attempt to deal with this situation: the countries agreed upon guidelines for guaranteeing supply, procedures for rationalizing production and consumption, and measures for stepping up technical assistance; they also agreed to promote the increasing substitution of national and regional sources of energy for hydrocarbons obtained outside the region. The basic guidelines of the OLADE Strategy for the 1980s were also adopted. Within this framework, in November 1981 the Latin American Energy Co-operation Programme (PLACE) was formed and the PLACE Account was created. The Programme's long-term goals are supported by activities and projects that are to be carried out immediately, to the extent that this is politically, technically and financially possible. Thus, a structure and framework to facilitate decision-making can be defined and attempts can be made to assess the progress that has been achieved, as well as the projects which have been completed or those which are in the design or execution phase.

The purpose of the PLACE Account is to establish a simple and easily administered mechanism for putting the Programme into operation. The countries' contributions (US$ 7.5 million) serve as seed capital for the attraction of external resources.

In early 1983, the Integral Programmes of PLACE were set into motion. These programmes cover the following fields: hydrocarbons, coal, hydropower, geothermal energy, bio-energy, solar energy and wind power, and planning and training in the field of energy. These programmes, and PLACE in general, have in practice defined the basic work carried out with respect to energy co-operation during the period 1983-1985. The economic and financial position of most of the countries has certainly affected their ability to contribute to the PLACE Account, as well as the possibility of attracting external resources and of furnishing the national inputs for the corresponding projects. The progress of OLADE's work has thus been limited by the prevailing economic situation.

Achievements in the electricity subsector include the co-operation agreement signed in 1981 by Brazil, Costa Rica, Mexico and Venezuela, and the Central American agreement on electrical interconnection.

The above-mentioned co-operation agreement, which is open to accession by the other member countries of OLADE, provides for a variety of forms of co-operation and technical assistance in connection with the generation, transmission, distribution and marketing of electric power. It also covers co-operation activities concerning research, planning, the construction and operation of hydroelectric plans and management in general.

The Central American agreement on electrical interconnection represents a particularly significant effort to increase the links of interdependence among the Central American countries. The technical and economic preparations for this interconnection have been in progress for quite some time now. The recent start-up of some of the projects included in this initiative is an event of the utmost importance, especially in view of the political difficulties faced by the subregion.

Finally, the role played by ARPEL and CIER as regards co-operation in the field of energy deserves mention. Both organizations have supported a variety of co-operation projects, with special emphasis on training as a means of helping to expand knowledge on a reciprocal basis and strengthen technical horizontal co-operation in the area.

E. INDUSTRY

The countries of the region face the manifold challenges of making the adjustments required by the crisis in external financing; bringing about a revival of economic growth on a more solid basis; reorienting development towards the objectives of equity, autonomy and participation; restructuring their production apparatus, and dealing with accumulated structural shortcomings, all within the framework of a world economy in which growth is slow, but a rapid transformation of the pattern of international specialization is taking place.

Industrialization processes, which are decisive elements in the domestic and external dynamism of the Latin American economies and in the dissemination of technical progress, play a central role in the countries' responses to these challenges. The crisis, however, has caused the aggregate level of Latin American industrial activity to fall back to its 1980 level, has resulted in drastic declines in net private and public investment, has reversed the direction of net flows of external financing, and has caused the countries' import capacity to shrink. If the countries are to be able to respond to these challenges in a positive manner, adjustment policies will have to permit a reversal of this situation in the medium terms and promote the structural changes required in order to make possible sustained, competitive, autonomous and socially efficient industrial development.

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In order to accomplish this, the design of development strategies, industrial policies and adjustment and stabilization policies must be closely co-ordinated. In so far as tariff, exchange, export-promotion, credit and fiscal policies set the key prices in the economy, encourage or discourage investment decisions or provide for the allocation of investment in ways that will generate external economies or provide infrastructure facilities, they will have a strong influence on the pace and orientation of industrial investment. The selective reservation of domestic markets and public-sector purchasing policies can ensure a scale of operation large enough to make it feasible to develop industrial activities capable of gradually acquiring comparative advantages. In turn, the reorientation and dynamization of the industrial apparatus can become key factors in economic revival if they result in increased competitiveness, permit the expansion of exports of manufactures, give rise to a phase of active investment and are directed towards covering potential segments of the domestic market seriously neglected during the previous phase of development as well as during the current recession.

The industrial development strategies of the countries of the region can allow them to benefit from and consolidate their present comparative advantages based on their natural resources, manpower and existing technological capabilities. Their future patterns of specialization, however, must be based on the acquisition of new comparative advantages. The dynamic creation of such advantages can take place to the extent that the following conditions obtain:

i) The industrialization process itself must be oriented towards generating external economies with respect to each activity (economies that will benefit other related activities) in terms of increasingly refined technological capabilities and the progressive upgrading of manpower skills at all levels of specialization;

ii) International levels of excellence must be achieved on the basis of specialization in products and lines of technology and the full utilization of economies of scale;

iii) In combination with such specialization, chains of interrelated activities must be created which generate and utilize external economies and which function as nuclei or core units that transmit their technological and entrepreneurial dynamism to the entire industrial complex;

iv) The industrial complex must be developed in an organic and interdependent manner which includes links with agriculture and services, so that the most dynamic units can transmit their technical progress to the rest of the production apparatus and there can be a more comprehensive articulation of reciprocal intersectoral demand among branches of industry, among different types and sizes of companies and among regions.

At the present stage of Latin American industrial development, a number of objectives must be attained simultaneously: the achievement of sufficient levels of competitiveness through the industrial apparatus, maximum use of local resources, the development of superior technological capabilities and the recovery and further growth of aggregate levels of activity.

/To attain

To attain these objectives, industrial development strategies should establish the following priorities:

i) an increase in productive investment, channelled towards activities with plenty of development potential and manifest social profitability;

ii) sustained expansion of industrial exports, with an increasing value added content and progressive consolidation of penetration into world markets;

iii) restructuring of activities whose structural limitations preclude the attainment of adequate levels of international competitiveness;

iv) establishment and consolidation of permanent technological capacity in enterprises, in consonance with trends in world technological change and strengthened by development of the public and private technological infrastructure for research and development;

v) competitive development of small and medium-sized industrial firms and of their capacity for adaptation, so that they may perform their strategic role in the industrial apparatus, by providing it with flexibility, dynamism, capacity for mobilization of human resources and regional articulation.

A flexible, competitive and dynamic structure implies constant generation of new activities and new products. If these activities are to reach satisfactory levels of international competitiveness, processes of technological learning and of industrial maturation are required, of which the duration will vary, and which should be accompanied by protection tailored to these requirements and graduated in accordance with the foreseeable progress of the processes in question. Industrial policies, in the present phase of development, should link up in an appropriate combination protection of dynamic import substitution and promotion of industrial exports. In both directions a positive influence can be exerted, over the short and medium term, on the trade balance and the economy's level of activity, and the demand for productive resources can be modified, with a view to promoting full employment. If such policies are to guarantee, in the long run, satisfactory competitiveness in the industrial system as a whole and socially optimal resource allocation, the following requirements must be met:

i) protection for import substitution activities should be selective and should progressively decrease, as the industrial learning process makes it possible to face up to international competition;

ii) promotion of exports should be undertaken in the context of a long-term strategy for developing technological capacity and of enhancing the value and making full use of local resources, until levels of competitiveness are reached which make it unnecessary to allocate social resources to export promotion.

The financial crisis and the recession have had an adverse impact on regional co-operation initiatives. Moreover, the surplus production capacity existing in world markets for some basic industries has militated against schemes for complementarity or joint programming.

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Even so, the advantages associated with the development of capital goods industries have been promoted through a regional ECLAC/UNIDO project which has made possible a quantitative and qualitative assessment of the basic sectors' requirements of capital goods. Thus, ECLAC and the Regional Electricity Integration Commission (Comisión de Integración Eléctrica Regional - CIER) carried out a joint project whose results enabled them to formulate recommendations for slanting purchases of electrical equipment towards national and regional production, which were approved by the executive bodies of CIER.

The major projects fot the basic sectors open up broad possibilities of industrial complementation through the use of underutilized production capacity, both in the larger countries of the region and in those of medium size, as well as in several of the small ones. These capacities have not been properly turned to account because:

i) in most of the countries there is a lack of adequate financial machinery for the domestic sale of goods which are normally paid for on a long-term basis. This situation negatively affects both production in the individual countries and efforts at complementation;

ii) regional industry is not sufficiently well-known, and there are not enough contacts between firms in different countries; tradition and custom impel buyers in the region to obtain their supplies from habitual sources, generally outside it.

As regards the first obstacle, in some countries ad hoc funds or lines of credit have been established. The lack of contact and mutual knowledge which is the nucleus of the second of the difficulties described is beginning to be rectified with the birth of the Latin American Association of Capital Goods Industries (Asociación Latinoamericana de Industrias de Bienes de Capital - ALABIC), the aim of which is to further the development of the region's machinery and equipment industry through concerted action, complementation efforts and pledges of reciprocal technical support.

F. FOOD AND AGRICULTURE

Indicators of regional food security have dropped to the levels of the early 1970s, thus exacerbating the food emergencies that several countries have had to face in the early years of the current decade. This has happened, paradoxically, after governments and the integration and co-operation organizations have on many occasions expressed their concern in this regard and have promoted measures to achieve a higher degree of food self-sufficiency and security in the region.

In the framework of SELA, activities have been carried out since 1981 with a view to the establishment of a system capable of guaranteeing regional food security. To this end, in March 1983 an Action Committee on Food Security (Comité de Acción sobre Seguridad Alimentaria - CASAR) was set up, whose activities are connected with increasing production and productivity, improving supply, enhancing self-sufficiency and eliminating food and nutritional deficits in the region. In its initial phase, CASAR has concentrated on consultations

/about food

about food and food market strategies in Latin America, on horizontal technical co-operation in respect of national food policies and plans, on mechanisms for urgently needed food aid, and on the establishment of a regional information network.

An outstanding achievement of CASAR in its first two years of activity is of a political nature: the establishment of food security as one of the top priorities in regional policy, and the creation of awareness that it can be better achieved by joint than by separate action. During the period 1986-1987, CASAR will concentrate its efforts on a small number of priorities and will endeavour to make them the foundation-stone of an effective Latin American food security system. These priorities are: support for national food plans; co-operation in and expansion of trade in basic foods; and emergency food protection.

The "José Celestino Mutis" Andean System on agriculture, food security and environmental conservation, instituted by the Board of the Cartagena Agreement in June 1983, is the basic instrument for the execution of the Andean Agricultural Development and Integration Strategy, established in July 1983. A fundamental objective of the Andean System is the formulation and adoption of a set of measures making it possible to protect the member countries of the Agreement against risks of shortage of food supplies, and to meet the food and nutritional needs of the entire Andean population. The integrated approach to priority measures for the attainment of these ends is the result of a series of consultations and analyses organized by the Board of the Cartagena Agreement itself and reflecting the slant recently given to the development of the agricultural sector within the Andean integration process. The Board, with the support of FAO, has promoted activities among the member countries aimed at setting up the national food security systems envisaged as the instrumental basis of the Andean System.

The products selected for the ALADI Round of Negotiations included food, beverages and agricultural raw materials. On the basis of analyses by products or groups of products, which cover the recent characteristics and trends of intra-regional trade in these goods, the nature and relative importance of the main obstacles to the expansion of reciprocal trade, and proposals for policies, measures and machinery whereby these obstacles can be offset or overcome, the ALADI Secretariat is going ahead with the necessary preparations for putting the Round of Negotiations into effect.

Furthermore, the third section of the Quito Plan of Action is devoted to regional food security. It exhorts all the member countries of CASAR to avoid duplication of effort and effectively co-ordinate their work, and to establish at the earliest possible date an efficient food information network and a system of co-operation among national food marketing bodies. The text underlines the need for each country to formulate national food plans which may serve as groundwork for the integration and consolidation of the regional food security system, whose effectiveness will also depend upon the efforts made at the subregional level.

In the field of the preparation and execution of rural development projects, ECLAC, in conjunction with FAO and UNDP, has continued to support the countries' training activities, through the Regional Project for Training and Planning,

/Programming, Agricultural

Programming, Agricultural Projects and Rural Development (PROCADES). This last has entered upon a new phase, in which its work is mainly directed towards strengthening training networks based both on institutions belonging to the countries themselves and on entities of regional or subregional scope which can make an effective contribution to the development of these networks. The form of operation chosen for this purpose is basically that of horizontal co-operation.

The Latin American Multinational Fertilizer Marketing Corporation (Empresa Multinacional Latinoamericana de Comercialización de Fertilizantes - MULTIFERT) is an outstanding example of intra-regional co-operation, which enables the participating countries to purchase this input on advantageous terms.

Similarly, the creation of the Latin American Fishing Development Organization (Organización Latinoamericana de Desarrollo Pesquero - OLDEPESCA) is a clear indication of the advances made by the Action Committee on Marine and Fresh Water Products (Comité de Acción de Productos del Mar y de Agua Dulce - CAPMAD) in respect of fishing co-operation. This progress can indubitably contribute to the improvement of food security in the region.

