

CEPAL

Review

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Bases for a Latin American response to the international economic crisis

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I

Introduction

On 11 February 1988, the President of Ecuador, His Excellency Dr. Osvaldo Hurtado, sent us a letter in which, after emphasizing the seriousness of the present international economic situation, he noted that "the world has not known such a serious and prolonged crisis since the Great Depression of the 1930s".

In his communication President Hurtado made two statements of great significance. The first of these is that the magnitude and intensity of the crisis today facing Latin America are such that they severely jeopardize in the region, as never before, "...the social peace of nations and the stability of the democratic system: in brief, the fate of vast human communities which are seeing their unsolved social problems grow worse day by day, and are fearfully becoming aware of the possibility of total disaster". The second is that, despite the magnitude of these difficulties "the peoples of Latin America and the Caribbean have the necessary qualities for overcoming them".

It is on the basis of this clear perception of the world and regional situation that President Hurtado asked us, on behalf of the Government of Ecuador "...to prepare as soon as possible a set of proposals designed to develop the response capacity of Latin America and to consolidate its systems of co-operation".

It is in pursuance of such a clear mandate that we have prepared the present document, which reflects our own opinions, enriched by the contributions of the Secretariats of ECLA and SELA and the much appreciated collabora-

tion of the guiding bodies of the Latin American Integration Association (ALADI), the Board of the Cartagena Agreement (JUNAC), the Centre for Latin American Monetary Studies (CEMLA) and the Latin American Energy Organization (OLADE), which sent us valuable views and suggestions for which we are most grateful.

This document is centered on an idea which is clearly expressed in President Hurtado's letter and which we fully share: the economic crisis through which the region is passing is the severest suffered since the war: it affects all the Latin American countries, in different ways, with a previously unknown degree of universality, and its special features make it qualitatively different from any other recent experience.

In these circumstances, Latin America more than ever needs to make a profound and self-critical analysis of the development model based on a type of industrialization highly dependent on the exterior and on the consumption of the middle and upper strata of its societies and the maintenance of a very high share of basic commodities in the region's exports: —a model which furthermore, in recent years, has come to depend increasingly on the massive and increasing procurement of external resources.

Consequently, the urgent need to tackle the pressing problems of the short term should not divert us from the objectives of working to formulate new approaches which, as well as allowing us to face up to the crisis and preserve the economic and social advances achieved in the past, will help to lay the foundation for a new type of economic expansion which is more solid, more dynamic, less vulnerable and more equitable than that observed so far.

The very nature of the crisis means that it

goes beyond the strictly economic area, as President Hurtado also suggests in his letter. Thus, any solution to the present challenges will only be viable to the extent that it proposes acceptable formulas for the distribution of the burden of adjustment both between the different social groups within the countries and between the different nations. This task is ultimately the responsibility of the political organs, which are faced with complex dilemmas.

It is also well known that in spite of the common features which exist in the region, there are differences between the various Latin American countries and between the situations each of them is facing in the present crisis. Furthermore, despite the symptoms of recovery which the United States economy has begun to show since the beginning of the year, there is as yet no clear picture regarding the future evolution of the industrialized nations as a whole, and still less regarding the consequences of the significant changes taking place in their structures of production.

All these factors undoubtedly make it difficult to give general and definitive answers on how to tackle the complex and varied problems with which the present situation is facing the region. On the other hand, however, they also represent for us a renewal of the Latin American challenges which marked the birth of our institutions.

In the light of these considerations, we have prepared a report which seeks: i) to describe the nature and scope of the economic crisis affecting Latin America; ii) to question the present adjustment process, which, because of the insufficiency of international co-operation and its inappropriateness to the demands of the present situation, creates external conditions for the Latin American countries which heighten the economic and social costs they must pay in order to overcome the crisis; and iii) to identify some priority guidelines and pro-

posals to stimulate joint action by Latin America to overcome the crisis, particularly on the international and regional levels.

It should be noted, however, that the lines of action suggested in the present document have been prepared according to a deliberately selective criterion, and we have sought to avoid detailed consideration of a large number of measures of widely varying importance and nature. Moreover, in presenting these guidelines, analysis of their justification has generally been reduced very considerably in order to keep the length of the text within reasonable limits. For all these reasons, we have concentrated our efforts on suggesting some general bases which could serve, in our view, for the formulation of an actions programme aimed at taking full advantage of the opportunities open to Latin America for overcoming the repercussions of the international crisis, as we were requested to do by President Hurtado.

Our reflections are also inspired by the conviction that it is necessary to face up to the crisis by means of a response of a regional nature which enables us to avoid the risks of a fatalistic approach deriving from the pessimism naturally felt in the face of the long lists of demands which hardly seem compatible with the challenges and possibilities offered by the present situation. The power of negotiation of the Latin American countries could in fact be increased considerably by adopting a concerted position based on a selective programme of action with clear priorities, firmly resting on the idea of regional co-operation.

It is our view, then, that Latin America can use and mobilize its capacity to respond to the negative effects of the international crisis and can advance towards the establishment of a new Latin American economic and social order which is more dynamic, equitable and stable, as well as involving greater mutual support.

II

The nature and scope of the economic crisis affecting Latin America

A. THE INTERNATIONAL CRISIS

The 1980s has begun with an economic recession which is the longest and most intense suffered by the world economy since the war. In it, the negative effects associated with a downward phase in the economic cycle have been aggravated by the adjustment policies applied, by the intensification of some structural shortcomings in the central economies, and by certain uncorrected imbalances in international economic relations.

As well as being exceptionally severe, the present crisis has been very generalized. Thus, due mainly to the impressive internationalization of the individual economies in recent decades, only a few countries have escaped its effects, so that progress has suffered, albeit to different degrees, in both the developed and developing countries, the socialist and capitalist economies, the oil-exporting and oil-importing countries, and the large, medium-sized and small economies alike.

In the industrialized economies, the crisis has manifested itself in a decline in production, a sharp drop in investment—which will weaken their future growth rate—an exceptional increase in unemployment, and unusually severe and persistent inflation.

The most distinctive feature of the crisis, however, has been the exceptionally high level reached by real interest rates. As a result of the high priority which the industrialized countries have given in recent years to the reduction of inflation and of their considerable fiscal deficits, and above all the enormous emphasis given in this task in some of those countries to the control of the money supply, interest rates have risen markedly in the main international financial centres since 1978, and in the two-year period 1981-1982 they reached levels in real terms comparable only with those registered during the Great Depression. It is true that since the middle of last year nominal interest rates

have gone down, but as their decline has been accompanied by a considerable drop in inflation in most of the industrialized economies, they are still two or three times as high in real terms as the average levels prevailing since the war.

The persistence of abnormally high real interest rates has thus become a key element in the international economic situation, and such problems as the drop in productive investments—which have been incapable of competing with financial investments in recent years—are largely attributable to the levels of interest rates. In the international sphere, high interest rates—and above all the sharp variations in them—have been one of the main causes of the erratic movements of capital and, through these, the equally marked fluctuations in exchange rates. The exceptionally high level of real interest rates has also been a factor in the sharp reduction in the demand for stocks (including commodity stocks), and this in turn explains much of the deterioration in the terms of trade of the developing economies.

As already noted, since the beginning of this year there have been some signs of economic recovery in certain industrialized economies, especially the United States. Furthermore, the progress made in some central countries in the struggle against inflation has made possible a certain slackening of the monetary containment measures which has stimulated global demand and, in particular, purchases of certain consumer durables—an item of considerable importance in the dynamics of the economic cycle of those countries.

In certain circles, these indicators have given rise to relatively optimistic opinions regarding the possibility that the recovery of the industrialized economies may be consolidated and that its probable beneficial effects will spread—mainly through international trade

and the drop in interest rates— to the peripheral economies.

These views are far from being shared by all, however, and certain circles continue to be skeptical regarding the prospects of a general, intensive and durable reactivation of the industrialized economies. These circles note that generally speaking macroeconomic policies are still highly restrictive in the central countries, and they also emphasize that, mainly as a consequence of the high interest rates still prevailing in the United States, the external deficits of a number of industrialized countries continue to be very large. Furthermore, it is obvious that the recovery of levels of investment in those countries has been held up by the joint effect of high interest rates, the rather generalized excess of idle capacity in industry, and especially the pre-

vailing uncertainty regarding the future evolution of the economic situation.

Another limiting factor is the persistence of the conflicts between the trade policies of some central countries, which could even become more intense in the years to come unless there is a realignment of their currency values.

The two elements which cause most concern and which directly threaten the prompt recovery of the central countries, however, are the continued simultaneous application of recessive policies in most of them and their lack of willingness to begin to apply, in a simultaneous and coherent manner, policies aimed at generating the co-ordinated reactivation of their economies. This position is particularly serious in the case of those OECD member countries which have largely brought their inflation rates under control and have thus managed to reduce the size of their external deficits.

B. THE TRANSMISSION OF THE INTERNATIONAL CRISIS TO LATIN AMERICA

The nature of international economic relations is such that the recent negative evolution of the central economies has severely affected the performance of the developing countries and, in particular, that of Latin America, which became intensely integrated into the world economy in recent years through a varied range of mechanisms of trade, financial and technological relations.

The world economic crisis has spread over the region through three main channels.

The first of these was international trade. As in other recessions, the stagnation of the economic activity of the industrialized countries has had unfavourable effects on their demand for imports and, hence, on the growth rate of international trade. On this occasion, however, these adverse consequences have been reinforced by the resurgence of protectionist practices in the trade policies of many central economies, which became more frequent and severe as unemployment increased and the recession continued. In these circumstances, the volume of international trade—whose rapid expansion had played a fundamental part in world economic growth since the war—increased only

slightly in 1980, almost completely stagnated in 1981, and actually went down by 2% in 1982.

As was to be expected, this progressive loss of dynamism of world trade sharply affected both the volume and prices of Latin America's exports. Thus, with the persistence for the third year running of the recession in the industrialized countries and a drop in the volume of world trade in absolute terms, 1982 saw the complete disappearance of any expansion in real terms of Latin America's exports, which had increased between 1976 and 1981 at the exceptionally high rate of around 8% per year.

The contraction in world trade also led to a sharp deterioration in 1982 in Latin America's terms of trade. The decline was particularly serious in the case of the non-oil-exporting countries, since in them the 1982 drop came on top of those which had taken place in the previous four years. Consequently, the average value of their terms of trade in the three-year period 1980-1982 was even below that registered between the years 1931 and 1933, which represented the most critical period of the Great Depression.

