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Towards Cartagena: the crisis and the external debt

In the three years which have passed since the problem of external indebtedness reached a crisis point in August 1982, international financial negotiations have been closely linked to foreign policy. In both debtor countries and advanced nations, issues such as interest rate levels and trends, the size of debt service and amortization payments, the possibility of an interruption in the servicing of the debt, negotiations with creditor banks, and the role of the International Monetary Fund have become leading topics of public debate and, what is more, focal points in the wider sphere of relations between the governments of these two categories of nations. The debt issue has thus been constantly at the forefront of international attention and concern.

International financial problems have, of course, been a foreign policy concern for a long time, but in the past these problems were never regarded as being of more than marginal importance. The recent change which has occurred in this regard may perhaps be characterized in the following terms: in the past, international financial affairs were primarily regarded as "technical" questions where the financial aspects were the predominant element, while their international aspects were only secondary; the task of dealing with these issues was therefore seen as being almost exclusively the responsibility of the financial authorities. Now, however, there is a growing awareness of the fact that these issues have an important political dimension, that their international aspects (i.e., their impact on the current status and future outlook of political relations between States) are just as important as their financial aspects, and that they are therefore of direct concern to the authorities responsible for foreign policy. This change in the way of international financial issues and particularly the problem of indebtedness are regarded and the participation of a broader spectrum of institutions in addressing these issues have given foreign policy a new and important field of activity.
The above observations are especially applicable to Latin America, which contains many of that “relatively small number of countries” which, as noted, by the Group of 24 in its latest document (1985, p. 48) “incurred the bulk of the debt” contracted during the late 1970s and early 1980s. When the foreign ministers and ministers responsible for financial affairs of eleven Latin American countries met at Cartagena in mid-1984, they opened up a new phase in the region’s external financial relations. This initiative led to two other ministerial meetings (at Mar del Plata and Santo Domingo) where other statements and proposals were adopted. At the time of writing (September 1985), new proposals are being prepared with a view to a fourth ministerial meeting at Montevideo. This whole process, which bears the name of the historic city of Cartagena where the first meeting was held, is one of the most vivid and innovative manifestations of the international political action being taken by the Latin American countries.

Mexico played a decisive role in the design and preparations for the first meeting and took an active part in it. It was represented at the subsequent meetings and has been deeply involved in the process itself and in the effort to carry it forward and to heighten its political significance. The President of Mexico referred to the subject in his third annual report to the nation, when he said “In the Cartagena Consensus, Mexico has joined its political will with that of ten other Latin American countries... We have repeatedly stressed that the treatment of this issue [the external debt] must be tied in with the imperative need for a revival of international trade and the flow of financial resources for development. We have also reiterated the need for fresh financing which will simultaneously allow the countries to grow and to continue their payments” (de la Madrid, 1985, p. 21).

The “explosion” of the debt problem had been abundantly fuelled by the worldwide economic crisis which began in late 1979 (described as the worst since the Great Depression or, according to some, since the end of the Second World War) and which, in general, lasted until mid-1983 when the first signs of a recovery were glimpsed in a few developed countries. This recovery did not take hold, however, and did not lead to a steady expansion in the world economy as a whole because the policies that had set off the crisis continued to be applied: “...In response to the decline in trade, there has been a proliferation of restrictive measures; in response to the drop in commodity prices, stabilization schemes have been dismantled; in response to widespread inflation, measures have been taken which, in many cases, have reduced countries’ long-term growth potential; in response to the need for more funds, finance costs have been increased and lending terms made more stringent; in response to an insufficient level of multilateral economic co-operation, there has been a reluctance and, at times, even a refusal to undertake further negotiations” (Navarrete, 1984).