The foregoing group of co-operation efforts has not been accompanied by advances in the expansion of reciprocal trade in food and agricultural products. Regional exports to the region itself remained at about 10% of the region's total external sales between 1970-1972 and 1980-1982, although in absolute terms, measured in dollars at current prices, they increased by a factor of 3.7 (rising from US$ 855 million to US$ 3 214 million). Regional imports of food from the region decreased from 28% to 21% of the regional total in the same period. The shortage of exportable supplies available on conditions of regular delivery and competitiveness in respect of quality and prices, as well as the difficulties of effective access to markets, are the greatest internal stumbling-blocks to the expansion of agricultural trade. A third group of internal obstacles is constituted by financing, transport and communications difficulties and the inadequacy of marketing information.

This review of the initiatives and efforts carried out by governments and by regional and subregional co-operation and integration organizations in connection with collective food security clearly indicates that there has been political will to make progress in this direction and that the relevant lines laid down in the Regional Plan of Action have been followed. The meagre results obtained have been strongly conditioned by the effects of the crisis, which is seriously affecting the development and stability of the region.

Notwithstanding what has been said above, it should be emphasized that the advances made in integration and co-operation with respect to food and agriculture have been much slower and more modest than those achieved in other fields, owing to deficiencies of a conceptual and operational type. The fact that very little regional or subregional preference has been shown for agricultural products, together with the problems of financing, transport and competition from the subsidized exports of developed countries, accounts for the modest trade diversion effect achieved. The regional and subregional preferential tariffs have been applied for agroindustrial products, but have been very limited in their scope where food and agricultural products in their primary state are concerned. No country is willing to pay prices higher than the international market quotations

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for the food it imports. Furthermore there is the strong protectionism applied by the developed countries. The agricultural policies of the United States and the EEC have altered the bases of international trade in agricultural products, by turning importer into exporter countries in respect of certain foods.

Some major sectoral co-operation efforts have been seriously affected by the lack of a consistent policy on the part of the interested countries themselves, which have not given them long-term backing. The inconsistencies have stemmed both from the political instability that has affected several countries and exacerbates the conflicts between short- and long-term options and from the predominantly national character of the food and agriculture question.

The adjustment programmes adopted by the countries have relatively common components and elements, which may come to constitute lasting frameworks for the formulation and application of organic and more permanent agricultural policies. These may be projected into the multilateral sphere, and serve as a basis for the collective structuring of a fresh conceptual, institutional and operational approach to food and agriculture questions. Such an approach will make it possible --in the light of the experience gathered, riddled as it is with failures and limited successes-- to define the variables on which the accent should be placed and review or renovate the methods to be applied.

G. SCIENCE AND TECHNOLOGY

A regional microelectronics network for Latin America and the Caribbean (Red Regional de Microelectrónica para América Latina y el Caribe - REMLAC) was recently set up, on an experimental basis, under the auspices of UNIDO, ECLAC and SELA. The general objective of the network is to carry out joint activities with a view to strengthening the individual and collective technological capacity of the participant countries in the field of microelectronics, and to apply technology with a view to the satisfaction of their specific needs. To that end, it is envisaged that the network should undertake joint activities such as studies and exchanges of information, as well as research and development, training and industrial co-operation in specific areas such as the design of integrated circuits and the manufacture of semiconductors.

Andean technological development projects have been formulated in several fields: staple foods, industrial utilization of tropical timber for the construction of low-cost housing, use of biotechnology for recovering low-grade ores --especially copper-- and experiments in rural technological development mechanisms.

The establishment and efficient operation of technological information systems in Latin America and the Caribbean is faced with problems relating to institutional matters, to the lack of resources and to the adaptation of the design of these systems to the requirements of the units taking decisions on selection of technology.

The Andean Technological Information System (Sistema Andino de Información Tecnológica - SAIT), which began to function in 1982, is establishing data bases on foreign investment, contracts for the transfer of technology and prices of pharmaceutical and chemical products. The Latin American Technological Information

Network (Red de Información Tecnológica Latinoamericana - RITLA) has not yet entered operation because the corresponding agreement has not so far been ratified by a sufficient number of countries.

Similarly, the establishment of a regional biotechnology network is a proposal that has repeatedly been put before the countries of the region, but up to now no steps have been taken towards its materialization. One suggestion among others has been that such a network should form part of the Latin American Regional Biotechnology Programme (Programa Regional Latinoamericana de Biotecnología), sponsored by UNDP, whose objectives are to promote the development of the basic sciences relating to biotechnology, to strengthen and create research groups and promote their co-operation, to pass on information from one participating centre to another, to execute research and development projects on priority problems, to formulate pre-investment proposals and to instrument projects for the optimization of industrial processes. Furthermore the countries of the region have sponsored the creation of an International Centre for Genetics and Biotechnology (Centro Internacional de Ingeniería Genética y Biotecnología), under the auspices of UNIDO, while three specialized Latin American centres form part of a network of microbiology reference centres (MIRCEN), sponsored by UNESCO.

The Caribbean Council for Science and Tecnology (Consejo del Caribe para Ciencia y Tecnología - CCCT) is executing several projects on the evaluation of national capacities in the fields of science and technology, the preparation and exchange of audiovisual material for education in science and technology, and the conservation and exchange of germ plasm cultures.

Lastly, in the field of training, UNESCO and ILPES plan to initiate a regional course on science and technology planning for development.

H. MONETARY AND FINANCIAL QUESTIONS: PROGRAMME OF IMMEDIATE ACTION

The extremely difficult external circumstances with which the region has been confronted in recent years have limited its possibilities of advancing in the field of regional financial co-operation. ALADI's payments machinery has been perfected, and despite the delay on the part of some countries in clearing their balances, the system continues to operate efficiently and progress has been made in respect of the possibilities of obtaining external financing for the region to cover the balances to be cleared. The balance-of-payments support machinery (the Santo Domingo Agreement) has also been expanded, although only to a limited extent. The member countries of the Andean Group have established a unit of account and credit called the "Andean peso", with characteristics similar to those of Special Drawing Rights. Some headway has been made in collaboration in the area of export credit insurance and a body has been set up --ALASECE-- in which institutions operating in the region in this field are grouped. The main debtor countries of Latin America meet regularly to evaluate the circumstances they face and to seek certain common measures through the Cartagena Consensus.

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The difficult circumstances mentioned above have made it impossible to draw up a regional programme for Latin America and the Caribbean in the monetary and financial sphere, but appraisals and studies at the regional level are now available which will facilitate its formulation in the future. Both governments and regional organizations such as SELA and ECLAC are preparing studies in these fields. ECLAC and UNDP have carried out a joint work project in the financial and monetary area under which technical assistance has been given to some countries of the region and studies have been prepared on the effects produced by the situation of the international monetary system on Latin America and on external and internal debt problems in the region.

The Sixth Replenishment of Funds of the Inter-American Development Bank will be completed in 1986, raising its ordinary capital by US$ 12 131 million, of which US$ 11 981 million is in convertible currencies. The Fund for Special Operations will also be increased by US$ 2 billion, with US$ 1 019 million in convertible currencies. Although this increment is considerable, it should be noted that the Fund, which is used for soft loans, at present has resources which are not being utilized, inasmuch as the difficult circumstances prevailing mean that the countries have not enough budgetary resources available for allocation to counterpart funds.

The Inter-American Development Bank has also made the use of its resources more expeditious, and while it has not increased the margins of preference for national enterprises in bidding, it has raised the minimum amount above which international bidding is compulsory from US$ 100 000 to US$ 200 000.

The machinery for regional co-operation in the financial field has been strengthened. The Latin American Association of Finance and Development Institutions (Asociación Latinoamericana de Instituciones Financieras de Desarrollo - ALIDE) and the Latin American Banking Federation (Federación Latinoamericana de Bancos - FELABAN) have played an active part in making public opinion aware of the region's financial problems and have contributed to a lively interchange of ideas and information among the public and private financial institutions of the Latin American and Caribbean countries. The region's banking control agencies have likewise begun to meet and to exchange experiences, as have the Central Banks of the region. The Centre for Latin American Monetary Studies (Centro de Estudios Monetarios Latinoamericanos - CEMLA), which acts as Secretariat to the Central Banks, has continued to hold training courses and seminars for the exchange of know-how for the staff of central banks and bank control agencies. The Latin American representatives on the governing bodies of the International Monetary Fund and the World Bank meet regularly to concert their positions vis-à-vis the multilateral financing agencies.

The very difficulties encountered by the region in recent years, although they have complicated financial co-operation, have also acted as a spur to the search for new mechanisms whereby integration efforts can give a greater impetus to growth, and headway has been made in studies for the creation of regional multinational corporations in various fields, some of which are already in operation. These endeavours will probably give rise in the future to the emergence of new areas of financial co-operation increasingly linked to trade.

/I. TECHNICAL

I. TECHNICAL CO-OPERATION

With the aim of helping to strengthen technical co-operation among the countries of the region, ECLAC has undertaken joint activities with other regional organizations, in particular SELA. These initiatives are in line with the Buenos Aires Plan of Action (1978) and the Caracas Programme of Action adopted by the Group of 77 in 1981.

From this standpoint, a very significant product of collaboration between ECLAC and SELA was the above-mentioned Latin American Economic Conference (Quito, 12-13 January 1984), convened at the instance of the President of Ecuador. The Conference adopted the Quito Declaration and Plan of Action, which represents a development of decisive significance for the strengthening of co-operation among the countries of the region, in those areas which the Plan itself indicates as being of urgent importance for facing up to the critical economic conjuncture which, in greater or lesser degree, is affecting the Latin American and Caribbean countries.

It should also be mentioned that the activities of the ECLAC/RIAL programme on new patterns and agents of Latin American regional co-operation included the second meeting of sectoral associations of Latin American firms, held in Lima from 5-8 December 1982 under the joint sponsorship of SELA and ALIDE. The associations which attended the meeting represented a broad spectrum of entrepreneurial activities in the region: the Latin American Shipowners' Association (Asociación Latinoamericana de Armadores - ALAMAR); the Latin American Railways Association (Asociación Latinoamericana de Ferrocarriles - ALAF); the Latin American Food Industries Association (Asociación Latinoamericana de Industriales y Cámaras de la Alimentación - ALICA); the Latin American Banking Federation (Federación Latinoamericana de Bancos - FELABAN); the Latin American Iron and Steel Institute (Instituto Latinoamericano del Fierro y el Acero - ILAFA) and the Latin American Association of Finance and Development Institutions (Asociación Latinoamericana de Instituciones Financieras de Desarrollo - ALIDE).

The main purpose of the meeting was to identify specific modes of co-operation among the above-mentioned regional associations. From this standpoint, the participants recommended the establishment of a liaison mechanism permitting fuller co-ordination and exchange of experience among sectoral associations of Latin American enterprises.

In the sphere of financing, the Caracas Programme of Action, adopted by the Group of 77 in 1981, specifically drew attention to the topic of international investment project bidding and recommended that appropriate measures be taken to eliminate the disadvantages affecting firms in developing countries in this respect.

J. CO-OPERATION WITH COUNTRIES IN SPECIAL SITUATIONS

The stepping-up of integration and co-operation in the various subregions, and particularly with the countries facing special situations, is a permanent objective in the regional sphere.

The countries in which co-operation efforts have been concentrated are Bolivia, Haiti and Nicaragua.

In relation to Bolivia, the problems faced by this country have led the intergovernmental agencies of the region to channel practical activities aimed at alleviating the gravity and intensity of the crisis. The most outstanding efforts have been made in ALADI, SELA, the Andean Group and the River Plate Basin System. In ALADI, the Committee of Representatives, through Resolution 24, established a programme of activities directed towards putting co-operation measures in favour of Bolivia into effect. By virtue of this resolution, Argentina and Brazil signed, during 1983, respective partial-scope agreements covering special measures in the field of trade, financial questions and payments. The member countries of the Association, for their part, following the lines laid down at the Second Meeting of the Council of Ministers (April 1984), decided to expand the schedules for the opening of markets in favour of Bolivian supply, and this decision was materialized through Agreement of Regional Scope No. 1. The foregoing measures were adopted concurrently with the normal work of the Association's system of support for the relatively less economically developed countries.

The Latin American Council of SELA, in its turn, at its Tenth Ordinary Session held in October 1984, adopted decision 203 on "Co-operation with Bolivia". Under this resolution, this country was granted special treatment and a programme of co-ordination and co-operation with Bolivia was adopted, which comprises advisory assistance in the execution of the Rehabilitation and Development Plan formulated by its Government, as well as technical assistance and other forms of co-operation, together with support for the country's negotiations with international financial institutions. This decision also reiterates the need to intensify co-operation with Bolivia, already referred to in decisions 140 and 169, adopted in 1982 and 1983 respectively.

As regards the Andean Group, various measures have been taken within its sphere of competence, particularly in connection with technical assistance to promote diverse national projects. These have obtained increasing financial support from the Andean Development Corporation (Corporación Andina de Fomento - CAF). Similarly, the Andean Reserve Fund (Fondo Andino de Reservas - FAR) has expanded its collaboration with Bolivia in the financial field.

Lastly, the Development Financing Fund of the River Plate Basin has also concentrated its resources in Bolivia, thus making possible several infrastructure projects.