The second transmission mechanism con-

sisted of the high interest rates prevailing on international financial markets. These helped to trigger and accentuate the Latin American crisis in two complementary ways. On the one hand, by hindering the recovery of the industrialized economies, they tended to reduce the latter's demand for Latin America's exports. On the other hand, by raising the external debt service burden—the size of which had already grown very rapidly in previous years—they helped to increase enormously the current account deficit and obliged the countries to make a correspondingly much greater real transfer of resources to the exterior.

It is worth recalling in this respect that, from the point of view of the debtor countries, the greater or lesser real sacrifice involved in the payment of interest on the external debt depends not only on the level of the nominal interest rate, but also on the relation between the latter and the variations in the prices of export products. In other words, the amount of real resources which the debtor country must transfer to the exterior in order to service the debt will be all the greater in proportion as the nominal interest rate rises and the average price of the debtor country's exports drops.

This was exactly the situation which Latin America had to face in the period 1981-1982. As already noted, not only did interest rates reach exceptionally high levels on international financial markets during this period, but there was simultaneously a sharp decline in the unit value of Latin American exports. The results of this coincidence were dramatic: the real rate of interest which Latin America had to pay was around 24%, thus making it four times as much as the rate payable in those years by debtors in the central countries, even though the latter rates, as already noted, were themselves the highest registered in the last half century.

Finally, a third way in which the recession spread from the central economies to Latin America was the abrupt reversal of the net flow of capital, mainly as a result of the radical change which took place in 1982 in the international commercial banks' ideas on the advisability of continuing the rapid increase in their loans to the region. Thus, the net inflow of capital, which had grown very fast between the mid-1970s and 1981, slumped dramatically in 1982

to a little over US\$ 19 billion, or less than half the level of the year before. This violent contraction in the net inflow of capital, together with the extraordinary increase in net remittances of profits and interest, more than offset the effects of the turnaround in the trade balance—which, after turning in a deficit of almost US\$ 2 billion in 1981, generated a surplus of US\$ 8.8 billion in 1982—and made it necessary to finance a considerable part of the current account imbalance from the international reserves. The payments problems were further aggravated by the simultaneous reduction in the average term of the external loans obtained.

The force with which the problems of the world economy made themselves felt in Latin America was also due partly, however, to the economic policies applied in many countries of the region from the mid-1970s onwards, which promoted a form of economic growth heavily dependent on the inflow of capital from the exterior.

In other words, it was the special combination of adverse changes on the international scene already described, long-standing structural problems, and economic policies excessively linked to financing from abroad which put an end, in the early 1980s, to the dynamic growth process registered by the economies of the region in general between 1950 and 1980, when the gross domestic product of Latin America increased fivefold, while manufacturing production grew more than sixfold.

From 1981 onwards there was a sharp drop in the growth rate of economic activity and in 1982 such activity even went down in absolute terms—something which had never happened in the previous 40 years. This marked loss of dynamism was accompanied by a sharp rise in the rates of open unemployment and an increase in the various forms of underemployment. At the same time, there was a trend towards the generalization of inflationary processes, which attained an intensity and persistence that it would have been difficult to image only a few years before. These unfavourable changes at the domestic level were closely linked with other no less serious changes in the external sector, the most obvious manifestations of which have been the severe balance-of-payments crises, the frequent and in some cases enormous

risks in exchange rates, and the drain on the international reserves.

A particularly disquieting phenomenon observed in recent years, however, has been the high level of external indebtedness affecting the region. The financial permissiveness shown by the international private banking system in the second half of the 1970s and the intense and persistent efforts it made to loan its financial surpluses to Latin America encouraged a policy of external indebtedness on a scale without any precedent in the region in the last half century. There were few countries in Latin America which did not follow this policy in order to finance domestic policies with widely varying aims, ranging from some which involved large investments that overestimated the future expansion of domestic and international markets to others which promoted and exaggerated expansion of consumption—especially of imported goods—or a big increase in defence spending. In recent years, furthermore, a considerable and growing proportion of the external financing was used to pay the servicing costs of the accumulated debt, so that this situation was accompanied in practice by a reduction in the real transfer of resources to Latin America.

In many Latin American economies the decline in economic activity has also been accompanied by profound crises in the system of production and the financial situation of enterprises, which have led to the bankruptcy or closing down of many production units in industry, agriculture and commerce. This in turn has helped to bring about a deterioration in the quality of bank loan portfolios and has finally affected the solvency and viability of much of

the private financial system. A situation of widespread insolvency has thus been created for which there is no precedent in the last half century both from the point of view of its quantitative dimensions and the number and variety of enterprises affected.

Another manifestation of the crisis has been the pronounced deterioration in many countries in the economic situation of the State, whose revenue has been affected by the drop in external trade and the stagnation or decline in domestic economic activity. All this has helped to generate big deficits in the public finances and to speed up the rates of inflation. In turn, attempts to bring the latter under control have frequently led to abrupt cuts in State spending, and especially in public investment, thus further depressing the levels of domestic activity.

In spite of this, in many countries there has at the same time been a tendency towards the acceleration of inflation. In particular, inflation has reached unprecedented levels of intensity in countries which have been forced to devalue their currencies abruptly in order to tackle severe disequilibria in their balance of payments.

As a result of the decline in economic activity, the simultaneous acceleration of inflation, and the orthodox-type stabilization policies applied in order to bring down the rate of price increases, there has been a marked deterioration, in many countries, in the living conditions of the poorer groups, which have been affected both by the pronounced declines in real wages and the rise in unemployment and underemployment.

III

The inequity of the current adjustment process and the need for an alternative approach

A. THE NATURE OF THE CURRENT ADJUSTMENT PROCESS

The present international crisis and the asymmetry of the adjustment process have drastically changed the conditions of external trade and fi-

ancing of Latin America, making inevitable the introduction of profound changes in the economic policy of the countries of the region.

This has had painful and inequitable economic and social consequences, while moreover the results obtained have not been in keeping with the efforts made.

In these circumstances, an important challenge facing economic policy is that of minimizing the social costs involved in the adjustment and distributing them more equitably both between creditor and debtor countries and between the various social groups and economic agents within the countries.

In recent months the International Monetary Fund has been participating actively in the design of adjustment programmes which provide for the reprogramming of external indebtedness, together with balance-of-payments support credits. Under these programmes, governments have not only received additional resources provided by the IMF, but have also had access to contributions from the private banks aimed at relieving the burden of external debt servicing in line with the terms of the negotiations furthered by the Fund itself. In almost all cases, the adjustment programmes thus agreed on stipulate that these external resources must be supplemented with surpluses on the balance-of-payments trade account, which the countries must generate principally through the adoption of suitable exchange rate, monetary and fiscal policies.

Although it must be admitted that the Fund has introduced a greater degree of flexibility into these programmes compared with its traditional terms, they are still based fundamentally on policies which must act through aggregate demand and necessarily include a pronounced recessive element, since it is largely through the reduction of domestic demand that it is hoped to generate the trade surpluses considered essential for facing up to the debt servicing.

This recessive element in the adjustment policies applied is determined, ultimately, by the magnitude of the external imbalances affecting the countries of Latin America and the particular state of their balance of payments. As already noted, the equilibrium of the external accounts has been affected by a number of factors which are beyond the direct action of the countries and which, in their turn, tend to reduce considerably the inflow of foreign exchange and

increase payments to the exterior. Thus, while the income from exports has gone down both because of drops in prices and reductions in the amounts exported, and the net procurement of capital has slumped violently, the outflow of foreign exchange has tended to increase as a result of the high spreads over basic interest rates and the management commissions charged by the banks in their refinancing programmes. In many cases, these higher costs have wiped out or at least partly neutralized the effect of the declines in nominal interest rates registered in recent months.

It must be concluded, then, that in spite of the additional resources provided or mobilized by the IMF, and mainly because of the enormous magnitude of the external debt servicing burden, the objective of bringing the external accounts into balance will call for some degree of recessive adjustment, through the compression of domestic economic activity.

There are three problems, however, which give rise to severe reservations regarding the adjustment processes now in progress. These are, firstly, the ineffectiveness so far shown by the policies applied in order to achieve the desired objectives; secondly, the considerable economic and social costs associated with these policies; and finally, the doubtful capacity of the countries to keep up these policies for more or less prolonged periods.

Thus, if these adjustment policies go beyond certain limits they may generate declines in economic activity, drops in investment, or even destroy the system of production, and this will seriously affect not only current levels of consumption and well-being, but also the capacity of the economies for future recovery.

Likewise, if the recessive situation of the international economy continues or its eventual reactivation does not rapidly make itself felt in the economies of the region, the continued application of such recessive policies could even threaten to overstep the limits of social and political tolerance of our societies, so that not only would such policies be difficult to apply, but their execution would have unforeseeable consequences both for the Latin American countries and for the international community.

The foregoing does not mean, of course, that we do not give due credit to the Trojan ef-

forts which the financial authorities and governments of our countries have been making to handle an extremely difficult external payments situation and honour the external commitments assumed, within the limited possibilities offered by the presently available international financial co-operation.

Special reference may be made, in this respect, to the enormous adjustment effort made by the countries of the region in 1982, which, as already noted, enabled them to replace the trade deficit of the year before with a trade surplus of some US\$ 8.8 billion.

Nor does it mean that we do not appreciate the imaginative initiatives put into practice by the International Monetary Fund in order to tackle the current payments problems, with the participation of the financial authorities of the industrialized countries, the Bank for International Settlements, and the private banking system.

What does worry us, however, are the limitations and inconsistencies of international support arrangements which do not seem to be qualitatively or quantitatively adequate to deal with the fundamental and generalized state of imbalance in which the countries of the region are sunk, and which, as already noted, cannot be compared with anything that has happened since the war.

We also have reservations regarding the viability of an adjustment based on contraction policies which must be undertaken by all countries together, aimed at collectively increasing exports and jointly reducing imports. It must be perfectly clear that unless there is a group of countries which is willing to accept a deficit on its trade account, it will not be possible for a numerous group of other countries to generate a surplus. Consequently, the efforts of the latter to expand their exports and compress their imports will simply aggravate the recession in them.