With reference to Haiti, in 1982 SELA adopted its decision 147 on "Strengthening of Co-operation and Assistance for the Economic Development of Haiti". The application of this resolution gave rise to the adoption of decisions 168 and 202 at the next meetings of the Council. In these the countries are exhorted to take, in so far as in them lies, the measures referred to in article 2 of the first decision mentioned. This, in essence, promotes technical assistance on the part of interested countries with a view to "enriching the formulation of projects, ensuring their feasibility and more accurately identifying appropriate measures conducive to their execution".

/As regards

As regards Nicaragua, within the framework of SELA the year 1984 witnessed the conclusion of the activities of the Action Committee for the Reconstruction of Nicaragua (Comité de Acción para la Reconstrucción de Nicaragua - CARN). This body was set up in August 1979 with the participation of 17 Latin American countries. Its basic objective was to support reconstruction programmes through regional technical and financial assistance, and to contribute to the strengthening of Nicaragua's bargaining capacity. The final balance-sheet of CARN's activities is, in general, satisfactory. It succeeded in channelling technical co-operation to the amount of more than 300 man/months in support of twelve different sectors. Conspicuous among these was the housing sector, mainly on account of the assistance afforded by Mexican technicians. With respect to the improvement of bargaining capacity, perhaps the most significant fact relates to the external debt. With the support of Mexico and of technicians from several other countries, Nicaragua succeeded, in 1980 and 1981, in restructuring the profile of its debt in the context of an original regional process. Some of the programmes which were in course of implementation at the end of the Committee's period of activity were absorbed by the Action Committee to Support the Economic and Social Development of Central America (Comité de Acción de Apoyo al Desarrollo Económico y Social de Centroamérica - CADESCA).

In addition, the Latin American Council of SELA, through decision 188 (October 1984), reiterated its "repudiation of the application of coercive measures" and reaffirmed its "deep concern at the United States' failure to comply with the recommendation of the Contracting Parties of GATT on Nicaragua's sugar quota".

At the multilateral level, various initiatives have been launched with a view to co-operating with countries in special situations. A notable case in point is the above-mentioned San José Agreement, which establishes an "oil facility" granted by Mexico and Venezuela in favour of Barbados, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua and Panama. This Agreement, subject to renewal annually, has survived, as already stated, despite the economic and financial difficulties which all the countries, including Mexico and Venezuela, are experiencing. Its coverage has been reduced from 160 million to 130 million barrels daily, a figure which meets current needs. It provides for the automatic right of a buyer country to convert 30% of its account into five-year loans at an interest rate of 8%. In the event of the resources being used for energy projects, the loan period can be extended to up to twenty years, and the annual interest rate is reduced to 6%.

While the original terms of the Agreement on the oil facility have altered because of the difficult economic situation, the maintenance of this undertaking undoubtedly represents an important precedent of regional solidarity which should be projected into other areas.

It should be noted that the attitude of Mexico and Venezuela is not confined to the sphere of energy. In the financial field alone it is worth recalling that in March 1982 the Bank of Mexico increased its participation in the Central American Agreement on Reciprocal Credit from US$ 25 million to US$ 50 million, and that Venezuela has been a member of the Caribbean Development Bank for some years, while Mexico has participated since 1982.

/Central America's

Central America's economic and trade relations with the member countries of ALADI have also been promoted within the legal framework of the 1980 Montevideo Treaty. As was mentioned in the section on trade, Argentina, Mexico and Colombia have signed a total of 14 partial-scope agreements with the Central American countries, including Panama and Cuba. The said agreements are beginning to give impulse to a policy of regionalization on ALADI's part. In so far as this is intensified and projected to the other Caribbean countries, an important step forward will be taken in the field of regional trade co-operation.

The Action Committee to Support the Economic and Social Development of Central America (Comité de Acción de Apoyo al Desarrollo Económico y Social de Centroamérica - CADESCA) was set up by decision 173 of the Latin American Council of SELA. It was formally established in Panama, in December 1983, when the instrument setting it up was signed by nineteen countries. Its central objective is to mobilize funds from regional and extra-regional sources to meet the development priorities which have been fixed by the Central American countries themselves. In other words, it is a question of promoting and supporting the economy of these countries as a form of activity complementary to the peace efforts of the Contadora Group. CADESCA's programme of work includes items of special priority such as food security, support for the activities of the Central American Bank for Economic Integration (Banco Centroamericano de Integración Económica - BCIE), trade and payments, technical co-operation and the continuance of certain specific tasks deriving from the conclusion of CARN's operations. The extent to which these initiatives are carried out will depend essentially upon the effectiveness of the mobilization of the resources available to the participating countries.

The Ninth Session of the Caribbean Development and Co-operation Committee was held in Port of Spain between 29 May and 4 June 1985. An analysis was made of the progress in the programme of work, broken down by its different components. With regard to relations between the Caribbean and Latin America it was noted that encouraging the improvement of relations between the English-speaking and non-English-speaking countries of the Caribbean was a permanent activity which would subsequently be reflected in closer collaboration between the Caribbean and other regional and subregional groupings in Latin America. It was also foreseen that appreciable headway would be made in the coming year, inasmuch as the Secretariat had put into practice several initiatives with diverse organizations in Latin America, as well as with the individual countries.

Moreover, the countries of Latin America and the Caribbean are carrying out various joint activities in connection with different sectoral co-operation agencies. The execution of the Latin American Energy Co-operation Programme (Programa Latinoamericano de Cooperación Energética - PLACE), and the work that is being done in the fishing sector, as well as with respect to fertilizers, sugar and bananas, to mention only the most outstanding instances, reflect the potentialities and prospects of these joint initiatives. Nevertheless, it must be recognized that these activities have been weakened in consequence of the problems which affect and limit the development of the organizations concerned and, in general, the difficulties which the countries have to face. In order to make progress over the short term in forging ties of economic interdependence between all the countries of the region it would indubitably be useful to strengthen and redimension these practical modalities of co-operation.

From this point of view, a useful step would be a new review of the prospects for co-operation and the forms it has taken. In this connection it should be noted, for example, that some instruments which should carry special weight have not been able to gain a firm footing. What is more, others, like the Caribbean Multinational Shipping Corporation (Empresa Naviera Multinacional del Caribe - NAMUCAR) are considerably reducing their activities, which aggravates the problem of transport between the Caribbean and the rest of Latin America.

In short, regional co-operation with countries in special situations has not proved quite as productive as would have been desirable in the present circumstances. It is true that the most serious problems of these countries are of a structural nature and are inherent in their relatively less developed conditions. But it is also true that intra-regional co-operation has not been projected consistently enough to tackle this situation. The gap between high-level declarations of policy and work on the operational plane is also a problem in this connection.

Lastly, it should be recalled that ECLAC, in compliance with resolution 440 (XIX) adopted at its Nineteenth Session (Montevideo, Uruguay, 4-15 May 1981), has carried out various studies on the rest of Latin America's relations with Central America and with the Caribbean. In this connection, the Secretariat presented at the Twentieth Session, held in Lima, Peru from 29 March to 6 April 1984, a document in which some of the main co-operation activities existing between the two groups of countries were reviewed and measures for forging closer links between them were identified.

K. REGIONAL CO-OPERATION IN NEGOTIATIONS WITH TRANSNATIONAL CORPORATIONS

The "transnationalization" of the world economy has profoundly altered the rules of the economic game and is promoting among economic agents lines of behaviour which may run counter to government policies. In the future Latin America will assuredly continue to have to live with transnational corporations, and it is necessary to adopt a broad-ranging approach to the prospects of transnationalization which takes account of new growth patterns in the countries of the region.

Latin America's style of development has been severely criticized for its tendency to a concentrated form of income distribution, for the persistence of extreme poverty, and for its inability to absorb productively large segments of the labour force, as well as for the external vulnerability and loss of national economic management capacity which are reflected in the handling of the external debt. In the post-crisis period and over the long term the development style of the Latin American economies will inescapably have to make radical changes in the current pattern of resource allocation. This implies profound transformations of the distributive structure, a real commitment on the part of governments to provide productive employment for large sectors of the population, and a quest for ways of appreciably relieving the external bottleneck. In other words, the trend will necessarily be towards a new development style whose impulses, incentives and economic growth dynamics will lie --in different degrees and forms and with different timing (depending upon the internal conditions proper to each country)-- in the production of essential consumer goods in general demand throughout the population; i.e., a development style at once more austere and more efficient, in terms of satisfaction of the basic needs of the Latin American population.

The external projection of this new economic rationale, geared to the dynamization of a broader and more integrative domestic market, would be a more autonomous development pattern based on intra-regional integration schemes through which headway could be made in transforming production structures. Several questions would consequently be raised as to the role of the driving forces of development and, in particular, as to the action of the transnational corporations, involved in the process of world transnationalization of development. In this connection, there might be contradictions between the latter process and national objectives aiming at a more integrative and autonomous development style. In view of this, it is perhaps not only necessary but also urgent that the region, basing its approach on its level of development and its productive potential, should make full use of its substantial bargaining power to ensure that the increasing participation of transnational corporations is in keeping with national development programmes. The insertion of the transnational corporations in a more social and democratic conception of development would certainly give them a higher degree of legitimacy, without of course this implying any renunciation of their entrepreneurial rationale.

The increasing transnationalization of the world economy and the generalized crisis affecting Latin America demand the delineation of a form of insertion of transnational enterprises into the economies of the region which is compatible with the new modalities of development.

Note

1/ See document LC/R.367, dated 12 September 1984, entitled "Estudio sobre las restricciones no arancelarias en los países de la Asociación Latinoamericana de Integración (ALADI)".

IV. TECHNICAL AND ECONOMIC CO-OPERATION AMONG THE COUNTRIES OF DEVELOPING REGIONS

A. JOINT ACTION BY THE REGIONAL COMMISSIONS TO PROMOTE AND SUPPORT INTERREGIONAL CO-OPERATION

Co-operation among developing countries at the interregional level has an important agent in the regional commissions, which, through their geographical location, the wide coverage of their mandates, the multidisciplinary nature of their activities, and the experience acquired in the formulation and execution of regional and subregional co-operation projects, are in a position to play a significant role in the promotion and support of technical and economic co-operation among developing countries. Consequently the growing use of links of co-operation, co-ordination and consultation and of joint programming among the regional commissions in recent years has come to be a key instrument for the work of promotion and support of technical co-operation among developing countries (TCDC) and economic co-operation among developing countries (ECDC) on the interregional plane.

In response to the recognition of the importance of co-operation among the developing regions, the regional commissions have taken an active part in the encouragement of interregional co-operation within the framework of the pertinent resolutions and decisions of the United Nations system */ and of the mandates issued by their own legislative organs. During recent years the regional commissions have collaborated closely among themselves to launch projects and programmes designed to stimulate and support co-operation among different developing regions in those areas in which the joint initiative of the regional commissions can be of greatest use to the governments of the interested countries in the respective regions.

In the particular case of ECLAC, this aspect was specifically recognized and emphasized in resolution 438 (XIX) approved by the Commission at its nineteenth session. In this resolution the Executive Secretary is requested to take appropriate measures to strengthen and expand co-operation and co-ordination with the other regional commissions for the continuous exchange of information and experience and for promoting the initiation or strengthening of links between subregional and regional organizations of different geographical areas which have common interests and complementary capacities.

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*/ In its resolution 2043 (LXI) of 5 August 1976 the Economic and Social Council indicated that the regional commissions are the appropriate institutions, within the United Nations system, to act as centres for the formulation, co-ordination and implementation of programmes for the promotion of interregional co-operation. Subsequently the Council once again underlined the instrumental role of the regional commissions for interregional TCDC and ECDC, in its decision 1982/174 adopted on 30 July 1982.

/An important

An important step in achieving the necessary co-ordination among the regional commissions in this regard was the joint proposal prepared by them for the Economic and Social Council and presented by the Secretary-General at the second regular session of the Council held in June 1983.

The analysis of the joint proposal of the regional commissions for the promotion of interregional co-operation led to the adoption of resolution 1983/66, in which the Council requested the Executive Secretaries of the regional commissions to organize periodical consultations among the respective secretariats and with the organizations, specialized agencies and entities of the United Nations system active in TCDC and ECDC at the regional and interregional levels, to ensure effective co-ordination within the system.

In response to this resolution, the Executive Secretaries of the regional commissions met in February 1985 at the headquarters of the Economic Commission for Africa (ECA), at Addis Ababa, on which occasion they discussed possible subject areas for the execution of joint projects between two or more regional commissions. The preliminary proposals subsequently prepared by the different regional commissions were discussed by the Executive Secretaries at their next meeting, held in Geneva in July 1985. The projects prepared by the regional commissions for promoting and supporting co-operation among developing regions are the following:

a) ECLAC: information on trade and promotion of interregional trade; financing of trade; trading agreements and mixed enterprises; trade facilitation; the purchasing power of the public sector and the role of State enterprises; and training in some aspects of the development of mining resources.

b) Economic Commission for Africa (ECA): development of materials for the construction of low-cost housing; fertilizers and pesticides in the context of the Decade for the Industrial Development of Africa; trade between African and Arab countries; use of containers and multimodal transport; and employment opportunities for women and young people in rural areas.

c) Economic and Social Commission for Asia and the Pacific (ESCAP): interregional trade in selected products; information, innovation and enquiry services on the subject of fertilizers; food security, particularly early warning systems; improvement of strategies for the planning, development and utilization of human resources for integrated development; and agricultural saving and credit systems.