It is also clear that the possibility of solving in the medium term the financial problems raised by the accumulated external indebtedness is closely dependent on the possibilities of expanding the region's exports, and these, in turn, as they stand at present, are conditioned by the evolution of world trade. In the final analysis, if the acute financial problems of the

present time are to be overcome, it is indispensable that there should be a recovery in the prices and volumes of Latin America's exports. It is therefore a matter of the deepest concern that at the same time that our countries are shouldering the enormous costs involved in policies aimed at bringing the balance of payments into equilibrium and honouring their external financial commitments, the protectionist policies of the creditor countries should keep on growing ever stronger.

In our opinion, this failure to take much account in the adjustment programmes of the intimate links existing between the trade and financial aspects is undoubtedly one of their great shortcomings.

We also feel that the additional refinancing resources mobilized by the adjustment policies should be accompanied by long-term external funds for the support of domestic investment and development programmes. Unfortunately, in the present circumstances not only has there been a violent drop in private financial resources but there has been no corresponding strengthening of the international public financing agencies. On the contrary, it is increasingly difficult to obtain loans from such agencies and, at the same time, tendencies towards graduation are prevailing in them which, by definition, restrict the region's possibilities of gaining access to public international credit.

To sum up, then, the view prevails in international financing agencies and the governments of creditor countries that it is possible to handle the present balance-of-payments crisis through traditional support mechanisms, backed up by the recent policies of the IMF in association with the private banks. This position assumes explicitly or implicitly that there will be a prompt, strong and lasting recovery of the world economy.

These positions are controverted, however, by dissenting opinions within the central countries themselves which reflect concern over the intensity and duration of the adjustment being demanded from the developing countries, its social and political effects, and the disastrous consequences which a situation of general cessation of payments or panic could have for the international banking system and even the world economy as a whole. In view of these

concerns, global solutions of another type are advocated in which coping with the payments crisis of the developing countries becomes an essential part of the economic reactivation policies of the centres.

In order to honour their external commitments, the countries of the region have put into effect extremely painful adjustment processes which are severely affecting their economic structures and creating serious pressures on their social equilibrium. The viability of these adjustments depends on the margins of action permitted by the presently available international co-operation. In many Latin American countries, however, increasing doubts are arising regarding the social and political feasibility of this type of solution, the possibility of maintaining such policies for a significant length of

time, and the capacity of the economies of the region to comply with the agreements signed if the present conditions of the world economy continue.

We therefore feel that the time has come for the region, as well as drawing attention to the inadequacy of the present international co-operation machinery, to bring home to the authorities of the industrialized countries and raise in the appropriate forums the need to find sources of support additional to those at present existing, if a way out of the crisis is to be found. A solution of this nature would not only be in the interests of the Latin American countries but would also be in line with the interests of the international banking system and the reactivation policies of the centres.

B. TOWARDS AN ALTERNATIVE APPROACH

The foregoing considerations leave no doubt that at present Latin America is facing a serious dilemma characterized by three adverse factors which mutually reinforce each other: a severe world crisis from which it is still not clear how or when we are going to emerge; international co-operation which is inadequate both from the point of view of its size and its nature; and an adjustment process with recessive characteristics.

We wish to stress, however, that in our view the task of overcoming this extremely complex situation and carrying out in the years to come an adjustment process which will at the same time make it possible to restore the equilibrium of the external accounts and at least preserve the levels of per capita income constitutes only the most immediate challenge facing the countries of the region, for in the medium term they will have to try to overcome another challenge, no less complex and unavoidable, which is that of gradually but firmly changing the style of development which has prevailed up to now in the region in order to bring in a new kind of development which is more dynamic, less vulnerable, and above all more equitable.

In order to do this, the region must carry out intensive mobilization of its internal resources through regional co-operation, which is

currently subject to serious tensions deriving from the recessive forces imposed by the international situation itself. In this respect, we are convinced that the present time is a suitable one for making an appraisal of the achievements of regional co-operation, the difficulties it has run into, its present and future potential, and the most suitable means for making it more effective and decisively entering on a new stage in the process of regional integration.

Furthermore, in order to progress in overcoming the difficult problems at present affecting them, the countries of the region must co-ordinate their international action so as on the one hand to promote a reactivation of the world economy which provides a suitable external framework for them to attain reasonable economic growth, and on the other to secure the approval of a set of emergency measures by the international community which are compatible with the magnitude of the external payments crisis they are currently facing.

From Latin America's point of view, the desirability of securing the reactivation of the international economy stems from the need to bring about substantial changes in the external conditions of the region, which are essential in order to overcome many of the economic problems currently affecting it or at least bring them

down to a manageable size. It is for this reason that a co-ordinated programme of reactivation of the industrialized economies, which should be headed by those countries which have made most progress as regards restoring their internal stability and balance-of-payments equilibrium, is particularly necessary. These measures should be directed especially towards securing a sustained and substantial decline in real interest rates, without which no recovery can be really significant or stable.

The reactivation of the industrialized economies alone, however, will not be enough to establish a more dynamic, stable and equitable international setting. In order to advance in this direction we must at the same time incorporate into the economic policies of the central countries fundamental measures which permit the solution of the structural problems affecting international economic relations, so many times called for by the Third World in United Nations forums, and so many times postponed as regards their solution. Thus, a reactivation of the central economies which is not accompanied by significant changes in the fields of basic commodities, the opening up of markets, the checking of protectionist policies, or bigger transfers of financial resources would have little rele-

vance in overcoming the serious and sometimes desperate situation of the peripheral countries.

It is for this reason —although it is not necessary to go into details on this occasion—that we feel that the measures approved at the recent meetings of the Non-Aligned Countries in New Delhi and the Group of 77 in Buenos Aires—to which Latin America has given its unanimous support—are particularly pertinent.

In this respect, the forthcoming conference of UNCTAD provides a favourable occasion for demanding the definition and approval by the industrialized countries of a set of minimum actions to accompany their reactivation policies and make it possible, at the same time, to reverse the deterioration in the process of world economic development. A powerful presence of Latin America in this conference is therefore absolutely essential.

As well as supporting a world programme of "reactivation with development", Latin America's international action should centre its attention on establishing a dialogue with the industrialized countries with which the region maintains the bulk of its external trade and financial relations, in order to negotiate and agree on a set of emergency measures for the relief of its acute current problems.

IV

International action by Latin America to deal with the external indebtedness crisis

A. THE END OF A CYCLE IN REGIONAL EXTERNAL FINANCING

The handling of the region's external indebtedness against the background of the balance-of-payments crisis has become the most urgent economic problem facing the governments of Latin America. The distribution of the cost of the adjustment process and to some extent the opportunities for economic growth for the rest of the decade depend upon its solution. This growth will undoubtedly depend upon different patterns of financing from those of the past few years.

1. *The external debt and the balance-of-payments crisis*

This situation has been arrived at mainly because between 1975 and 1982 the total external debt of the region more than quadrupled, rising from US\$ 67 billion to nearly US\$ 300 billion. This growth was especially rapid between 1975 and 1980, when the external indebtedness rose at an average annual rate of nearly 25%, i.e., substantially faster than the also very high rate

of 18% at which the value of exports from the region expanded. This growth in the debt became significantly more moderate in 1982 due to the sharp drop in the net inflow of capital.

The expansion of the total debt was accompanied by a considerable change in its origin and composition. At the beginning of the past decade, private flows represented less than 40% of the total, while in recent years they exceeded 80%. At the same time medium- and long-term credits and those at concessional rates of interest were replaced by short- and medium-term credits and variable interest rates. This implied a sharp deterioration in the debt profile of Latin America—by far the least favourable of all the regions of the Third World—and gradually led to a sharp increase in the percentage of export income which had to be used to service the debt.

Seen from the perspective of the whole decade, the responsibility for the generation of the excessive external indebtedness was shared between the indebtedness policies of Latin American countries, the financial permissiveness of the private banking system, and the weaknesses and inadequacies of the international financial mechanisms.

In the expansive stage of the credit cycle, the private banks strenuously competed to invest in the region part of the enormous financial surpluses which they obtained in the international capital markets, especially in those of the principal oil-exporting countries. Furthermore, quite often certain banks did not make rigorous appraisals of creditworthiness, or they overestimated the capacity of the countries to absorb funds. At the same time, the combination of domestic interest rates higher than those prevailing in international markets and the abundant foreign reserves accumulated by the countries of the region helped encourage the flow of financial resources to be invested in these countries.

In addition, the inability of the machinery of the international financial institutions to recycle the huge surpluses of the oil countries meant that most of the transfers of resources during the 1970s were carried out by private banks.

This external framework, however, suddenly changed in recent years. The serious deterioration in the terms of trade of the region

and the paralysation of growth in the volume of exports coincided with a sharp rise in real interest rates. This changed the banks' perception of the payment capacity of various countries of the region and led to a sharp contraction in net movements of capital to Latin America.

This produced an external payments situation which was impossible to sustain for nearly all the countries of the region. To deal with it, many of them had to initiate adjustment processes based on the reduction of domestic demand, or they had to resort to the IMF. As a result, since 1981 both the level of domestic economic activity and the amount of imports have declined in a number of countries. When these expedients were exhausted, most of the Latin American countries had to make use of their reserves—which fell substantially in 1982—and initiate processes of renegotiation of the debt with their creditors, in most cases with the participation of the International Monetary Fund.

2. *The refinancing agreements*

In the process of refinancing, the private banks have assumed commitments to grant additional credits supplementing those provided by the IMF. The fact that the 'rescue package' includes the private banks is an important and innovative aspect of the exercises of reprogramming the external debt recently effected or now in progress.

However, the insufficiency of these mechanisms is obvious when some of their features are analysed, for the exercises in re-scheduling payments offer few prospects for economic growth, since the additional resources committed by the banks and the Fund are not sufficient to cover the payment of interests. At the same time, most of the cost of the adjustment and the effort to face the difficulties of debt servicing has fallen exclusively on the Latin American countries. Moreover, the high margins paid above the basic interest rates (spreads) and the additional commissions for management and service have more than doubled the cost of refinancing.

In addition, the negotiations carried out have not managed to reduce the uncertainty about the financial prospects of the countries because, on the one hand, they cover only the

debts maturing in the next one or two years and, on the other hand, because of the long period of time between the declaration of difficulties with respect to debt servicing and the final rescheduling agreement. Naturally, these uncertainties have had negative effects on the economies of the borrowing countries.

Some of the agreements have also been complicated by the policy of certain private banks of sharply cutting down or reducing the lines of trade credit, which are of great importance for maintaining the level of international trade.

Moreover, in spite of the intervention of

the IMF, the large number of participant banks, their different assessments and positions on the way of overcoming the problems of our countries, and the lack of experience in this type of operation have made it extremely difficult and laborious to secure the approval of these re-financing programmes.

Furthermore, there can be no doubt that as a result of the inadequacy of international co-operation in this area, the present refinancing procedures give much higher priority to the payment of the external debt commitments than to the requirements of the economic development process of the debtor countries.

B. NEW CONDITIONS FOR RESTRUCTURING THE EXTERNAL DEBT

As a result of the foregoing, there are serious doubts in some international and national circles regarding the real capacity of the Latin American countries to face up to the commitments assumed unless the international economic conditions undergo a substantial change and at the same time there is a reduction of the high economic and social costs associated with the present adjustment processes.

In our view, this points the way to the need for a constructive dialogue both among the countries of the region and between them and the creditor countries, in order to explore the viability of new terms and policies more in keeping with the mutual interests of all the parties concerned.

In order to put forward on a new basis a different approach to the challenge represented by the Latin American external debt, it is necessary to start by recognizing that the principles prevailing at present as regards the distribution of the adjustment cost between debtors and creditors are very biased.

This situation is in sharp contrast with what happened in the 1930s, for the Latin American external debt at that time had been contracted principally through the sale of bonds on world markets. Thus, when the debtor countries began to suffer from the external problems generated by the crisis, the price of the bonds fell sharply, due above all to the risk of non-pay-

ment. As a result of this, when the Latin American countries began to service their external debt again they were able to buy back the bonds at a fraction of their issued value. In this way, the cost of the adjustment was shared between creditors and debtors in line with the risk appraisal made on the international capital markets.

At the present time, in contrast, the creditors are mainly commercial banks, whose holdings are not easily tradeable and which, if they had to liquidate them in the market, would cause them substantial losses, jeopardizing their stability. Thus, the only option they have at present is to offer to the debtors in difficulties either a refinancing or rescheduling of the debt.

At the same time there is no suitable international mechanism to carry out renegotiation or refinancing processes other than the 'Paris Clubs' or aid consortiums, none of which deal with the debt with the private banks, which is what is of fundamental interest in the case of Latin America.

The present system of renegotiation, besides being inequitable, takes no account of the basic mutuality of interest which exist between the creditor countries and institutions and the debtor countries. The high social costs involved in the present adjustment could even lead to uncontrollable situations in the latter countries, and these would in turn have strong negative re-

percussions on the situation of the creditor countries and banks.

A new approach to the problems of the region's indebtedness based on criteria of equity and mutuality of interests should therefore tend towards solutions which would guarantee a more equitable international distribution of the adjustment and a continuation of the process of development of the debtor countries, as a way of preserving the standard of living in these countries and strengthening their future payment capacity.

Under these circumstances, for the Latin American indebtedness problem to be satisfactorily resolved in the future, it will be necessary to establish a mechanism which includes the following conditions:

a) it must provide for the establishment of an institutionalized procedure for restructuring the debt, perhaps as a joint effort between IMF and the World Bank;

b) the reprogramming should include maturities of several years, establishing longer amortization periods and possibly changing a substantial part of the short- and medium-term debt of certain countries into long-term obligations;

c) additional resources should be granted to take care of the accumulated debt servicing and to maintain the operative capacity of the countries to handle their external trade;

d) the cost of refinancing must be reduced; and

e) access to additional public credits to stimulate economic development should be facilitated.

1. *The need for new institutional mechanisms*

The prolonged nature of the refinancing exercises makes it advisable to promote the establishment at the international level of new operational mechanisms for co-operating with the developing countries in the reprogramming process, thus taking the place of the *ad hoc* mechanisms used up to now and taking advantage of the experience built up by IMF in these fields. A refinancing service within the framework of the existing multilateral institutions, with automatic voluntary access as a function of objective indicators and providing case-

by-case support for each country studied according to the circumstances would be a decisive link in the chain of international co-operation which the present crisis and the meagre prospects of the world economy make it essential to establish.

Moreover, since trade aspects are of crucial importance for the thorough solution of the problems of the debtor countries, consideration should be given to the possibility of arranging for the participation in these refinancing exercises of institutions connected with international trade, such as GATT and UNCTAD, with a view to obtaining special facilities on the trade level. Among these facilities could be temporary provisions to open up markets further, or not to make adverse changes (stand-still), so as to expand the payment capacity of the debtor countries by increasing their exports.

2. *New terms and conditions for restructuring the debt*

An important objective in the new approach should be the reprogramming of the debt servicing for longer periods than those now in effect.

Reprogramming which covers only the maturities of the next one or two years is not sufficient and subjects the debtor countries to a process of virtually non-stop refinancing. Likewise, the imminence of possible additional negotiations regarding the payment of capital and interest on the debt negatively affects the confidence of creditors and prejudices the restoration of an appropriate flow of additional credits to the debtor countries. We therefore feel that a more effective formula would be to reprogramme the corresponding maturities for a greater number of years than at present. The new payment schedules should also include longer grace periods and terms than those granted up to now. This will make it possible to create more suitable conditions for managing the balance of payments.

These terms should be established so that they allow the debtor countries to maintain their per capita income during the adjustment period. Such a principle would be more acceptable as a guiding criterion of the renegotiations if a special clause were included in the repro-

gramming agreements providing for the incorporation of some degree of flexibility into the schedule of refinanced capital and interest payments, depending on the economic conditions of the borrower country. If the latter conditions improve, part of the fruits of this more favourable situation would be shared with the creditor banks through a moderate acceleration of the amortization and interest payments.

For some heavily indebted countries, a solution worth exploring would be the possible conversion of part of their outstanding short- and medium-term external debt into long-term debt. These countries contracted short-term credits to finance investments which are socially beneficial but have a long maturation period. They therefore require an urgent reprogramming of this financing.

3. Additional resources for covering debt servicing and maintaining the operational capacity in external trade

The mere reprogramming of the amortization of the external debt is not enough, however. It is necessary to obtain new resources, since in the short term the capacity for achieving a substantial unilateral increase in the national saving of the Latin American countries is limited.

From the point of view of the region as a whole, and subject to reasonable assumptions about the probable evolution of the world economy in the next few years, the external financing requirements for making the debt servicing compatible with the maintenance of the per capita income, as a minimum goal, involve the mobilization of much larger additional resources than those currently being obtained through the refinancing agreements.

Suggestions have been made in this respect whose importance and viability warrant careful attention: the capitalization of a substantial part of the interest on the external debt; the payment of a variable proportion of the interest with bonds tradeable on the international capital market; and the establishment within IMF of a special facility for financing the balance-of-payments deficit caused by the rises in international interest rates, providing for the granting of compensatory loans to the debtor countries

during periods when these rates exceed their historical levels.

Together with these additional resources, it will be of fundamental importance to maintain the credits from the private banking system for the financing of external trade operations within reasonable margins. As already noted, recent experience shows that the severe cuts made in this type of financing have created extremely difficult situations at a time when only a major reactivation of the external trade of the region can make possible a real way out of the difficulties presently being faced.

4. Reducing the cost of refinancing

From the point of view of equity, the private banking system practice of sharply increasing the cost of external credit when it becomes necessary to reprogramme indebtedness seems highly questionable. In reality, the signing of a rescheduling agreement does not involve any additional risk for the private banks. Indeed, in practice, there is an improvement in the quality of an originally weak loan portfolio.

This is because, in the first place, when a rescheduling agreement is signed, all of the future payments generally have an official guarantee which also extends to private credits not always previously covered by such guarantees. Secondly, these agreements are normally accompanied by the financial support of the IMF and the resulting commitment of the debtor country to continue certain adjustment policies which guarantee that in the future they will be in a better position to pay for the debt servicing.

Under these circumstances, it is not justifiable to increase the cost of the credit by raising the charges, a practice which in some cases has cancelled out the greater part of the benefit which the debtor countries would otherwise have obtained from the lowering of the nominal interest rates.

5. The need for a considerable increase in public credit for development

The adjustment policies which the Latin American countries are presently being forced to follow require a sharp contraction of the fiscal def-

icit, which generally takes the form of a reduction in public investment rather than the containing of current expenditure. It is therefore important, in the present circumstances, to maintain an adequate and growing flow of long-term credits from the international financial institutions, with a view to maintaining a high level of public investment which will ensure the continuation of the development process. The present circumstances make it absolutely essential to strengthen the existing multilateral institutions, especially IBRD and IDB, so as to substantially increase their contribution to the financing of the economic and social development process of the region.

The impression seems to prevail in certain circles in the developed countries that these institutions are merely agents which transfer subsidized resources, and their role as stabilizers of the international financial system is ignored or underestimated, especially as regards the anti-cyclical role which they play as a counterweight to the pro-cyclical operations of the private banks. The multilateral agencies thus help to give greater confidence in private financial markets, assuring the developing and also the developed countries of smaller disturbances in the amounts and forms of capital flows.

Notwithstanding this, however, both IDB

and the World Bank have shown relatively sharp contractions in the loans they have authorized for the region. As a proportion of the region's current account deficit, the loans authorized by IDB have dropped from an average of 25% in 1965-1970 to 11% in 1975-1980; the corresponding figures for the World Bank are 21% and 12%, respectively.

It may be deduced from this that the doubling of the resources available for lending to Latin America on the part of these two institutions would be a reasonable minimum goal as a contribution to the medium- and long-term external capital required by the region.

The policies of these institutions would be much more positive if they led to the materialization of the old aspirations of the countries of the region that such agencies should modify the terms of their loans so as to provide a greater stimulus to domestic productive activity. This could be achieved by giving greater flexibility to a considerably higher proportion of their project loans, expanding access to economic programme credits, and increasing their capacity for financing local costs. Furthermore, in the case of programme loans, it would be desirable to seek closer co-operation between the World Bank, IDB, and the International Monetary Fund.

C. STRENGTHENING THE OPERATIONAL CAPACITY OF THE INTERNATIONAL FINANCING ORGANIZATIONS AND INTERNATIONAL LIQUIDITY

Many of the current problems resulting from the indebtedness of the developing countries could have been avoided if the international financial agencies had had the funds, recycling mechanisms and facilities needed to allow for an adequate and equitable adjustment process at the world level.