These project proposals, taken together, constitute the framework within which it is hoped to develop the next joint initiatives of the regional commissions to achieve the necessary co-ordination with the interested organizations of the United Nations system according to the different spheres covered by the selected topics; to mobilize the resources required in the execution phase of the projects; and to establish appropriate links with national agencies in the different sectors covered by the set of projects.

In addition, the regional commissions prepared a joint presentation for the fourth meeting of the Intergovernmental Follow-up and Co-ordination Committee on

/Economic Co-operation

Economic Co-operation among Developing Countries of the Group of 77, held in Djakarta in August 1985. The Committee periodically reviews the progress made in the fulfilment of the Caracas Programme of Action (CPA) approved by the countries of the Group in 1981, to give effect to economic co-operation among developing countries and regions.*/ The contribution of the United Nations system to the aforesaid Programme has been repeatedly examined and assessed at previous meetings of the Committee (Tunis, 1983 and Cartagena, 1984), thus giving special importance to the different ways in which the regional commissions are effectively contributing to the execution of the CPA within the framework of their respective work programmes, as is manifested in the joint report prepared for the Djakarta meeting.

B. RECENT ACTIVITIES OF ECLAC WITH OTHER REGIONAL COMMISSIONS TO PROMOTE AND SUPPORT INTERREGIONAL CO-OPERATION IN SPECIFIC SECTORS

Within the framework of the project on interregional co-operation carried out by ECLAC and the Economic Commission for Africa (ECA), with the support of UNDP, between 1981 and 1983, a joint meeting of government experts from Africa and Latin America, convened by ECLAC and ECA was held in June 1982 at ECA headquarters in Addis Ababa to discuss means for promoting technical and economic co-operation among the countries of the two regions in selected areas.

At this interregional meeting approval was given to a set of action proposals designed to develop collectively the capacities and infrastructure of the countries of both regions through technical and economic co-operation among them in the spheres of trade, the development and utilization of human resources, and science and technology.

Both the Addis Ababa programme of action and the reports and studies prepared by the ECLAC and ECA Secretariats in the spheres mentioned above were included in the book "Africa and Latin America: the prospects for interregional co-operation" published in Spanish by ECLAC and in English and French by ECA.

As a result of the above-mentioned meeting of experts from Africa and Latin America, ECLAC co-operated with the Economic Commission for Africa in the organization of a tour to several Latin American countries of African specialists in the field of the exploitation of mineral resources, whose experience in this sphere is particularly valuable.

The contacts made during this tour led ECLAC and ECA to hold consultations, in July 1983, in order to prepare a joint project aimed at identifying specific opportunities for interregional co-operation based on the proposals for action emanating from the respective technical meetings on the development of mineral resources held in Africa (Arusha, 1981) and in Latin America (Bogotá, 1982).

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*/ At its thirty-ninth session, the General Assembly adopted resolution 39/216, dated 18 December 1984, in which it urges the organs and organizations of the United Nations system to give increasing support and assistance to economic co-operation among developing countries, taking due account of the Caracas Programme of Action.

/One of

One of the aspects which has recently aroused the interest of the regional commissions in the sphere of the development of mineral resources is the training of personnel skilled in the economic and technical aspects of the sector. In this regard the Secretariats of the regional commissions agreed to entrust to ECLAC the responsibility of preparing a project specifically designed to promote interregional co-operation in this field.

V. INTERNATIONAL CO-OPERATION

A. GENERAL CONSIDERATIONS

Since the Regional Programme of Action for Latin America in the 1980s 1/ was published, the international economic scene has undergone profound transformations which have been particularly prejudicial to Latin America. Some of these transformations have affected the fundamental assumptions on which the analysis and formulation of the Programme were based.

The crisis of international co-operation in the trading, monetary and financial spheres has had particularly serious repercussions on our region, which are largely attributable to the internal and external macro-economic imbalances of the large countries of the Organization for Economic Co-operation and Development (OECD), and to the slackening on average of their general rate of growth.

In the trading field there has been a constant accentuation of the trends towards a managed trade, increasingly at variance with the criteria and especially the norms of the General Agreement on Tariffs and Trade (GATT). Protectionism, especially of a non-tariff type, different forms of subsidized trade, bilateral agreements on voluntary restriction of exports, compensated trade, or counterpart trade, etc.,are outstanding features of this new style of trade.

In the monetary and financial field, the marked rise in real interest rates, coupled with the overvaluation of the dollar, helped to accentuate the imbalances on the external accounts of the industrialized countries and to reduce their dynamism. In particular, the anti-inflationary policies of the centres, applied with special rigour at the beginning of the 1980s, stimulated the great recession of the years 1981-1982, and, although the United States economy recovered later on, there was no such improvement in the European countries. These factors, along with technological transformations with deeper structural roots, have maintained the rates of unemployment above their historical average and have helped to foment the protectionism of the centres. Another result of these processes has been the drastic fall in the prices of primary commodities and --in view of the rise in real interest rates-- the almost intolerable increase in the ratio between the interest on the debt and export revenues for the main debtor countries of Latin America. Thus to the crisis of co-operation in the trading sphere is added --especially in the case of Latin America-- the crisis of financial co-operation. In fact, after the gradual replacement of public credits of multilateral origin by others granted by private banks during the 1970s, the serious problem of indebtedness in the 1980s has not yet found stable and integral solutions in the sphere of international co-operation, putting to a severe test the actions and strategies of the International Monetary Fund (IMF) and of the International Reconstruction and Development Bank (IRDB) in their relationship with the Latin American debtor countries.

292. The impact of this crisis, in so far as it affects the main institutions of international co-operation, is particularly acute in the case of the North-South negotiations and especially as regards those of Latin America with the industrial countries. The summit meeting at Cancún, Mexico, in 1981, the Ministerial Meeting

of GATT in 1982, the Sixth UNCTAD Meeting in 1983, the summit meeting at Bonn and the annual joint meeting of the IMF and IRDB in Seoul in 1985, were important occasions on which the result obtained fell far short of the expectations of the developing countries. This discouraging diagnosis might be extended to the three main areas usually included in negotiation; commodities, trade, and monetary-cum-financial affairs. Without prejudice to a more detailed analysis which figures further on in this chapter, the evolution of North-South relations in the first five years of the 1980s might be summarized thus. In the trading sphere and within the UNCTAD Integrated Programme for Commodities very few additional agreements were concerted beyond the renegotiation of the four already in existence. Similarly, the Common Fund */ has turned out to be a much weaker instrument than was projected at the outset and, besides this, it has not come into force through lack of ratification and finance. Furthermore, from the general standpoint of the structure of North-South trade, there has been no appreciable progress in the negotiations seeking to facilitate structural readjustment and control the advance of protectionism, nor, in particular, in measures to guarantee the stability and continuity of the Generalized System of Preferences. The only really encouraging event in this field has been the initiation of conversations aimed at organizing a new round of negotiations with GATT, but major disputes have already arisen between North and South regarding the topics that should be included in its discussion programme.

Neither has there been success in the financial and monetary field with respect to the proposals for a new allocation of Special Drawing Rights, or for a major increase in the IMF quotas, or an expansion of its Compensatory Financing Facility. Nor was any progress made in the reform of the international monetary system. Other international aspects of interest that will be raised in the following sections relate to the Latin American position as regards production, agricultural trade and the evolution of the levels attained in respect of food self-sufficiency; to the growing disarticulation of OPEC, as a result of the changes in the market structures that depress the price of fuels; to the dwindling and clearly insufficient role of direct foreign investment in the equilibrium of the Latin American external accounts and to the growing trading and financial power of the transnational corporations; to the specific regional achievements --localized in the larger countries-- as regards science and technology, and to the disheartening outlook in respect of progress in the industrial recovery on the international plane. Some considerations will also be included on the subject of transport and --on a broader basis-- on the more general and recent trends in co-operation with some developed areas (the United States, the European Economic Community (EEC) and the member countries of the Council for Mutual Economic Assistance (CMEA).

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*/ The Common Fund --a basic element in the Integrated Programme for Commodities created in virtue of the Resolution 93 (IV) of UNCTAD-- has aimed at ensuring financial resources for the setting up and the functioning of negotiated agreements between producers and consumers. It was thought that a common fund would be more economical than several individual funds according to product, since the prices of these did not rise and fall at the same time.

B. INTERNATIONAL TRADE

With reference to international trade the most unfavourable events for Latin America have been the drastic fall --unprecedented since the 1930s-- in the prices of commodities; the growing protectionism of the centres within the framework of the new forms of managed trade and the disappointing result of the most recent international trade negotiations.

Different factors have contributed to the collapse of the prices of the commodities exported by Latin America (over 32% excluding petroleum in 1980-1985). Firstly, in spite of the United States recovery in the two-year period 1983-1984 the economic growth of the OECD countries in the first half of the 1980s was less than past trends --especially in industry-- and it is well known that fluctuations in commodity prices are always more marked than those in the economic growth of the centres. Secondly, technological changes and new consumption patterns have further reduced the product elasticity of the demand in the central countries for certain industrial inputs (steel, copper, etc.) and the income elasticity of demand for certain foodstuffs (cane sugar, for example). Thirdly, the agricultural protectionism of the United States and the EEC not only contributed to the fall in imports of agricultural products by the OECD, but also to the increase in the supply of products which compete with those of Latin America in other markets. Fourthly, the rise in interest rates on the one hand increased the cost of maintaining big stocks of basic commodities, while on the other it reduced the general economic growth prospects and hence discouraged expectations of a future rise in the prices of those commodities. Finally, the overvaluation of the dollar had a general prejudicial effect on the exports of commodities quoted in that currency, which lost competitiveness in the European and Japanese markets. This list is not, of course, exhaustive, but it includes some of the main factors which have affected international commodity prices.

At the same time, and in the field of market structures, the producers and exporters of commodities face very powerful monopsonies created under the wing of the integrated structures of some transnational corporations in the productive sphere, or under that of the large transnational trading corporations, and this also helps to reduce their negotiating power.

This set of factors has worked against the developing countries in the process of North-South negotiations. At the sixth meeting of UNCTAD (Belgrade 1983) it was agreed to request the Permanent Subcommittee on Commodities to undertake new studies on their processing, marketing and distribution. The results of the meeting of the Permanent Subcommittee held in January, 1985, gave rise to such serious differences of opinion between the delegations of the North and South that the Subcommittee was not able to reach any positive or constructive conclusions.

The experience of several regional associations of producers and exporters of primary products highlights the failure to overcome the chronic problems of excessive supply and the consequent instability of prices. These supply problems have been intensified by the devaluations made by some developing countries to increase their exports, which generated disproportionate increases in production

/in relation

in relation to the potential markets available. As regards co-operation and concertation among Latin American producers and exporters, there is an extensive potential field of action which should be explored and utilized, in order to counteract the growing influence of transnational corporations in this sphere and to avoid the crises that are being created by the excess of supply.

The second aspect worthy of special consideration concerns the protectionism and export subsidies of the centres, within the framework of the increasingly managed forms of international trade. The available indicators show that this problem has intensified throughout the 1980s. The proliferation of compensated trade as a result of the trade imbalances and scarcity of dollars is another important element of this new style. The marked macro-economic disequilibria of important countries of the OECD, especially those of the great power issuing the main reserve currency, have in recent times exacerbated trading frictions and protectionist pressures.

This new atmosphere prevailing in international trade relations has also affected the application of the Generalized System of Preferences for the main trading customers of Latin America, a subject which is treated at greater length in section J of this chapter. Generally speaking the System has maintained or increased the pre-existing mechanisms of graduation and supervision. At the same time a recent proposal put forward by well-known personalities 2/ with a view to the next round of GATT would suggest that the preferential treatment in favour of developing countries has helped to diminish the functioning of the General Agreement, which indirectly casts doubt upon the legitimacy, and even the existence itself, of the Generalized System of Preferences.

The search for new formulas of trade agreements which will avoid further damage, and signify a return to multilateral co-operation, is reflected in the efforts to bring about a new round of negotiations within the framework of GATT. Meanwhile there is a persistence or aggravation of the trading problems in sectors which are strategic for the Latin American economies, such as steel, copper, tin, clothing, and footwear, and also in others of more advanced technology which affect the largest Latin American countries. These problems reflect in their deep structural roots both the resistance to an adequate industrial reconversion in the centres on the part of entrepreneurs and workers engaged in obsolete activities of decreasing productivity, and the struggle to obtain new markets for the development of the more advanced technologies.

With regard to the future of the GATT negotiations, the developing countries have conditioned their participation in a new round on the complete fulfilment of the commitments previously undertaken by the centres in their favour,3/ especially those deriving from the Ministerial Meeting of GATT held in 1982. The developing countries --including those of Latin America-- are opposed to the inclusion of the subject of services on the agenda of a new round of negotiations. They have underlined, besides, that the negotiations should include not only manufactured and semi-manufactured products, but also natural and agricultural resources, and should cover both tariff and non-tariff barriers. These views were expressed and presented at the meeting of the GATT Council held in June 1985 by a group of developing countries which included --on the Latin American side-- Argentina, Brazil, Colombia, Cuba, Jamaica, Nicaragua, Peru and Uruguay.