Instead, the financial power of the multilateral agencies has weakened significantly in the 1970s and particularly in the last few years. The International Monetary Fund has exhausted its uncommitted resources and the recently agreed increase in quotas will only come into effect at the beginning of 1984, while the amount involved will be no more than 20% of the deficit anticipated that year on the cur-

rent account of the developing countries, which is inadequate to take care of their external financing needs.

Similarly, it should be noted that IDB has had increasing difficulty in supplementing its ordinary capital resources, even though the great majority of its member countries have given strong support to this expansion. The agreements recently reached on this matter represent a step in the right direction, but they are insufficient.

We feel that the time has come to expand the operational capacity of the Inter-American Development Bank with resources from other sources or through the creation of new loan funds which will enable this institution to con-

siderably expand the flow of financial resources to Latin America.

In the case of the World Bank, the difficulties in restoring the operational capacity of the IDA are well known and are in addition to the restrictions on the mobilization of resources being experienced by the other multilateral agencies.

We believe that the idea so often expressed of expanding the loan capacity of these institutions by gradually increasing the asset/liability ratio with which they have come to operate would give them a considerable margin for expanding their credit activities.

In order to strengthen the presence of the multilateral agencies in the financing of Latin American development, special attention should be given to the co-financing arrangements which may be organized with private banks. In this way, the flow of resources to well-planned investment projects could be increased, and at the same time this would ensure the prompt materialization of these projects as well as transferring additional external resources which would make it possible to gradually im-

prove the debt profile of the Latin American countries.

With regard to the sharp drop in Latin America's foreign exchange reserves in 1982, it is interesting to note that this was part of a similar phenomenon at the world level. Thus, the official world foreign exchange reserves went down by over US\$ 13 billion during 1982 and are still sinking in 1983, consequently tending to weaken any trend towards reactivation.

This therefore seems a suitable moment to give decided support to the proposal to allocate Special Drawing Rights in order to increase international liquidity. This would make it possible to distribute the burden of the external adjustment more equitably and over a shorter period than that required in order to increase the ordinary resources of the IMF.

Furthermore, a direct 'link' between the allocation of SDRs and the financing of the development of the peripheral countries would be a more effective way of providing relief for the debtor countries while at the same time securing an orderly expansion of the financial system.

D. DOMESTIC POLICIES AND THE CONDITIONALITY OF INTERNATIONAL SUPPORT

In the present circumstances, when the debtor countries are adapting their domestic policies to the new conditions of the international economic situation and the difficulties in their balance of payments, the international agencies which guide the adjustment process, such as the IMF, should also modify the conditionality of their loans so as to avoid incompatibilities in world economic policy and ensure that such policy helps to stimulate global activity.

In accordance with this, it seems advisable that the IMF should make its theoretical concept of the adjustment process more flexible, so as to adapt it better to the different economic

and social goals of its increasingly heterogeneous member countries.

This suggests that less confidence should be placed in automatic adjustments through price incentives in private markets, and greater weight should be given to the guiding role of the State and direct instruments of adjustment which act on some of the main economic variables.

At the same time, the IMF should have at its disposal suitable mechanisms for promoting adjustment in countries which have a surplus on their external accounts, so that the costs of this process are shared more equitably between these countries and the deficit countries.

E. THE NEED FOR CO-ORDINATED REGIONAL ACTION IN FINANCIAL MATTERS

The diversity and complexity of the individual situations as regards external indebtedness should not stand in the way of a broadly concerted agreement to act jointly in international forums and in dealing with the governments of creditor countries when seeking solutions of mutual interest to the present financial situation of the region.

This would require, as a first step, a review of the proposals relating to the solution of the serious problems deriving from the external indebtedness of the region, with a special view towards co-ordinating the joint action needed in order to realize these proposals.

We also feel that this would be a good time to open a direct dialogue between the governments of the creditor countries and the Latin American governments acting as a co-ordinated group. This would represent a significant advance with respect to the present situation, in which the negotiations are being carried out fundamentally between the governments of the region on the one hand and the commercial banks and international financial institutions on the other.

This option would not only make it possible to promote basic solutions to the difficulties referred to earlier but would also make it possible to grasp the true magnitude of the international crisis and its possible remedies, taking into account the important political interests involved.

As an important supplement to these initiatives we recommend the creation of a Latin American external finance information centre, linked with one or more existing regional agencies, which would make possible an increase in the various Latin American countries' knowledge of the conditions in which the refinancing process and the financial market are operating. This centre could also serve to advise the governments on the handling and solution of their problems generated by the external debt.

Such strengthening of the regional information capacity would also be in keeping with the initiative presently being taken by the creditor banks to organize and co-ordinate their policies towards national debtors, for which purpose the industrialized countries have at their disposal the OECD and the Bank for International Settlements.

V

The strengthening of regional co-operation and integration

A. THE RECENT EVOLUTION OF THE INTEGRATION PROCESSES

Thanks in good measure to the operation of the subregional integration arrangements, reciprocal trade among the Latin American countries grew steadily until the mid-1970s. Moreover, since the beginning a high proportion of that trade has been constituted by manufactures, unlike exports to the industrialized countries, in which basic commodities and semi-manufactures predominate. Nevertheless, in recent years, beginning in the second half of the

1970s, the relative importance of intra-regional trade became erratic and it lost dynamism, thereby giving rise to a certain amount of skepticism concerning its possibilities.

It would be a long task to go in depth into the numerous factors which have had an effect on the evolution of each integration scheme and have contributed to its slackening off in recent years. Factors in this phenomenon have included the structural differences between the

countries, the heterogeneity of national economic policies and the difficulties inherent in processes of integration among developing countries. This process has also been affected, however, by other factors of a conjunctural nature characteristic of the economic evolution of Latin America in recent years, such as the availability of abundant external resources and the dynamic growth of Latin American exports outside the region, which promoted the expansion of trade to extra-regional markets and in some sectors made regional markets less interesting.

In addition, the advance of Latin American industrialization has, in recent years, been obstructed in some cases because some countries have suddenly opened their economies up to international competition, or in others because they have not yet succeeded in stabilizing and intensifying the process of industrialization owing to their backwardness in terms of the production of basic inputs and capital goods. In these ways, the capacity to supply manufactures to the regional market has suffered, as has the demand on that market for capital goods.

To say, therefore, that the integration movement has faltered only because of the way in which regional or subregional institutions or the legal instruments which govern them have operated would definitely constitute a severely limited view of the complex and varied origins of that phenomenon.

It should also be noted that the potential for co-operation does not depend only on the nature and scope of the integration instruments. In the past decade ways and means of co-operation have emerged in Latin America which are profoundly significant for the

economic linkage and progress of the countries of the region. Meaningful and promising examples of such ways are to be found in the binational projects to develop water resources, the improvement of the common transport and communications infrastructure, integration of border areas, the petroleum agreement to aid the Caribbean and Central American countries, joint ventures in several fields, and other forms of co-operation at the scientific and technological as well as the economic levels.

However, there has recently been widespread doubt concerning the present and future importance of regional co-operation. Moreover, the various regional integration schemes have, instead of becoming stronger and more effective, been going through a period of institutional lethargy or have come up against dangerous and recurrent crises which have resulted in the stagnation or even regression of the integration processes.

Those trends have in the present circumstances been aggravated by the impact of the unfavourable international economic situation and the payments difficulties now experienced by the great majority of the Latin American countries.

For this reason, unless there is a significant turnaround and a more positive attitude to regional co-operation is established, these negative elements will continue to erode the achievements made and there will be an increase in the skepticism shown by business groups and even by the governments themselves, which are, in the last analysis, the agents on whose action the broadening and strengthening of the process of regional integration depend.

B. THE URGENT NEED FOR REGIONAL INTEGRATION AND CO-OPERATION TODAY

Such a change of attitude is more vital than ever today, since intra-regional co-operation and especially reciprocal trade are acquiring special importance and urgency in view of the growing restrictions on the expansion of exports to the rest of the world and the priority given to a style of development which is more inward-looking

than the one which prevailed in the region during the decade preceding the current crisis.

Since the prospects for North-South co-operation are dim and the benefits which Latin America is likely to derive from the eventual economic reactivation of the great centres are long in coming, it becomes of vital importance

to look to the region anew and make regional integration and co-operation a basic factor in the effort to revitalize the Latin American economies.

In the present circumstances, a decided movement in this direction would make it possible to achieve three fundamental objectives: more intensive use of the region's idle or under-utilized productive capacity; increased efficiency through the use of economies of scale, which have been severely eroded by the drop in production, and, finally, a reduction in the regional use of foreign exchange per unit of production.

All this would be of decisive help in achieving greater collective economic security and would make a form of development increasingly based on regional demand more viable.

If, on the other hand, the integration movement is not revitalized (and it will not be unless the governments make a definite political commitment), the costs may well be very high. Because of the extremely unfavourable nature of the present international economic situation, the unilateral action which countries may take to improve their position in the international economic scenario might give rise to a ruinous process of competition between the countries of the region in terms, for example, of repeated devaluations or ever-increasing export subsidies.

In short, it may be said that now, more than ever, Latin America needs a regional-level production and complementarity programme with suitable promotion and protection instruments which simultaneously promote a more effective integration process and a more equitable distribution of the benefits of that process among all the countries of the region. This process should also be accompanied by policies whereby the Latin American countries concert their international action more closely, and it would constitute a basic element in increasing the degree of autonomy of the region's economic and social development.

In order to progress in this direction, we

consider that in the present circumstances it is essential to reaffirm those Latin American policies which are aimed at achieving:

a) as much complementarity as is possible in production, trade and the utilization of transport, insurance, technological and other services, on the basis of the principle of Latin American preferences and as a way of achieving an effective and efficient import substitution process at the regional level. To achieve this objective it will be necessary to act flexibly and pragmatically, making the fullest use of the existing integration instruments, special arrangements between governments and other economic agents, and all possible means of non-traditional co-operation;

b) the initiation of an effective process of institutional articulation and co-ordination among the various entities working in the field of regional integration and co-operation, with a view to lending consistency and direction to their initiatives and activities. This process may be long and complex, but it would make it possible to proceed clearly and firmly towards the building of an authentic regional economic community;

c) the consolidation and broadening of the joint bargaining power of the countries of the region so as to correct the structural and conjunctural asymmetry in their external economic relations and effectively defend their common interests, together with those of the other developing regions, against other countries or groups of countries.