The Regional Programme of Action 4/ laid great emphasis on the expansion of Latin America's negotiating power, especially through joint measures based on the purchasing power of the manufactures of the region. In this Programme ratification was given to the proposal that common action agreed upon within SELA and the various groups of Latin American representatives at the appropriate forums should be applied *vis-à-vis* protectionist measures affecting regional exports of commodities.5/ The Programme also mentions different measures designed to give additional value to commodities in the different phases of their processing and marketing. Reference has already been made to the scant success of regional negotiations and proposals with regard to these primary products. With respect to measures of symmetrical action, after Decision 44 of the Latin American Council of SELA,6/ these were ratified subsequently but no substantial progress was made nor joint action carried out on the subject.

It should be noted, however, that in the matter of joint Latin American action and in view of the seriousness of the present crisis, ECLAC and SELA, on the initiative of the President of Ecuador, prepared a study to serve as a basis for the adoption of practical measures to tackle the existing crisis. This initiative, which received broad political support, culminated in the Latin American Economic Conference, held in January 1984, on which occasion the Quito Declaration and Plan of Action were approved. The subjects dealt with there concern Latin American economic co-operation and the need to undertake joint and concerted action in the negotiations of Latin America with the developed countries. This Conference gave rise later to successive informal meetings of Latin American Presidents (Montevideo, Lima, etc.) at which consideration of the burning problems of the crisis was continued.

Moreover, in response to mandates explicitly formulated by the member governments of ECLAC in the Regional Programme of Action for Latin America in the 1980s, the Secretariat of the Commission is concluding studies on the mechanisms of regional defence and negotiation in face of the protectionism of the centres, and on the way in which to advance towards raising the value of the commodities exported by the region.

C. EXTERNAL DEBT, FINANCING AND OTHER MONETARY PROBLEMS

The economic crisis of the 1980s not only dramatically intensified regional indebtedness but also changed the direction of the financial and capital flows, converting the region into a net exporter of capital. Factors directly affecting this change were the brusque paralyzation of bank credits, the reduction of the flows of foreign investment and the flight of capital.

The flow of net bank credits to the region, which in 1982 amounted to US$ 11.4 billion, fell practically to half in the following year, and became negative in 1984 and the first half of 1985. In contrast, payments of interest and profits to the exterior remained fluctuating closely around an average of US$ 36 billion per year throughout the whole period for the countries of the region as a whole.

/The inflow

The inflow of foreign investment into Latin America also suffered a drastic fall from 1982 onwards. The figures available show that, from an average of US$ 5.2 billion between 1977 and 1982, foreign investment fell to half in 1983 and 1984.

The flight of capital likewise seems to show major increases. The indirect estimates that can be made through using the "errors and omissions" figures of the balance of payments and the discrepancies between the values of imports and exports at the international level point clearly in this direction.

The elements responsible for setting off this situation are to be found in the functioning of the international monetary and financial system itself, specifically in the lack of symmetry in the process of adjustment. In fact, once the global disequilibrium had been created, especially through problems of economic policy in the large centres, the obligation to adjust that was imposed on the rest of the countries led to drastic policies which affected the confidence of the creditor institutions and investors of the private sector, along with that of the citizens of the debtor countries themselves.

In particular, it is common knowledge that the commercial banks, acting in concert, played a procyclical role which accentuated the external imbalances of the debtor countries in our region. The domestic adjustment policies applied in reaction to these imbalances affected the stability of numerous enterprises and induced them to diversify their risk and finally to deposit in the exterior, through official and unofficial channels, a considerable proportion of their resources.

As a result of all this, the Latin American countries have become involuntary net suppliers of resources to the external financial sector in an amount which, since 1982, has come to US$ 106 billion. In this period the net inflow of capital in respect of credits and direct investments was not sufficient to finance even 30% of the net payments of interest and profits, whereas in the seven preceding years the net inflow of capital was practically double the payments in respect of profits and interest (191%).

In view of the seriousness of this situation, the Latin American countries have held numerous meetings and formulated a set of proposals and declarations in different regional fora that it would take too long to enumerate here. Outstanding among these is the above-mentioned Latin American Economic Conference at Quito. Following the Declaration and Plan of Action issued at this Conference, the Latin American countries, disturbed by the future projections of the debt crisis, adopted what is known as the Cartagena Consensus. On that occasion procedures of co-operation were established on the subject of reciprocal information, along with a programme of meetings which are being co-ordinated by a temporary secretariat. These meetings are convened at ministerial level and are attended by secretaries of state, foreign affairs, finance and economy.

The initiative recently announced by the Secretary of the Treasury of the United States, for its part, has the merit of acknowledging the importance of growth and the need for action on the part of creditors to tackle the debt problem. However, the amounts announced are not sufficient to reconcile debt servicing with economic growth, and the proposal also implies additional elements of conditionality.

/The problem

The problem of the Latin American external sector has two basic roots: on the one hand, the volume and prices of exports and, on the other, the international interest rates. While trade remains depressed and interest rates remain high there can be no reasonable solution to the financial problem of the external sector. The degree of compression of the domestic economy needed to achieve the required economic adjustment would not appear to be sustainable for long.

Moreover, this situation generates a vicious circle: unless trade improves and interest rates fall there will be no encouragement for the international commercial banks to maintain a normal flow of loans to the debtor countries, whereas it will be impossible for the latter to fulfil their debt-servicing commitments on the terms originally agreed, which would discourage still further the private creditors. There is here a clear link between trade and the financing needed to enable the vicious circle to be broken, and this will certainly become the central theme of the negotiations at international level.

Equally important for the debtor countries is a reduction in interest payments. This might be achieved through a reduction in interest rates in the world market. Such a reduction should not depend, however, on substantial progress in the reduction of the fiscal deficit and the orderly management of monetary policy in the developed countries. Hence there have been proposals for the reduction of interest payments even within the present framework of economic policies.

Among these options there have been fairly frequent references to automatic capitalization, refinancing --voluntary or involuntary-- and the partial reconversion of the debt.

Calls for this type of solution have been appearing --it must be repeated-- because the growth rates of the world economy are absolutely insufficient to create a natural way out of the debt problem. The most important international agencies coincide in predicting that the growth of the world economy will be relatively weak and in no case sufficient to ensure per se appropriate growth rates for exports and their prices. The estimates of some experts, which mentioned the figure of a 3% growth in the world economy as the minimum for the automatic solution of the problem of the debt, have been clearly discredited by the results of this economy in 1985. The results appear to indicate that the growth rate would have to be over 4% in order to provide a solution to the debt problem.7/ Rates of this magnitude are not expected in the near future.

Furthermore, even if this dynamization were really to occur --a development which is hoped-for but unlikely-- the probability of a new debilitation of the world economy would always be present, manifesting the lack of stabilizing mechanisms which would reduce the effects of the restrictive policies of the industrial countries on the external sector of the debtor developing countries. In view of the level of the external debt contracted at a floating rate, the changes in the interest rates cause heavy repercussions on the external equilibrium of these countries. These unpredictable adverse effects originate in policy measures adopted to suit the needs and interests of the international financial centres.

/One way

One way of maintaining sufficient freedom in the management of the economic policy of these centres would be to set up automatic stabilizing mechanisms in the international financial system to cushion the effect of the variations in the interest rates on the debtor developing countries. These mechanisms may consist of special services, similar to the compensatory financing facility of the IMF, to mitigate the effects of the fall in export prices, or of automatic mechanisms to capitalize interest commitments over certain limits.

Within the general panorama of external financing in Latin America, the multilateral agencies must play an increasingly important role, since credit from private sources is expected to be very weak for a prolonged period. For this reason the increases of capital from the World Bank and the IDB, along with other sources of funds to which these agencies may have access, become a subject of priority importance. Equally crucial are the conditions on which the loans of these agencies are granted.

D. ENERGY

The main aspects of the world economic trend which have impinged on the field of energy in the 1980s have been the decline in oil prices and the loss of dynamism in the world economy.

These two factors largely explain the principal movements in the world energy markets since 1980: the relaxation of the pressure which expenditure on petroleum exercised on the trade balance of the importing countries;*/ major advances in efficiency, reflected in the marked fall in energy inputs per unit of product in real terms, especially in the developed economies; the sluggish evolution of world trade in petroleum and energy-related equipment; low rates of investment in industries associated with energy and natural resources; the heavy burden, for the developing countries, of the current financing of investment projects in technology and natural resources which were conceived and initiated in the 1970s and early 1980s; and --in the framework of the present critical conditions-- the growing difficulty of obtaining external finance specifically earmarked for such purposes.

Two central aspects of the present energy market relate to the emergence of new suppliers of petroleum --Mexico, Norway, the United Kingdom and the Soviet Union-- outside the OPEC framework, and the rise of alternative sources of energy, including fuels not derived from petroleum.8/ In the short and medium term the first aspect has particular importance. The incorporation of new suppliers outside OPEC obviously reduces the capacity of the latter organization to fix the prices of crude. OPEC has reacted by fixing maximum levels of production for its members, implanting a system of control and verification of production, exports and prices, and establishing a new structure of prices and price margins. Nonetheless, these measures have been offset by the sluggish growth of demand for petroleum; by the existence of a typical buyers' market; by the overvaluation --recently mitigated-- of the dollar in relation to the other reserve hard currencies, and by the unilateral action of some non-OPEC producers.

*/ This relief, however, was significantly offset in those countries which, to promote their export revenues, devalued their currencies in relation to the dollar.

With regard to the rise of new sources of energy, the magnitude and extent of their effects will only become known in the long term. In what remains of the present decade, the price of petroleum will largely depend on the capacity for internal concertation displayed by OPEC and on the interests and elements of power that affect the relations of this organization both with producers outside OPEC and with the large transnational corporations which are at the same time oil producers and intermediaries.

E. FOOD AND AGRICULTURE

1. Evaluation

Between 1980 and 1984 the gross regional production in food and agriculture has not progressed in relation to the objective of achieving an expansion of 4.4% per year postulated in the regional agricultural programme; on the contrary, it has lost ground, increasing barely 2.0% per year. The deterioration is even more serious if one considers that nine countries in the region recorded negative rates. In these circumstances, the contribution of national production to the per capita food supply in several countries of the region has recorded only negligible increases and in others, particularly in those in which these supplies were already meagre, the decline in the per capita supply of food was felt even more severely. Since no progress has been made in the region towards the establishment of an adequate system of food reserves or in putting into practice an efficient regional information and warning system, and there has been a fall in food imports, nutritional insecurity has intensified.

Capital formation in regional agriculture as a whole, and in its individual components, has diminished since the beginning of the decade, as a result of the repercussions of the adjustment programmes and the ensuing contraction of credit and public expenditure destined for agriculture. At the same time there has been a reduction in external financial assistance because more rigorous conditions were applied to the official commitments with agriculture, whose component and concessionary conditions fell considerably, and because of the delay in the disbursements in respect of the commitments. There was also a decline in commitments of foreign assistance for the supply of fertilizers, pesticides and seeds and for aid in the form of fertilizers.

The International Fund for Agricultural Development (IFAD) has prepared various criteria for co-operation with governments in the solution of the numerous and serious problems of rural poverty and hunger. Since the early 1980s it has approved loans to finance 24 projects in 20 countries of the region, designed to increase small farmers' output.

Agricultural research in the region remains very backward as compared with that of the developed countries, both in absolute and in relative terms. Some progress has been made, but there is still a great deal to do, particularly in the orientation of international research resources towards crops and ecological conditions and towards institutions of interest to the most needy countries and small farmers.

/The importance

The importance of international trade for the achievement of national and regional food security has been manifest in recent years, but its utilization for this purpose has been restricted by the scarcity of foreign exchange confronting the countries. After their drastic reduction in 1982 and 1983, regional food imports grew by 4.6% in 1984 owing to the increased purchases of wheat, dairy products and meat; those of oilseeds remained relatively low.

The recessive features of international trade have had highly adverse effects on markets, prices and even on the functioning of international agreements on major commodities. Added to this there are the consequences of the protectionism applied in recent years by the developed countries and the ensuing arbitrary disorganization of trade movements, which, taken together, have changed the linkages with traditionally important markets for the agricultural exports of the region. The case of beef is an example of this.

In these latter years, the concertation of common positions and the utilization of the region's capacity to react have been concentrated on the renegotiation of the external debt and the consideration of the more critical conjunctural situations. It is to be hoped that both approaches will soon be centred on regional food security, in which an important role must be played by intra-Latin American co-operation.

2. Policies

The early years of the 1980s have been a particularly unfavourable period as regards international co-operation received by the countries of the region in the area of food and agriculture; nor have they been propitious for the negotiation of international commodity agreements to ensure greater stability in the world markets of food and agricultural products. In general, the drastic fall in many international prices of products in the early years of the decade, coupled with the volatile instability of prices, have confused both consumers and producers as regards the world market and have increased uncertainty respecting the appropriate levels at which these prices should be stabilized and the correct adjustment of production and consumption.

The hardening of competition among exporters for markets in this period in which the demand for imports has been generally depressed and the forms of utilization of exportable surpluses have changed in the world has aggravated the difficulties faced by international efforts to stabilize the markets and to introduce appropriate adjustments in national policies. There has been at the same time an apparent trend towards greater polarization of political opinions regarding the degrees of intervention in the functioning of the international commodity markets.

The negotiations to conclude a new International Sugar Agreement failed in 1983/1984, mainly owing to the incapacity of the large exporting countries to reach a consensus on the distribution of the market among themselves in order to establish reference export availabilities. The successive attempts made in 1984 and 1985 to negotiate a new International Cocoa Agreement could not overcome the differences between producers and consumers as to the economic dispositions --the key to the price range-- their analysis and annual review and the forms and dimensions of the supplementary plan for the formation and retention of stocks. The International Coffee Agreement concluded in 1983 is now being applied and decisions have been taken regarding prices, export quotas for the 1984/1985 and 1985/1986 harvests, new regulations for declaring shortages and other operational matters for 1985. The International Agreement on Dairy Products concluded under GATT has run into difficulties in trying to ensure that the minimum prices agreed for dairy subproducts were respected in 1984 and 1985. The UNCTAD Integrated Programme for Commodities has been virtually at a standstill during recent years, except in the negotiations on jute and tropical timber.

No consensus has been reached on the renewal of negotiations for a new International Wheat Agreement containing economic clauses. There has still been no application of the Agreement to create a Common Fund for Commodities, whose First Account is expected to help to stabilize the international markets. In June 1985 the Agreement had been ratified by 85 countries out of the necessary minimum of 90, but they represent barely 51% of the directly paid-up capital, as against the total of two-thirds needed.

The increased food insecurity affecting the region, particularly in 1982 and 1983, was partly due to problems outside the food and agricultural sector, especially monetary and energy problems. It has become manifest that food security cannot be regarded as linked almost exclusively to agriculture; there are many complex issues involved, particulary in the countries which are heavily dependent on food imports. For these assistance in respect of food may come to have as much importance as that relating to fuels or capital. It must be recognized, at the same time, that the different objectives and effects of the various categories of food assistance --for programmes, projects and emergency situations-- may come to be important contributions to the development process, always provided that an appropriate policy framework is established for the effective distribution of this assistance and that this is linked with global development policies, plans and programmes in the countries that receive it.

3. Reactivation and reorientation of international co-operation

The difficulties relating to the negotiation and application of commodity agreements are due in part to the instability and uncertainty of the market situation which they are attempting to stabilize and in part to the fact that attempts have been made to remedy the symptoms instead of attacking the causes of the fluctuations in supply and the disequilibrium of the market. The dispositions and arrangements that are made may soften the short-term fluctuations of supplies and prices but they cannot be expected to counteract the long-term structural imbalances between supply and demand, which are attributable to the failure of the national policies designed to stimulate adjustments between food production and consumption. It seems essential that international agreements should give more importance to external assistance and to national policies, instead of concentrating on prices and volumes, through which they hope to reconcile the varied expectations and aspirations and conflicting interests of the countries taking part.

International commodity agreements combined with national policies directed to adjustment may make an appreciable contribution to world and regional food security. To support the measures which the countries of the region may adopt in this regard it is essential that the developed countries should substantially increase their financial aid to agriculture, both bilateral and multilateral, so that it may be possible to give timely assistance to the increased need for investment on the part of Latin American agriculture.

/The well-known

The well-known asymmetry of Latin America's form of insertion in the international economy must be progressively reduced, so that agricultural products may be exported which have a more elastic international demand in the world markets and which are also capable of incorporating a greater added value.

F. THE INFLUENCE OF TRANSNATIONAL CORPORATIONS IN THE REGION

Throughout the 1980s the influence of transnational corporations --in the broadest and most far-reaching sense of the term-- over the Latin American economies was apparent in three main fields.

Firstly, in connection with that feature which has in the past been the favorite subject of most reports on this question, and which is linked to the location or expansion of such enterprises in Latin American territory, the accrued value of direct foreign investment in Latin America reached approximately US$ 60 billion at the end of 1984, and had been at this level in nominal terms since 1981. Direct foreign investment from the United States represented slightly more than half the total and was in excess of US$ 30 billion.

Between 1976 and 1981 direct foreign investment grew steadily, reaching US$ 7.5 billion in the latter year. Nevertheless, in following years a sharp drop occurred, and investment was barely more than one-third of that amount in 1983. In this respect, and if the imbalances on the region's external accounts are borne in mind, direct foreign investment, contrary to what is generally assumed, has been procyclical rather than anticyclical.

Latin America's share of the accrued direct foreign investment made by the central countries in developing countries continues to represent more than half the total.

In 1983, however, Asia for the first time received a greater flow of investment than Latin America, whose share of investment fell to 35%.9/

Estimates made at the end of the 1970s had assumed that the product generated by these enterprises was around 8% of the region's gross domestic product, but in the industrial sector this proportion fluctuated between 20 and 25%. Some provisional data indicate that so far these percentages have tended to decline in the 1980s. Similarly, the share of transnational enterprises in Latin America's external trade represented around 25% of the total, yet their contribution to the trade balance was negative, as their exports did not generate sufficient foreign currency to cover their own imports. Unfortunately, more up-to-date information on the 1980s which would make it possible to assess how these features have evolved is not available.

It is perhaps worth pointing out that in 1983 the share of accumulated direct foreign investment, as a percentage of total external liabilities (defined as the sum of direct external investment plus the external debt) was as follows for the countries shown: Argentina, 11.6%; Brazil, 21.8%; Colombia, 19.5%; Chile, 17.5%; Mexico, 13.2%; Peru, 16.8%; and Venezuela, 10.9%. As can be seen, in none of the countries indicated --which, with the exception of Colombia, are affected by serious indebtedness-- did the contribution of direct investment exceed 25% of the total:10/ a share which is of course far lower than that which existed at the beginning of the 1970s.

/It should

It should be pointed out that Brazil has received greater direct foreign investment than any other developing country in the world. At the end of 1983 the amount was more than US$ 22 billion. The Latin American country which occupies second place as the recipient of this type of investment —Mexico— attained only half this amount.

The regulations which govern the entry of direct foreign investment affect the percentages indicated. In Argentina investment in some sectors must have been previously approved by the government. These sectors include certain public services —communications, energy, financial and insurance institutions and in general any investment of this nature in excess of a certain amount. In Brazil, entry of such investment is not generally affected by restrictions, although strict control is exercised in certain fields, such as the production and marketing of micro and mini computers, which are restricted to Brazilian firms. Nonetheless, such investment as well as the reinvestment of profits must be registered, to ensure control over the repatriation of capital and profits. In Mexico further flows of direct external investment into banking and insurance are prohibited. Furthermore, certain sectors —radio, television, public transport, forestry, etc.— are reserved for Mexican investors alone. Others, including petroleum, basic petrochemicals, electricity, nuclear energy, railways, telecommunications, etc., are the preserve of public investment. In any case, all direct foreign investment must be registered.11/ The regulation of the entry of private investment is a field where there is scope for concertation and agreements among the countries of the region.

Secondly, another main area in which the influence of transnational corporations in the region is apparent is connected with external trade and in particular with the structuring of the markets for the basic commodities which Latin America exports. Generally speaking, and as a preliminary indication of the magnitudes involved, at the beginning of this decade the major trading companies controlled approximately 70% or 80% of total world trade in basic commodities, which then represented US$ 980 billion. This figure includes US$ 230 billion out of the total of US$ 306 billion of crude petroleum exports controlled by the major world producers and distributors of the product, and approximately US$ 500 billion of the US$ 670 billion corresponding to the other basic commodities, controlled by trading companies dealing with a number of products and by the trading subsidiaries of transnational industrial corporations.12/

Moreover, data relating to 1981 for United States imports made through affiliated enterprises, which are those firms in which 5% or more of voting shares belong to the company with which they deal, reveal that more than half of the United States imports from Latin America fell into this category. Analysis of United States trade carried on through affiliated enterprises would seem to indicate that the degree of trade within a single firm shows a tendency to increase in accordance with the degree of processing of the product.

In the light of these facts, the possibility of setting up Latin American trading companies —or of extending the scope of those which already exist— would appear to be fully justifiable, above all if they diversify the range of their tradeable products. Such initiatives could strengthen regional negotiating power *vis-à-vis* transnational corporations, develop joint activities, increase reciprocal

/information (particularly

information (particularly in the field of harmonization and standardization of trading contracts), more efficiently control restrictive trading practices, attempt to reach users and consumers in the centres in a more direct manner, and, in short, pursue various kinds of concerted and co-operative action at the regional level.

The third area in which the influence of transnational corporations in the region is apparent is related to the private transnational creditor banks. This feature was examined in section C with special reference to the procyclical role played by these banks in the crisis of the 1980s. The negotiating power of these banks, and their recent behaviour at the various meetings held to negotiate the Latin American debt, has been the subject of a variety of studies and observations, whose broad dissemination makes it unnecessary to examine the theme in greater detail in this section.

G. TECHNOLOGY

Governments are intensifying their efforts to develop technological policies in keeping with the lines of their development policy. Nonetheless, activities aimed at technological development have so far continued to receive very little attention.

When the present crisis broke out, the countries in the region had an annual expenditure on science and technology of between US$ 2.5 and US$ 3 billion, equivalent to approximately 0.3% of the regional product; almost half these funds corresponded to Brazil. The restrictions on resources as a result of adjustments to face the crisis has no doubt contributed to a further contraction in these investments. These efforts in the field of research and development are far inferior to those made by developed countries of similar size.

Information on small European countries suggests that while the number of inhabitants may be comparable, the per capita levels of expenditure are far lower in Latin America and are comparable (as also is the expenditure on science and technology as a proportion of the gross domestic product) with those of Spain, Portugal and Greece, which the OECD classifies as countries assigning "low priority to research and development". In absolute terms Latin American expenditure would appear to be of a similar level to that of Canada or Italy.

The shortage of investment resources brought about by the crisis and the net transfers of resources abroad mean that technical progress represents an opening of even greater strategic importance than before, which the countries of the region could use to diminish the enormous distance separating them from other countries as regards development and to improve their standards of living. Although it is urgent to make progress in this direction, there has nevertheless been a weakening of the traditional sources of technology: direct foreign investors are more reluctant to invest in the region; imports of capital goods and technology encounter the constraints imposed by the external adjustment; and the already-mentioned low level of expenditure on science and technology considerably restricts the development of local technological capacity.

/Capital goods

Capital goods supply and demand in Latin America have certain features which it is impossible to ignore —in the light of the present crisis— in the future programming of regional technological policy. A high proportion of regional demand originates from sectors in which there is only a small number of potential purchasers. This is particularly so in the mining, petroleum extraction, electrical energy, petrochemicals, refineries, steel-making, pulp and paper, railways and air and sea transport sectors. These represent no less than one-third of total regional demand for equipment. The concentration of demand for equipment among a small number of purchasers, who are generally easy to identify, gives particular interest to the economic sectors mentioned. Moreover, in many cases the main purchasers are State enterprises. The technology employed in the manufacture of a considerable proportion of the equipment required by these sectors is not over-complex, and mainly involves boiler-making, structural engineering and other relatively routine mechanical processes. The three largest countries in the region, as well as all the medium-sized and some of the small countries, possess installed manufacturing capacity which would enable them to satisfy the above-mentioned demand on a local basis. Nevertheless, mainly as a result of the lack of explicit policies and support mechanisms for domestic sales, almost all the requirements of the medium-sized and small countries are satisfied by extra-regional purchases, a fact which is also true of the larger countries, although to a lesser degree. This behaviour pattern militates, albeit indirectly, against the region's technological progress.

In order to solve this problem it is essential to apply strategies which favour the development in each country of scientific and technological capacity of an international level, in areas which have been chosen on the basis of the desire to take advantage of local resources and of the possibilities for complementation and the generation of external economies within a climate encouraging creativity. It is also necessary to conceive sustained technological policies which attempt to bring down as far as possible the costs of research and development activities by making optimum use of resources --within suitable lead times-- and which actively promote the application of know-how and technological progress to productive activities. It is necessary to give priority to the development and consolidation of those technological resources (human, institutional, infrastructural and linked to information processing) which interact in fields in which there is a broad spectrum of applications, and of technologies which can be widely disseminated or which offer multiple possibilities for endogenous complementation and dynamization. It is also necessary to explore to the utmost the possibilities of regional complementation for undertaking joint projects and maintaining research and development networks whose combined dimensions and capacity are sufficient to achieve levels of excellence.

Before the crisis broke out, the most technologically advanced countries in the region had already demonstrated their capacity to compete, in certain items, with imported technology from the central countries. This was reflected in certain technological choices made in relation to supplies for their domestic markets and, in particular, in the export of engineering services and of turn-key plants to other countries in the region. The present harsh circumstances have undoubtedly affected the dynamism of such trends, which could be strengthened by the application of imaginative compensatory mechanisms, either in the field of payments or in that of trade.