In order to make progress towards the attainment of these objectives, it will be necessary in the first place to increase regional co-operation in the fields of trade, finance, the production and supply of food and energy, and the development of transport; secondly, there will be a need for stronger co-operation with the relatively less developed countries and with other developing regions; and, finally, it will be necessary to link up properly the Latin American institutions engaged in the processes of regional co-operation and integration.

C. THE DEFENCE AND EXPANSION OF INTRA-REGIONAL TRADE

As we already saw, intra-regional trade has tended to weaken in recent years. In order to reverse this trend and take full advantage of the potential offered by such trade, measures aimed at the following objectives should be adopted:

a) to defend the levels of intra-regional trade already reached and keep it from being subjected to new limitations or obstacles;

b) to establish a margin of regional preference;

c) to promote flexible forms of trade, agreed upon within the existing integration schemes, in the framework of multilateral disciplines.

a) *Strengthening intra-regional trade and preventing its erosion*

One of the first objectives should be to stop the erosion of terms of access in intra-regional trade and prevent the application of additional obstacles to its expansion.

To achieve this aim it is necessary to put into operation higher-level machinery for consultation among the officials responsible for foreign trade in the Latin American countries, in order to deal with any disputes which may arise, solve the administrative problems posed, provide information on any restrictions which are applied, become familiar with existing systems for export promotion, and explore ways to minimize the impact of the present economic situation and of the restrictive trade measures accompanying the severe balance-of-payments crises in our countries.

At the same time, it is indispensable to adopt a regional-level standstill commitment which would provide a basic foundation on which any additional phase of the trade aspects of regional integration could be built, thereby making it unnecessary to start once again to lift the measures imposed as a result of the generalization of restrictions among Latin American countries. An additional advantage of an agreement of this type would be that it would automatically constitute a form of preference compared with the treatment given to third countries.

This initiative could take the form of an administrative decision suspending the implementation of all measures for limiting intra-regional trade adopted by every Latin American country as from a certain date, on the basis of partial agreements or of a formal multilateral instrument.

b) *Establishment of Latin American preferences*

Regional Tariff Preferences (RTP) are envisaged in the 1980 Treaty of Montevideo establishing ALADI. For its part, resolution 5 of the Council of Ministers of that regional grouping states that the preferences "should extend as far as possible to the entire tariff universe". The RTP are destined in this way to provide a multilateral link among the member countries of ALADI.

We feel, however, that the establishment of Regional Tariff Preferences should lead to the introduction of trade integration machinery for the whole of Latin America. We therefore consider it desirable to formulate an *ad hoc* agreement for adoption by all the Latin American countries. In order to ensure its rapid implementation, it should not have to be ratified or adopted by the individual national legislations in the normal manner. It could consist of an agreement for the partial or total suspension—but only on a temporary basis—of customs duties.

Several studies have been prepared on the various options available for avoiding the difficulties raised by implementation of the RTP, particularly with regard to the heterogeneity of the tariff systems of the different member countries, the partial preferences already in force as a result of negotiations held within ALADI, and the preferences existing among the Andean countries. For all these cases, technically adequate solutions which would facilitate adoption of the preferences have been suggested.

The decisions recently taken within ALADI on negotiating the common heritage could pave the way for reaching, in the briefest time possible, the political decision to implement this system of preferences. Its importance

is all the greater today because of the need for maintaining clear and firm elements of multilaterality in a scheme of trade relations which necessarily is going to have to exploit, pragmatically and to the maximum, the opportunities offered by partial complementation agreements and bilateral processes for maintaining and expanding trade flows. Without disregarding the importance of the latter, it appears particularly vital, both politically and economically, for the region as a whole to establish regional preferential action which would lead to global-level trade integration machinery.

It is obvious, however, that under the current economic circumstances tariff machinery by itself would not be sufficient to avoid other obstacles opposing the expansion of intra-regional trade. However, tariff preferences can generate trade, both by encouraging exploration of new preferential markets and by improving the conditions of access to markets which are protected by relatively high tariff levels or by institutional features which make them nearly impenetrable to imports not coming from the industrialized countries.

Trade preferences may go beyond the tariff sphere and extend to a comprehensively Latin American outlook concerning preferences, as a result of which, under the present circumstances, they could become a fundamental anti-cyclical instrument for resisting the drop in exports to areas outside the region and also make possible a reduction in imports from outside Latin America.

This outlook concerning preferences could be firmly applied to the State purchases which currently make up a significant portion of the imports of most of the Latin American countries. Most of the large infrastructure works and the largest purchases of capital goods conducted in the region are in the hands of the State or of public enterprises, while in some other cases the investments are made by private enterprises, which enjoy official financing or guarantees. Therefore, a regional system of preferences in public tenders open to foreign enterprises may be extremely important in increasing trade and reactivating the demand for capital goods, which has decreased as a result of the cuts in public investment taking place in many countries in the region.

c) *New forms of regional trade*

In the current circumstances, ALADI offers a flexible legal framework for constructing an area of economic preference through a variety of mechanisms. Among other instruments, explicit recognition is given to the part which may be played by agreements of partial scope in diverting trade flows.

However, we believe that, while the 'realism' of the potential held by agreements of partial scope should be recognized, multilateral discipline should also be observed as a way of avoiding the re-introduction of competitive or exclusive bilateral trends which would check possible advances towards permanent multilateral forms and, eventually, towards a true regional economic community.

It is in this context that we should envisage the role of subregional, bilateral and partial agreements, and of the balanced or adjusted trade which has recently acquired new momentum.

It is true that the latter suffers from defects or elements of trade diversion that are not always effective or economically advisable. However, as recent trends in the international economy have demonstrated, these mechanisms are especially attractive as a response to the emergencies raised by the crises in the balance of payments and should be explored among the countries of the region. The food and fuel sectors provide a suitable area for this type of trade agreement.

For example, in 1979 the Latin American countries imported food and beverages in an amount of slightly more than US\$ 10 billion, of which only US\$ 3 billion came from other Latin American countries. That is to say, the extra-regional imports represented approximately two-thirds of the total Latin American imports of those products. In the same year the Latin American countries exported slightly more than US\$ 25 billion of those same products out of the region.

In the fuel area, it should be pointed out that in 1979 the Latin American countries imported US\$ 20.7 billion of such goods, of which only slightly more than US\$ 8 billion originated in the region. That is, 60% of the regional fuel imports came from the rest of the world, which

leaves an ample margin for developing reciprocal trade.

The extra-regional imports of these two product groups as a whole are equivalent to nearly the total figure for intra-Latin American trade, while exports of them out of the region are, in both cases, far higher than the extra-regional imports. This provides an idea of the opportunities existing for expanding trade among the Latin American countries, especially with respect to food and fuel, trade in which is to a large extent in the hands of public or State-controlled enterprises.

This shows how important it is to extend to the region as a whole the attempts already being made bilaterally to establish mechanisms for increasing opportunities for expanding balanced, compensated trade.

D. FINANCIAL CO-OPERATION

Examination of the current problems of regional trade and the limitations on its expansion points to the great importance of expanding and strengthening regional mechanisms for financial co-operation.

We consider it of high priority and feasible in the short run to revitalize and interconnect several already-existing intra-regional financing schemes. Among these are the multilateral payments mechanisms (Central American Clearinghouse, Caribbean Multilateral System of Compensatory Payments, and the ALADI System of Reciprocal Payments of Balance and Credits); the trade balance and balance-of-payments mechanisms (Santo Domingo Agree-

ment, Central American Monetary Stabilization Fund, and the Fund for Debit Balance Financing in the Central American Clearinghouse), and export credit financing and insurance (Latin American Export Bank, Andean Trade Financing System, and Latin American Association of Export Credit Insurance Agencies). These are initiatives which, for the most part, have already been studied and could increase their contribution to reciprocal trade and to the saving of foreign currency in the region.

In the area of project financing, it is worth while recalling that the region already has four subregional bodies —the Central American Bank for Economic Integration, the Caribbean Development Bank, the Andean Development Corporation and the River Plate Basin Financial Fund— all of which are in a position to absorb additional intra- and extra-regional resources. The latter resources could become a highly useful complement to the efforts in the area of domestic savings which the region must carry out in order to accelerate its development.

In the nearly 25 years of its existence, the Inter-American Development Bank has played a very significant role as a body for promoting the development of Latin America, combining resources from the countries of the region with those from outside the region. However, it would have even more importance in the Latin American integration process if it placed more emphasis on promoting the financing of intra-Latin American exports and expanded its action in favour of regional co-operation, including the promotion and financing of joint investment projects among several countries.

E. CO-OPERATION IN THE AREA OF FOOD, ENERGY AND TRANSPORT

Latin America is facing the risk of growing external dependency in satisfying its ever-increasing food consumption, for the prospects for the future evolution of demand and the production of food for the region as a whole indicate that, if current trends do not change, Latin America's net trade deficit of food products with the rest of the world will rise sharply. This will be serious not only in terms of its influence on the bal-

ance of payments but also with respect to the worsening of the external vulnerability of such a strategic sector as this.

Therefore, the Latin American countries have recently established, in the framework of SELA, an Action Committee whose objective is to develop a System of Regional Food Security. Under this Committee a programme of action has been established whose objectives are as am-

bitious as the food situation of the region is disturbing. In other words, in this area Latin America already has the institutional and planning framework necessary for meeting one of the most important challenges that it will have to face in the coming years. We therefore consider it of the highest importance for all the Latin American countries to participate actively in this venture and for its full implementation to be ensured through the granting of the political support which it deserves.

The situation is similar in the energy area. Through the Latin American Energy Organization (OLADE) and its Latin American Energy Co-operation Programme (PLACE), the Energy Co-operation Programme for the Countries of Central America and the Caribbean established by the San José Agreement, and various bilateral and even multinational initiatives, an extensive network of agreements and programmes of action has been established in the region, which should make it possible for Latin America to meet more adequately, in the future, the problems arising from its commercial and technological vulnerability in the energy sector.

Under the current circumstances, we feel that it is particularly important to give the political and financial support needed in order for these initiatives, and especially the Latin American Energy Co-operation Programme, to develop fully. Their influence on the economic reactivation of the region, the maintaining of the level of export income of the producer countries, the saving of foreign currency by the importing countries, and the consolidation of regional technical development is enormous, and it could be detrimental to Latin America to ig-

nore them when the contribution they can make is so great.