/The technological

The technological policies of the countries of the region must face a permanent challenge: that of the need to combine the promotion and development of suitable technology with the achievement of levels of excellence in technological resources and the adoption of techniques which ensure adequate levels of international competitiveness. This challenge is made doubly hard to meet in the present critical phase by the shortage of capital, the limited import capacity and the urgent need to improve the worsened standards of living and to satisfy basic needs which have been neglected. In such circumstances, it may be more appropriate to adopt technologies which make less intensive use of capital and more intensive use of labour and local resources, as well as being better adapted to the satisfactory functioning of the ecosystems, lending themselves to smaller scales of production, and leading to the manufacture of products whose characteristics are more appropriate as regards the redirection of domestic demand and the reduction of external vulnerability. Moreover, in order to make optimum use of available resources so as to maximize the possibilities for improving the levels of well-being, it is in general necessary to adopt technologies which ensure adequate international competitive potential. Both features need to be analysed in a dynamic context, with particular attention to the development of human resources, the consolidation of technological and productive complementarity, and possible changes in the patterns of international specialization. The key strategy allowing these requirements to be combined would seem to lie in the development of first-rate technological resources, integrated into the productive apparatus by links capable of nurturing processes of endogenous dynamization, generating autonomous technological solutions, interacting with foreign technology, analysing the appropriateness of the options offered by the latter and, if necessary, competing with it.

The need to base growth strategies on sound technological development faces many hurdles. To start with, investment resources (particularly public funds) for broadening support for research and development are scarce. Nevertheless, the consolidation of technological development capacity is so vital for redirecting socio-economic development in the countries of the region that the provision of financial resources is a major social priority. In view of the high social cost of the resources and the magnitude of other areas of deprivation, however, it is vital that the resources devoted to scientific and technological development should be allocated in accordance with clear strategies, should concentrate on activities whose foreseeable social yield is high, and should maximize the possibilities of complementation betwen scientific and technological activities as well as between these and the productive apparatus.

In order to carry out strategies which favour both the concentration of technological resources and the dissemination of creativity, it is necessary to strengthen and at the same time give greater flexibility to the scientific and technological structure, transcending the specific interests of the professional groups. Rapid progress is required in both areas.

In spite of the considerable expansion of post-secondary education, an appreciable number of shortcomings still remain regarding the training of human resources of key importance for technological development, particularly in those areas in which technical progress is most dynamic and in which there is the greatest lack of integration between the available supply of technology and the requirements of the productive apparatus.

/At all

At all events, too little attention is paid to the technological dimension and to promoting the theme of creativity and national technological development throughout society. The conception of educational processes, the content of the mass media, official orientations and assessments of the various productive activities, and the performance of public enterprises and bodies themselves, reveal an insufficient and occasionally distorted awareness of the possibilities for developing local creativity and innovative capacity and of the advantages this may have for personal and societal development.

In 1982, the fifth session of the United Nations Conference on an International Code of Conduct on the Transfer of Technology took place, yet little progress has been made and a number of questions remain unanswered relating to international transactions in respect of technology transfer, to almost all aspects of the regulation of practices and agreements involving technology transfer, to the settlement of differences and the applicable laws, as well as to the international institutional machinery. It will be difficult to go beyond the declarations already agreed upon unless determined joint action is taken by the developing countries to link negotiations over the Code with themes of interest to the developed countries, such as the GATT negotiations on the services trade.

H. WORLD INDUSTRIAL REORGANIZATION

The proposals made in the Regional Programme of Action for Latin America in the 1980s 13/ relating to this subject reflect the views and aspirations which existed towards the end of the 1970s: an expanding world economy, increasing importance of international trade, the likelihood of industrial redeployment from the developed countries towards the developing ones in those activities in which the former were aware of losing their comparative advantages, and finally the real possibility of achieving a favourable consensus on the optimum and rational allocation of industrial production in the world.

The events which occurred during the first half of the present decade have made it necessary to alter the views and consequently the aspirations in question. Factors which converge in this direction are the lower expectations as regards the rate of growth of the world economy; the possibility that sustained expansion of world trade will be interrupted for a number of years; the intense and systematic effort on the part of the developed countries to lessen their disadvantages in those sectors that make intensive use of labour and natural resources, which implies the reconversion and modernization of traditional industrial sectors rather than their redeployment towards the South; their simultaneous endeavours to create comparative advantages in those sectors which make intensive use of the most advanced technology; and, finally, the diversity of the external and domestic challenges which are facing Europe, the United States and Japan, and which affect the possibility of establishing an international consensus on the optimum and rational allocation of world production.

Within this context the establishment of surveillance mechanisms allowing for the systematic monitoring of the changes under way in the central countries and of the new industrial and technological trends so as to assess their repercussions

/upon the

upon the industrial and technological policy developed by the countries of Latin America is especially important. In this respect, ECLAC and the United Nations Industrial Development Organization (UNIDO) have jointly undertaken, in close collaboration with the governments of the region, a regional monitoring programme for industrial reorganization which covers both general and sectoral aspects of the process.

It is worth emphasizing that in the North-South negotiations which have taken place in recent years, the theme of industry has been systematically absent and attention has been focused on energy, agriculture, finance, and more recently services. Exclusion of the theme of industry is even more serious in so far as it is acknowledged to represent precisely that area of production which furthers technical progress and with which, for the same reason, those sectoral activities which have been or are at present the subject of negotiation all tie in. The system of consultation on the industrial sector which has been promoted by UNIDO could, if suitably adapted, represent an efficient and constructive means for filling this want.

With this outlook, impetus should be given to consultatory sectoral meetings at the regional level under the auspices of UNIDO, at which it would be possible to define positions that would later be set out at the relevent world-level meetings. Thus, for example, ECLAC and UNIDO convened a regional expert meeting, in preparation for the second world meeting on the capital goods industry, with special reference to energy-related technology and equipment.

I. TRANSPORT

In the international sphere, transport has been marked over the last five-year period by a generalized excess of credit for the purchase of equipment, contrasting with insufficient resources for looking closely into the type of equipment needed, or even into whether other changes of a different kind would produce better results than would an increase in equipment. This holds equally true for the shipping owner who is considering acquiring additional tonnage, for the haulier who desires to purchase a new truck, for the airline interested in modernizing its fleet, and for the city which is seeking to increase the capacity of its subway.

This problem is particularly serious in the case of sea transport, as there is a big excess of services together with a pronounced shortage of cargo. The origins of such a situation are to be found in the rises in the cost of oil which began in 1973, and whose consequences have led to deep and permanent structural changes in the volume and direction of trade flows at the worldwide level. It is well known that radical changes can occur in these flows within a period of only 18 months, while a ship intended for a specific branch of transport has a useful life of up to 20 years.

The structural changes have in turn given rise to a new setting as regards legal measures, which is the result of action taken both by developing countries and by industrial countries and international organizations and which merits careful study in order to assess its precise repercussions on the region's fleets. One aspect which must be investigated with particular care is connected with regulations concerning reserved cargo in the countries of Latin America and the Caribbean, and their effect upon the size of the fleets of these countries. Consideration could be given, for example, to the advisability of requiring any firm which wishes to benefit from the protection provided by the system of reserved cargo to fulfil certain minimum requirements regarding profitability, technology, tonnage, routes and frequencies of service.

Another aspect of the problem concerns the relationship between maritime and land transport. Clearly, maritime transport can hardly serve the majority of its users without land links between the wharf and the point of origin or final destination of the cargo. The structural changes mentioned have also affected land transport, which is one of the key elements in the chain of distribution, and in many cases have made it possible to improve levels of efficiency and to achieve remarkable reductions in costs. It is to be expected that in many countries in the region it will be in the interest of major shipping consortia to promote the installation of the land-based infrastructure necessary for taking full advantage of these technologies, as well as to work to bring about the corresponding legal changes. Although the countries might share the resulting benefits, these technologies may represent huge investments which not all are capable of bearing, and the legal changes could have unfavourable political and social repercussions, so that it is necessary to carefully examine the options available.

Factors similar to those mentioned have had considerable incidence on air transport over the last five years. Finance has been readily available for the purchase of new aircraft, and far-reaching technological and legal changes have taken place. The introduction of a new generation of aircraft and other equipment with low fuel consumption has made it possible to achieve significant savings in operating costs. Moreover, the abolition of a variety of provisions applying to air transport in the United States, as well as the widespread liberalization of regulations in other countries, has sparked off sharp competition reflected in the establishment of exceptionally low special tariffs which have led to increases in tourist traffic, with extremely satisfactory consequences for the income of some countries for which the tourist industry is a major source of foreign currency.

Many airlines in developing countries are experiencing their own crisis caused by the joint decline in traffic and tariffs, which prevents them from acquiring more efficient new equipment. In some cases, freight transport is also affected, as the decline in imports may lead to disequilibria in traffic with unfavourable effects on the export of perishable goods by air. An objective source of technical assistance, in no way tied to the sale of equipment, should be made available as soon as possible so as to provide help in reorganizing an industry which in some countries is in a precarious position.

Urban transport is another field in which an excess of credit is available for equipment. In the past, this sector has been largely dependent on the transfer of technology from the industrialized countries. For this reason, their transport systems have been imitated in many cities in the developing world, which possess networks of urban railways, motorways and automobile industries that are not always the most suitable answers to the problems of mass passenger transport.

/Although there

Although there are still supplies of credit for the purchase of urban transport equipment, the economic crisis in Latin America and the Caribbean restricts the funds available for paying such debts and for obtaining credit for setting up infrastructure. This fact has led to a slight change of focus towards solutions based on operational rationalization of the existing systems. Various international co-operation bodies in industrialized countries have launched programmes aimed at promoting the transfer of their experience in this field to developing countries, and at encouraging an increase in the exchange of ideas between the latter. In the immediate future not only must such exchanges be increased, but also exchanges between Latin America and the Caribbean and other regions facing the same situation, as the developing countries have considerable potential for producing original solutions to problems related to mass passenger transport.

J. CO-OPERATION WITH DEVELOPED AREAS

1. The United States

Between 1980 and 1984 a number of important changes took place in trade relations between the countries of Latin America and the United States, affecting both the structure of reciprocal trade and the balance of export and import flows.

After a period of relative stagnation in 1980-1982, Latin American exports to the United States increased in 1983 and even more in 1984. At the same time, Latin American imports from the United States declined considerably as from 1982. Consequently, Latin America, which had a trade deficit of US$ 6.6 billion with the United States in 1980 and of US$ 9.3 billion in 1981, earned surpluses of US$ 12 billion in 1983 and US$ 15.1 billion in 1984.

In recent years, while Latin American exports to the United States have grown, sales to the rest of the world have stagnated, as a result of which the United States has acquired even greater importance as the main country with which the region trades. In 1984 the North American market absorbed 39.4% of all Latin American exports, compared with 30.3% in 1980.

Interesting changes have also been recorded in the structure of Latin American exports, with a reversal since 1982 of the trend towards an increase in the relative weight of fuels. In that year they represented 46% of all United States imports from Latin America, while in 1984 their share fell to 38%. At the same time, imports of manufactured goods from Latin America grew steadily, so that their value doubled between 1980 and 1984, while their share in total exports grew from 17.6% to 25.3%.

Nonetheless, the changes mentioned and the favourable evolution in the structure of trade with the United States have not proved capable of making a sufficient contribution to the economic development of the countries of Latin America, which have been obliged to use their trade surpluses to service their external debt, while at the same time making drastic cuts in the imports needed to sustain the process of growth.

/Generally speaking

Generally speaking —and partly as a consequence of its growing trade deficit— the United States showed a tendency towards increased protectionism during the period under consideration, involving the application of various non-tariff restrictions to products exported by Latin America. These products have also frequently been the subject of anti-dumping investigations by the United States International Trade Commission. Furthermore, the bills of a protectionist nature at present being considered by the United States Congress threaten many Latin American countries with further tariff and non-tariff restrictions.

The new United States Generalized System of Preferences (GSP), which was approved in 1984, covers more products than the previous system, but this extension has not been associated with increased flexibility of the system and, furthermore, a number of products exported by Latin American countries have been excluded. In spite of Latin American opposition, the principles of selectivity and graduation have been incorporated into the new GSP: a development which affects many countries in the region. The new system sets limits of competition, whereby the preference that a product enjoys is lost if the shipments of the product in question in one calendar year exceed 50% of the value of total imports of this product purchased by the United States, or another pre-established value. In 1985, several countries in the region lost the advantages granted by the new system to some of their products.

The present United States Administration has pursued a policy which runs counter to the concerted stabilization of international prices for basic commodities and has ceased to participate in multilateral attempts to prevent them from falling. Furthermore, the United States continues to resort to sales of part of its strategic reserves of some basic commodities: a measure which, in depressed market conditions, helps to destabilize their prices yet further.

There is still a need to achieve greater liberalization of trade with the United States in order to facilitate access of Latin American products to the United States market beyond the favourable conjuncture which corresponded to the 1983-1984 biennium. To this end it would be necessary to negotiate with the United States, in the relevant forums, for the elimination from the new GSP of the principle of graduation and of the competitive need clause, or at least to give it greater flexibility so as to reduce the restrictions affecting Latin American exports.

Moreover, experience of the external debt crisis during the period under consideration has shown that a prerequisite for its solution is the joint negotiation of two features: trade and external debt, since an improvement in trade can only be turned to account for economic growth if it does not have to be used entirely to service the debt.

2. European Economic Community (EEC)

EEC imports from Latin America increased in 1980-1984 and the Latin American share in total extra-Community imports also grew, from 5.9% in 1980 to 6.2% in 1984.

/EEC exports

EEC exports to Latin America have declined in recent years, as a result of which Latin America's share in total extra-Community exports fell from 6.5% in 1980 to 3.6% in 1984.

This evolution, which is directly linked to the adjustment policies pursued by Latin America since 1982, meant that the region's trade balance with the EEC became increasingly positive, reaching 10 612 million European Currency Units (ECU) */ in 1984, as compared with only ECU 1 822 million in 1980. This was the highest level since 1958.

Nevertheless, there is considerable asymmetry in the type of goods which are traded between the two regions, and this situation has even tended to become more marked since 1980 as a result of the increased weight —around 80%— of raw materials in Latin American exports. This was principally due to the fact that the share of fuels in the composition of these exports increased from 16.7% in 1980 to 26.3% in 1983.

Approximately 90% of Latin American imports from the EEC are made up of a wide range of industrial products, especially machinery and transport equipment.

Asymmetry has also persisted in the degree of relative importance of reciprocal trade; in 1982 trade with the EEC made up 16.9% of total Latin American trade, while for the Community, trade with the region did not exceed 5.2% of its extra-Community external trade.

Latin America's share of the official development aid provided by the EEC member countries has declined. In no recent year has it equalled the 7% reached in 1976, and it even fell to 5.2% and 4.8% in 1981 and 1982 (US$ 660 and 580 million, respectively).

It is estimated that at present almost one-third of Latin America's external debt with banks involves economic agents residing within the EEC. It may be noted that the structure of Community financing has altered, as the sources of credit have increasingly become private.

At present the EEC has trade agreements with three Latin American countries: Uruguay (since 1973), Brazil (1974 and 1980) and Mexico (1975); an agreement which it is planned to renew on broader bases was in force with Argentina between 1971 and 1980. Towards the end of 1983 a co-operation agreement was drawn up between the EEC and the Andean Group.

As far as Community policy on development aid, as set out in the Pisani Memorandum (1982), 14/ is concerned, Latin America has only marginally benefited from these resources (with the exception of countries in the English-speaking Caribbean which are associate members of the Lomé Convention), as it has never received more than 20% of the total aid budget. Towards the end of 1982, however,

*/ This is a European unit of account which floats against the dollar; in 1982 one European Currency Unit was worth approximately one dollar, while during the 1983-1984 biennium the value of the dollar was higher than that of the ECU, by varying amounts.

/the Council

the Council of Ministers approved 30 million European Currency Units of special aid for some countries in Central America and the Caribbean.

In April 1984, the European Economic Community transmitted to the Council of Ministers a set of "guidelines for strengthening relations between the Community and Latin America",15/ which proposes strengthening these relations on three levels --national, subregional and regional-- and sets out policy guidelines for trade, development, scientific and energy co-operation and finance. In connection with the latter, a proposal is made for financing projects through the European Investment Bank (EIB). Nevertheless, competition from the Iberian countries and the signatories of the Lomé Convention for any resources which are potentially available makes it unlikely that this recommendation will be carried out.

In September 1984, the Foreign Ministers of the member States of the EEC, of Spain and Portugal, of Central America, and of the Contadora Group, together with a representative of the EEC Commission, met in Costa Rica. This ministerial conference culminated with the adoption of a joint communiqué, agreeing on action to promote co-operation between Central America and the EEC.

As far as the EEC's Common Agricultural Policy is concerned, both direct and indirect existing restrictions have been maintained, and disadvantageous regulations continue to apply to agricultural exports from Latin America to the Community.

The reforms which the EEC made in its Generalized System of Preferences (GSP) in 1981, in order to correct some operational drawbacks which restricted its utilization, did not represent any further advantages for the Latin American beneficiary countries. The Commission's proposal to include four new agricultural products in the GSP for 1985 was rejected by the Council of Ministers. While all Latin American countries have enjoyed preferential treatment in the industrial sector, in 1985 the exports of six countries were adversely affected by quota limitations under regulations of the EEC's GSP: Brazil (17 products); Argentina and Mexico (2 products each); and Chile, Uruguay and Venezuela (one product each). As the EEC's GSP is practically the only trade instrument which provides some access facilities for Latin American exports, however, its evolution should be closely followed and efforts should be made to ensure that it is properly applied.

As far as the Multifibre Agreement is concerned, during the second half of 1983 seven countries in the region signed limitation agreements with the Community. Guatemala and Haiti signed flexible agreements, while Brazil, Colombia, Mexico, Peru and Uruguay had to accept the inclusion of anti-surge and anti-fraud clauses. It is interesting to note that these countries attended the negotiations separately.

During 1980-1982, four Latin American countries were accused of "dumping" or of having granted subsidies: Brazil, on nine occasions, Venezuela on two, and Argentina and the Dominican Republic once each. Furthermore, some more recent steps taken by the EEC merely confirm the trend towards increasingly restrictive trade with unfavourable effects on export products of interest to Latin America.

/The above

The above remarks allow us to assume that the results achieved will be inadequate in terms of the objectives set out by the Regional Programme of Action for the 1980s. As considerable obstacles still remain in economic relations between the EEC and Latin America, it would be useful to seek new formulae which could prove more fruitful and prevent a further deterioration of these relations.

In order to achieve this, it is first of all necessary for Latin America to increase its negotiating capacity by consolidating its own identity so as to be able to adopt joint approaches in policy design with respect to the EEC.

Secondly, economic co-operation between Latin America and the Community needs to operate on the basis of complementation of efforts and resources, always following a two-way approach whereby the action of one region finds its counterpart in the action of the other. In this respect the basic task is to identify and mobilize those specific sectors in which it is possible to develop sustained co-operation based upon mutual and convergent interests.

As a major supplier to the region of certain manufactures, capital goods and technologically advanced services, it is obviously in the Community's interest to increase its exports to Latin America, but this will only be achieved if Latin American products are accorded freer access to EEC markets, thus making it possible to generate the necessary foreign currency to sustain the level of imports from the Community.

Moreover, both groups of countries have shown their interest in co-operation programmes in specific sectors, particularly in mining and energy, in view of the enormous mineral resources existing in Latin America and the substantial deficit which exists in these products in the countries of the Community. In this field it would be possible to develop considerable complementary activities in the phases of processing and manufacture of mineral products of interest to both regions, through joint projects or mixed enterprises.

Finally, in negotiations with the Community, account should be taken of the interdependence between trade and financial, productive and technological aspects.

3. Council for Mutual Economic Assistance (CMEA)

Between 1980 and 1984 trade between the countries of Eastern Europe belonging to CMEA and those of Latin America failed to grow, with the exception of trade with Nicaragua, and there was even a slight drop in total trade between the two areas.

Nevertheless, in the period under review the amounts of trade fluctuated appreciably. In 1981 Latin American exports reached US$ 5.3 billion, principally reflecting the evolution of Soviet purchases of cereals from Argentina and Brazil, which have become the most important single factor in trade between the two areas.

These two countries together account for 85% of all Latin American exports to CMEA countries, while the other 17 countries of the region considered (with the exception of Cuba) send approximately US$ 0.5 billion worth of exports to the seven European member countries of CMEA. Trade with CMEA is insignificant in terms of both volume and share of total trade for the countries of Latin America, with the exception of Argentina, Brazil and Nicaragua.

/The trend

The trend followed by trade between 1980 and 1984 gives rise to some revision of previous assessments of the principal restrictions affecting the growth of trade between Latin America and the CMEA. The persistent disequilibria affecting trade flows (a pronounced deficit of the CMEA countries) and the structure of trade (Latin American exports of primary products and exports of manufactured goods by the CMEA) are of some importance for the countries concerned, but in most cases do not constitute insurmountable obstacles to the growth of reciprocal trade.

Even in 1984, when Latin American exports to CMEA exceeded imports by US$ 2.5 billion, 90% of this surplus was generated by Argentina and Brazil, while the other Latin American countries recorded small surpluses or even deficits, as in the case of Colombia, Ecuador and Venezuela. It should be noted that the CMEA countries' trade with Argentina and Brazil has prospered despite the deficits recorded, while trade with other Latin American countries remains at a low level.

Nor does its asymmetrical composition constitute a serious obstacle to the growth of trade between the two areas, since despite their interest in promoting exports of manufactured goods, most Latin American countries would be prepared to increase sales of basic commodities to the CMEA countries. In the case of Brazil, which has an active export promotion policy, its exports of such goods already exceed its total imports from CMEA member countries.

The real restrictions affecting the growth of trade between the Latin American countries and those of CMEA lie in the financial conditions prevailing in both areas, which lead them to tightly control their imports payable in hard currency. It should not be forgotten, either, that political will is an essential factor for the evolution of trade between Latin America and CMEA.

As far as economic relations in activities other than trade are concerned, there has been a certain improvement in co-operation in industry and in the field of hydroelectricity, which has contributed to the process of industrialization in some countries in Latin America. This has taken place despite the difficulties arising mainly out of the distance between the two regions, as well as out of the problems existing in respect of freight and communications and the mutual ignorance of each other's potentialities and requirements.

In order to overcome the obstacles standing in the way of an increase in trade between Latin American countries and those of CMEA, it has been proposed to improve and intensify trade promotion, long-term supply contracts and co-operation in third markets, as well as to update the systems of payment and improve institutional instruments and mechanisms.

In practice, in order to step up trade promotion the Latin American countries have gradually extended their participation in international fairs held in the member countries of CMEA, and similar steps have been taken by the latter; some countries in both areas have intensified the exchange of delegations of entrepreneurs and foreign trade officials, and the CMEA countries have organized more frequent seminars and other means of informing Latin American representatives about the way in which the foreign trade systems and mechanisms of the socialist countries operate.

/In the

In the face of the unsatisfactory evolution of international trade, and in response to the serious payment problems facing the nations of Latin America, the CMEA member countries have flexibilized their payment mechanisms, adopting certain formulas which are more convenient for their Latin American partners. While previously clearing agreements had mostly been replaced by payment in convertible currency, in recent years there has been a tendency to resort to barter, clearing contracts, inter-bank agreements and repurchase guarantees, which make it possible to overcome monetary restrictions. Some CMEA member countries, such as the Soviet Union, allow goods exported by Latin American countries to be used in payment for the credits granted by them.

Moreover, in the 1980s trilateral economic co-operation involving Latin American countries, member countries of CMEA and third countries has expanded.

In recent years there has been continued favourable evolution of institutional instruments and mechanisms for stimulating economic relations between the two areas, while simultaneously various co-operation agreements (including agreements on electrical, fishing, hospital and teaching equipment) have provided satisfactory results. In some cases, however, all the possibilities offered by the existing institutional mechanisms have not been fully utilized.

Examination of the present state of economic relations between Latin American countries and CMEA countries confirms that the political factor remains decisive for their evolution. All forms of bilateral relations require decisions at a very high level if any progress is to be made, whether in the field of trade, of industrial co-operation, of hydroelectricity or of joint ventures.

In any case, even when the political decisions have been taken, the structural elements which determine the concentration of trade and co-operation in State enterprises and bodies on both sides require increased flexibility to be introduced into their operation as soon as possible so that they can efficiently expedite the implementation of the agreements and conventions signed.

It would be desirable for Latin American exporting enterprises to demonstrate greater dynamism in their trade with CMEA countries and to investigate more carefully the markets in those countries and their import potential, while more actively promoting sales of their exportable goods and the setting-up of joint ventures. In addition, an effective means of promoting Latin American exports would be for exporter enterprises in the region to form trading companies, with the technical and administrative backing of the State.

Finally, it would be desirable to promote tighter links and contacts between the CMEA and regional integration and co-operation bodies, with the aim of examining and setting up suitable mechanisms for appreciably increasing economic and trade flows between Latin America and the socialist countries of Eastern Europe.

/Notes

Notes

1/ ECLAC, Regional Programme of Action for Latin America in the 1980s, "Cuadernos de la CEPAL" series, No. 40, November 1981.

2/ See GATT, Trade Policies for a Better Future. Geneva, March 1985. This publication is also known as the Leutwiler Report.

3/ See SELA, América Latina y el Sistema de Comercio Internacional. Eleventh Ordinary Meeting of the Latin American Council, SP/CL/XI.O/DT, No. 7.

4/ ECLAC, Regional Programme of Action for Latin America in the 1980s, op. cit.

5/ Ibid., paragraph 164, item vii.

6/ SELA, Fifth Ordinary Meeting, 30 July to 2 August, 1979.

7/ See C. Massad (ed.), The Debt Problem: Acute and Chronic Aspects, Journal of Development Planning, No. 16, 1985, especially the articles by W.R. Cline, R. Dornbusch and C. Massad.

8/ Zanoni, José Rafael, "Strengthening OPEC's collective will", in OPEC Bulletin, July-August, 1985.

9/ IMF, Balance of Payments Statistics, volume 35, Yearbook, Part 2, 1984.

10/ IMF, Foreign private investment in developing countries. Occasional Paper No. 33, Table A-2.

11/ Ibid., p. 31.

12/ Frederick F. Chairmonte and John H. Cavanagh, "Transnational corporations and global markets: changing power relations", UNCTAD, Trade and development No. 4, Geneva, 1982.

13/ ECLAC, Regional Programme of Action for Latin America in the 1980s, op. cit.

14/ European Economic Community, Document 640, 1982.

15/ Commission of the European Communities, Bulletin of the European Communities, No. 4, Brussels, 1984.