In the case of transport, many kinds of action may be taken to improve the administration and technology of the merchandise movements stemming from trade between the region and the rest of the world and in the region itself. It is mainly a question of reducing costs, improving competitiveness with respect to the services offered by third countries, and procuring a growing proportion of the extensive freight and insurance market, which is mainly in the hands of businesses outside of the region today. It is sufficient to point out that in 1982 the region paid to foreign enterprises approximately US\$ 8 billion in maritime freight, that is, approximately 70% of its total expenditure in this category.

In order to tackle these problems and seek suitable solutions for them, it is considered necessary to have a forum—which does not exist at present—in which to study at the regional level the questions of the institutional strengthening of sea transport and transport facilitation.

This forum, which could be institutionalized in the form of a Permanent Maritime Transport Committee within SELA, would enjoy the technical support of ECLA and of the regional integration bodies. Its objective would be the integral study of the problems affecting maritime transport and related matters in Latin America, with a view to promoting the development of national merchant marines, increasing the region's share in the movement of its international trade, and improving intra-regional maritime services.

F. LATIN AMERICAN CO-OPERATION WITH THE COUNTRIES OF CENTRAL AMERICA AND THE CARIBBEAN

It does not appear possible to achieve the dual ideal of accelerated and relatively autonomous development and greater regional equity without special help for the countries of Central America and the Caribbean, either within the respective integration schemes or by seeking *ad hoc* instruments which would allow non-member countries to associate themselves with them.

New geoeconomic spaces could be created in this way, enriching the possibilities of integration and co-operation and of regional political co-ordination.

To a great extent the legal infrastructure for this already exists, since the 1980 Treaty of Montevideo makes it possible to grant non-reciprocal preferential treatment to developing

non-member countries of ALADI, such as the Central American and Caribbean countries, and other non-members of integration schemes, such as Cuba, Haiti, Panama and the Dominican Republic. Although there are significant difficulties involved in an initiative designed to increase commercial and economic links between the countries of ALADI (which includes the Andean Group) and the Central American and Caribbean countries, we are also aware that the region will achieve its true political and economic significance only when there is a network of effective links uniting all the countries in the Latin American community, while avoiding the presence of elements which tend to reproduce inequitable relations between them.

In this framework of ideas, we consider this to be a particularly favourable occasion for making a special effort to fully incorporate the Caribbean and Central American countries into this process.

Central America is a zone that is especially affected by the international economic crisis and by serious political tensions which are threatening to destroy the region's peace. We believe that the rest of Latin America cannot remain indifferent towards that situation. We therefore propose that a Latin American emergency programme in support of Central America should be adopted, so that the countries of that subregion will be able to moderate the effects of the crisis and revitalize their economic and social development process. That programme could be based on two main groups of measures.

Firstly, Latin America should foster an initiative aimed at regional economic co-operation with the Central American countries, helping them to promote their economic growth and, in this way, relax political tensions. Although this action would call for some financial support from the other Latin American countries, its main virtue and potential would lie in the assis-

tance these countries would lend to help the Central American countries obtain a higher level of global external financing.

Secondly, in accordance with the stipulations of the 1980 Treaty of Montevideo setting up ALADI, the most developed countries in the region could facilitate the access of Central American products to their markets through preferential trade treatment.

In the case of the Caribbean countries, their history and rich cultural heritage differ in many aspects from those of the rest of the Latin American countries. As they have been gaining independence, they have been joining regional organizations, sharing with and within them their problems and aspirations. Under the present circumstances, these countries are fully aware of their region's special identity and of the need for strengthening their unity to meet the challenges of their economic, social and political development.

For their part, it is in the best interests of the other Latin American countries — particularly those in the vicinity of the Caribbean region — to make maximum efforts to support the economic development of the Caribbean countries and to strengthen the relevant co-operation structures.

In view of the seriousness of the international situation's repercussions on the economy of the Caribbean countries, we feel it is necessary for the Latin American countries with the greatest potentialities, despite their present economic limitations, to expand their facilities for supporting this subregion by means of an initiative to be analysed and projected jointly with the Caribbean countries.

The continuation of the energy co-operation programme of Mexico and Venezuela in favour of the Central American and Caribbean countries is very encouraging in this connection.

G. THE LACK OF CO-ORDINATION IN THE LATIN AMERICAN INSTITUTIONAL SYSTEM

There is one last aspect of Latin American co-operation which we would like to mention with special emphasis on this occasion, since we feel it is an important factor in determining the pos-

sibilities for strengthening regional co-operation. We refer to the present lack of co-ordination among Latin American institutions.

In recent years, many regional specialized

agencies have arisen, a large number of committees or bodies dependent upon these agencies have been established, and action plans and regional strategies related to the most varied areas have been set up. Many of these mechanisms duplicate or overlap those which have arisen in the framework of regional and subregional trade or physical integration agreements or the regional bodies and specialized agencies of the United Nations system or the inter-American system. Each of these institutions generally has its own governmental machinery and secretariat. All this constitutes a thickly interwoven institutional fabric which lacks joint structures and co-ordination. There is no mechanism for establishing any form of co-ordination among all or at least some of these institutions. Furthermore, many of these agencies often follow parallel and in some cases even contradictory paths.

All these facts make it advisable to establish some type of central mechanism for the adequate co-ordination and promotion, from a high political level, of the activities and initiatives being proposed by this variety of institutions. Rather than advocating collective control machinery, we are proposing that they should be integrated at the functional level and pro-

vided with common guidelines, thus reinforcing the value of the activities being developed by one or the other.

In accordance with its original mandates, SELA could assume the functions of guiding and co-ordinating those Latin American institutions which deal with negotiation activities, both in the harmonizing of common positions towards third countries and in regional integration and co-operation.

We feel that in this way more co-ordinated and effective attention would be given to many initiatives which often are not implemented effectively, due to the institutional weakness of their bases or because they compete with similar initiatives coming from other forums. Alternatively, it is necessary to ensure support for initiatives which lose vitality after being taken, since only through the support of the governments is it possible to ensure their survival and development.

The advance of the regional integration and co-operation processes towards their final goals must at the same time be linked up with the institutional structure called for by the development and consolidation of the Latin American community.

VI

Concerted regional action to deal with the problems of international trade

It seems clear that the basic balance-of-payments and indebtedness problems of the region can be solved in the medium and long term only by improving the terms of world trade and putting a sustained programme for the expansion of regional trade into effect. Unless the necessary external resources can be generated by means of trade, it will not be possible to find a solution to the present balance-of-payments bottlenecks or to cope with the debt servicing requirements.

It is probable that in the next few years the growth rate of international trade will be rela-

tively slow, more or less in line with the sluggish evolution of the world product projected by various specialized bodies. This is partly due to the loss of impetus suffered by the process of increasing trade openness of the industrialized centres which accompanied and promoted their rapid economic development in the period from the end of the war up to the mid-1970s. This has also held back the progress which was being made towards a new international division of labour at the world level.

Moreover, the principles and rules on trade liberalization which have governed inter-

national trade under the aegis of GATT for more than 30 years are being progressively eroded. It was impossible to reverse this negative tendency at the last ministerial meeting of GATT, held at the end of 1982. Thus, the increasingly discriminatory and covert nature of the measures which countries have been taking has meant that in practice the exceptions to the GATT regulations now cover a very high proportion of international trade, affecting Latin America in particular.

In order to cope with these unfavourable trends, Latin America can take three mutually complementary types of action. On the one hand, it can define and adopt policies aimed at strengthening its joint potential for responding to and negotiating with the industrialized centres. Secondly, it can use its presence in different multilateral and bilateral forums to put forward its claims more actively. Finally, it can diversify its markets in order to improve the possibilities for selling its exports.

A. STRENGTHENING LATIN AMERICA'S BARGAINING POWER

Latin American exports of basic commodities and manufactures—the expansion of which is essential for the region's development—face in the markets of the industrialized countries a set of tariff barriers (graded according to the degree of processing of the exports) as well as non-tariff barriers. Both types of protection have a limiting and discriminatory character and are gradually bringing about a situation where the central countries have acquired the capacity to manage as they wish their trade with the developing countries and especially Latin America. This management may take place in a selective and non-continuous manner or, if necessary, may be broader, more intensive and more frequent.

For these reasons, we consider that it is an essential task for the region to organize and take advantage of its bargaining capacity in order to have the real possibility of applying symmetrical trade treatment to exports originating from developed countries which apply protectionist policies: an aspiration which has been repeatedly manifested and approved by the Latin American countries.

In order to formulate and adopt these measures, however, it is necessary first of all to have timely and accurate information on the characteristics and scope of the protectionist instruments used by the industrialized nations, as well as the products or product groups in respect of which the Latin American countries could possibly apply compensatory measures. Subsequently, the application of such measures could be agreed and carried out in various alter-

native ways: one valid only for the Latin American countries affected by one or more specific forms of protectionism in the centres; another at the level of agreements taken within the existing subregional groupings, and a third, broader type which would constitute an agreement entered into by the entire region.

As regards basic commodities, since these represent around 80% of the total value of Latin American exports (approximately 40% if petroleum is excluded), it is immediately clear how vitally important and urgent it is to increase the level of their processing, to defend their international prices, and to organize greater and more stable bargaining power *vis-à-vis* the consumer countries.

Although basic commodities are so important to the developing countries, the main agents in world trade in this field are the developed market economy countries, which generate close to 60% of the world exports of these goods and absorb over 70% of the total imports of them. This means that in the case of some particular products such as cereals and cotton, the success of the measures proposed at the international level will depend on the degree to which the developing countries can organize their bargaining power to counterbalance that of the industrialized countries, either as producers or consumers. To this end, Latin America should define differentiated policies for each basic commodity or group of commodities, in line with their particular characteristics, the kind of action or measures to which they lend

themselves, and the role which the region could play in each case.

In this connection, there is an urgent need to support the commodity agreements as fully as possible, in line with the objectives our countries identified at the recent meeting held at Cartagena in preparation for the sixth session of UNCTAD, which were validated shortly afterwards when the Group of 77 met in Buenos Aires.

In those cases where there are no international agreements which meet the interests of the countries of the region adequately or where attempts to seek solutions through the traditional agreements have proved sterile, Latin America should make the most, at the bargaining table, of the opportunities available to it through its combined purchasing power. In this regard, it is urgent to broaden and strengthen the bargaining power of the existing producers' associations (GEPLACEA and UBEC) and of the multinational marketing firms (COMUN-

BANA and MULTIFER) so that the success of these may serve as a basis for the establishment of similar bodies for other commodities which are important to Latin America.

The commodity export strategy also calls for the systematic incorporation as one of its essential dimensions of rising degrees of national processing and marketing of such products. The measures defined in this direction — a number of which will affect the operations of the transnational corporations — will have a leading role to play in the formulation of an integral policy for the commodity-producing and exporting sectors. As some Latin American countries have already been doing, it would be desirable for national authorities to incorporate into their foreign investment policies measures aimed at inducing the transnational corporations to increase their industrial exports of manufactures or semi-manufactures and generate increasing trade surpluses in their operations.

B. ACTION IN MULTILATERAL AND BILATERAL FORUMS

We do not wish to repeat here the lines of action emphasized by the countries in the Group of 77 and the Latin American Group, but to lay stress only on those which are most urgent and relevant in the present circumstances. The region, in co-ordination with the Group of 77, should continue pressing for the consideration and negotiation, within the context of GATT, of the gradual reduction of the various types of tariff and non-tariff restrictions now being applied. At the same time, for the identification of the problems involved in this field and the adoption of common positions by the developing countries, the institutional facilities existing in UNCTAD offer a good alternative whose timeliness and appropriateness become all the more obvious in view of the current Sixth General Conference of this organization.

The countries of Latin America must also act together to ensure that the benefits deriving from the Generalized Systems of Preferences (GSP) are expanded. The various limitations from which these systems suffer from the point of view of their transitory nature, their unilat-

eral characteristics, their selectivity, the rules regarding origin and quantities permitted and their use of the system of graduation have caused widespread frustration. It is therefore urgently necessary to improve them through the UNCTAD multilateral forum, and for this purpose the joint determined action of the region is indispensable, albeit without prejudice to bilateral negotiations with each of the countries or regions of the industrialized world which operate GSP schemes.

One of the forms of protectionism practised by the developed countries which is most harmful because of its dimensions, diversification and negative effects on the economic activity of the region is that of the subsidies for production and exports granted by those countries to certain key production activities.

For these reasons, we consider that one of the crucial issues which can and must be negotiated with the developed countries is that of subsidies. These negotiations should be carried out in the appropriate forums and with a great sense of urgency, since the code on sub-

sidies currently in existence is inappropriate and ineffective. While these negotiations are in course it will be necessary to have some complementary operational support and technical analysis machinery within the framework of UNCTAD.

Furthermore, it is also essential to redouble efforts to strengthen and expand the Integrated Programme for Commodities agreed within UNCTAD, both as regards the gradual adoption of international agreements between

producers and consumers for 18 selected products and as regards the complementary initiative for the establishment of a Common Fund for commodities. Especially as regards the Common Fund, it is our firm belief that the Latin American countries can play an effective leadership role in the process of obtaining the signatures and ratifications required in order to complete the entry into force of the Agreement setting up this Fund.

C. THE NEED FOR DIVERSIFICATION OF THE MARKETS FOR LATIN AMERICAN EXPORTS

Because of the growing inability of the markets of the central industrialized countries to absorb additional Latin American exports, as well as the increasingly serious difficulties in gaining access to them, a policy aimed at the expansion and strengthening of other markets is clearly justified and of high priority. This policy should include exploration of the opportunities offered by trade with the centrally-planned economies, especially those of Eastern Europe which are members of the Council for Mutual Economic Assistance (CMEA). Trade with the CMEA countries has shown relatively rapid growth in recent years, although it is true that it started from a very low level. A considerable number of trade and payments agreements have been signed between countries of the two areas, many of which go beyond the purely trade area and

include matters of industrial, scientific and technological co-operation. The existing experience therefore gives grounds for viewing in a positive manner the prospects of greater expansion of reciprocal trade, although this may partly depend on the obtaining of satisfactory solutions for the establishment of multilateral agreements for settling trade balances.

It is worth noting that the Latin American countries are interested in diversifying their exports to the CMEA countries—which currently consist almost entirely of primary commodities—through the export of manufactures. In addition, the possibility should be explored of inducing the CMEA countries to grant long-term preferential contracts in respect of products of interest to the region, within a new system of international trade relations.

D. CO-OPERATION WITH OTHER DEVELOPING REGIONS

High priority should be given to strengthening the bonds of co-operation with other developing regions, pursuing the efforts already initiated with countries of Africa and Asia.

This co-operation should go beyond the purely commercial area so as to attain and operate in a broader context of reciprocal co-operation within a framework of integration where co-operation is promoted not only in trade but also in the fields of technology, transport, the exchange of experience and joint investments.

In this connection there are of course factors which restrict the possibility of expanding

trade relations, such as limited supplies for export; problems of transport, communications and financing; the absence of preferential arrangements and, above all, the shortage of reliable and timely information.

One of the priority tasks is to seize the opportunity available in the present circumstances to intensify the action taken in these fields of co-operation, within which the establishment of a global system of trade preferences among developing countries can play a significant role, as can the mobilization of the developing countries themselves through the existing regional institutions.

VII

The challenges raised by the crisis and a new form of development

The preceding analyses demonstrate the great external vulnerability of Latin America in the face of the international economic crisis and the limited possibilities offered by the current policy of the international financial agents. As a response, we advocate concerted Latin American action in the international sphere in order to obtain a thorough-going structural adjustment which will make it possible to defer over time and distribute more equitably the costs facing the countries of the region today.

Latin America has been meeting the crisis by rigorously adjusting its economies and facing up to high social and economic costs. Up to now, in most cases, the results do not appear to justify the sacrifices. If the current conditions continue, recovery will continue to be slow, and the social and political costs will be even higher.

Mobilization of the Latin American potential for international negotiation and regional co-operation is therefore becoming essential for achieving a more equitable distribution of costs among the countries of Central and Latin America. This redistribution of costs will expand the countries' degree of manoeuvrability, avoiding the creation of undesirable and dangerous social tensions. Although we have had to concentrate our recommendations on urgent current problems, and especially those arising from external relations, there is no doubt that action in the internal policy sphere is essential if the current recession is to be handled with fairness and a long-term view of the existing problems. Such an approach would also provide international action with appropriate domestic support in the political, social and economic sphere.

Taking a structural view of the problems afflicting us, the crisis has pointed up the long-term unfeasibility of development strategies which have once more proven their extreme external vulnerability and their tendency to create inequitable societies.

For this reason, in our approach to short-

term adjustment problems we would also like to call attention to the need for substantial changes in the current modalities of our economic and social development. In this context we believe that the measures being put forward in international and regional spheres should, while reducing short-term external imbalances, create the foundations for different forms of growth and distribution.

The new modality for development should aim at substantive changes in external economic relations, correcting the structural imbalances which have characterized them in the past. What is more, it should be acknowledged that, even if the hoped-for reactivation does occur, both in the economies of the centres and in world trade, the extra-regional relations of Latin America will make it necessary to envisage as restrictions the high initial indebtedness and a new international financial context. Even if the debt is successfully renegotiated, servicing it will continue to affect the Latin American economies, and it is highly improbable that net external financing will again play a role similar to that which it played during the 1970s. Furthermore, it is unlikely that protectionism and the instability of world trade will cease to be significant problems, which makes rather questionable the strategies basing the economic dynamism of the region on exports to the centres. Therefore, the new arrangements for development should be based more and more on the domestic and intra-regional markets and—to the extent that South-South relations become strengthened—on the markets of the rest of the developing world.

The needs and pressures connected with the crisis, by reducing considerably the import levels at which the previous forms of economic growth operated, once more open up possibilities for substitution in the national and regional spheres. Efficiency of operation, in our opinion, is indispensable in this new stage of import substitution. In any case, the serious cur-

rent economic deterioration does not leave room for wasting the scant resources available. Furthermore, we feel it is absolutely necessary to orient the production changes in the new modality of development towards a regional market. In this connection, the recommendations made concerning regional co-operation in trade, financing and other spheres should be considered as first stages in a long-term process of a multilateral nature.

The new modality of development must also meet other requirements in the domestic sphere. In the area of equity, a suitable policy should be developed for keeping up appropriate levels of consumption and employment opportunities for the broad masses. With regard to medium- and long-term expansion, it is indispensable to preserve the physical and industrial infrastructure which it cost so many years of effort to build. Furthermore, in the key sectors for the new economic expansion it is essential that levels of investment, which in some cases now threaten to be insufficient even for covering the depreciation of the existing production capacity, should be recovered as soon as possible.

These challenges are in many cases in open contrast with the previous patterns of consumption and savings. Thus, in our view, the new economic policies must aim at much greater austerity than in the past —austerity in both public and private consumption and, most especially, in that of the high-income strata. The reduction of these strata's diversified consumption, which is also highly dependent on the exterior, will not only facilitate the social consensus, but also make it possible to attain the objectives of domestic savings, relieve the pressure on the balance of payments, and make it easier to control inflation.

The complexity of the problems we are facing and the nature of the changes needed place very strict demands on the management

of the economy. However, the most difficult obstacles will arise at the political and institutional level. Both the short-term measures and the transition towards a new development strategy call for a firm and wise hand on the part of the State. The varied political experience of Latin America makes it clear that there are no mechanisms or institutions which, by themselves, can ensure that the economic process will proceed efficiently and properly.

The market has economic and political virtues, but these do not include the unaided ability to guide development or cope effectively with crises. We believe that in periods of crisis it is vital for the State to play a central role in the management of the economic process and in the co-ordination and harmonization of efforts. We must not, however, fall into the technocratic illusion of thinking that this kind of intervention alone is any guarantee of a reasonable degree of efficiency.

Co-ordination refers first and foremost to the need for the whole State apparatus —central and regional, administrative and decentralized— to act in an integrated and harmonious manner. Concerted action has to do in particular with the capacity of the State apparatus to reflect the interests of the social groups, guide their action and direct wills towards common goals.

Although the co-ordination of the State apparatus is the necessary and primary source of its efficiency, the harmonization of efforts between the public and private and the labour and entrepreneurial sectors is also an essential feature of the kind of planning which is so sorely needed at present.

Only by combined action directed towards common goals will societies be able to solve their pressing problems and provide an answer not only to the concerns of the moment but also to the challenges of the future.