The crisis and its repercussions have had a profound impact on the international economy, trade and finance. More specifically:

- Within the broader realm of the international economy, interaction between the major industrialized countries was unstable and unbalanced. Each nation opted for short-term policy measures without regard for how they affected other countries. The “beggar-thy-neighbour” policies of the 1930s were once again in vogue. Hence, the lack of co-ordination with respect to economic policy, in conjunction with the combined effect of the expansionary fiscal policies and restrictive monetary policies adopted by some developed countries, introduced elements of instability which, in turn, paved the way for sharp imbalances. The United States’ huge trade deficit added to the pressure for protectionist measures and trade restrictions and caused access to the United States market to be made contingent upon various demands for reciprocity. Its equally awesome fiscal deficit generated an enormous demand for resources, which decreased the amount of funds that were available for financing investment and development in the rest of the world economy and caused financing costs to soar in real terms. The moderate recovery in Western Europe was not great enough to produce any widespread decline in unemployment, and the prevailing mood of protectionism prevented exports from being used as a means of consolidating the recovery. Exports continued to be the fastest growing component of the Japanese economy, but Japan was increasingly obliged to limit its sales abroad, and its growth
rate was consequently held back. Thus, the recovery which had slowly and hesitantly begun to take shape in mid-1983 following the deep and widespread recession of the preceding 36 months proved to be both unstable and precarious. In fact, it died out before its effects could be felt in the world economy as a whole and, in particular, in the developing countries.

- In the developing countries, the wide variety of national situations notwithstanding, the overall picture continued to be one of stagnation and, in some cases, continued deterioration despite the uneven recovery in the North. Any hope of a steady recovery was virtually cut off by the continuing sharp decline in commodity prices, increasing trade restrictions, the heavy debt burden and the paralysis of net flows of financial resources. The crisis caused the developing countries to lose a great deal of ground: the levels of per capita production, income and imports which most of them had achieved by the late 1970s will not be regained until the late 1980s. Because of this, it has been said that, particularly for Latin America, the 1980s will have been the “lost” decade of the crisis. The crisis destroyed part of the developing world’s linkages with the world economy, and this damage will not easily be repaired.

- For the first time since the end of the Second World War international trade declined or completely stagnated for three years running; during this time, there was a progressive erosion of the open multilateral system of trade, and this trend was not reversed by the considerable expansion in trade that occurred in 1984. Protectionist trade barriers and restrictive measures increased; a growing number of sectors were withdrawn from the multilateral system and became subject to generally restrictive ad hoc arrangements characterized by the limitation of commerce, the fragmentation or division of markets and sanctions against competitiveness. The arsenal of protectionist and restrictive practices was diversified; the traditional measures of tariffs and quantitative restrictions were augmented by “orderly marketing” agreements, “voluntary” limits on exports, the restriction of market shares, the abuse of provisions designed to combat unfair trade practices (especially with respect to countervailing duties and antidumping measures), and the practice of tying the terms for market access to issues unrelated to trade, such as the treatment given to direct foreign investment or national legislation on industrial property.

- To a large extent, trade restrictions were directed at those developing countries which had achieved a certain degree of progress and efficiency in their export activities. The principle of according preferential treatment to developing countries, which was one of the basic components of the postwar international system of trade, was abandoned in practice. Guidelines and policies relating to the concept of “graduation” were applied and increasing demands for reciprocity were made; the scope and force of the Generalized System of Preferences were progressively reduced, thereby infringing its basic principles of universality and non-reciprocity; and, as already noted, market access was made subject to certain conditions and was tied in with such issues as policies on foreign investment and industrial property.

- In the sphere of finance, during the early 1980s the world economy operated with unprecedentedly high interest rates (described by a former Chancellor of the Federal Republic of Germany as having reached the highest level in the entire Christian era). The effects of such high interest rates on the availability and cost of loans for investment and development and, particularly, on the level of the debt service were so severe that on some occasions the debtor countries were unable to cope with them and the entire world economy was placed in an untenable situation. Moreover, the debt crisis caused the flow of financial resources to debtor countries to be virtually suspended, thereby cutting off one of their major sources of development financing. The direction of international transfers of financial resources was thus reversed; the developed countries became the recipients of such transfers while the debtor countries, and particularly the Latin American nations, became net exporters of capital.

- As the world monetary system remained in disarray during these years (this situation being especially notable in the wild fluctuations of exchange rates and their persistent misalignment, especially as regards reserve currencies), the uncertainty involved in international transactions of goods and services increased, as did exchange
and financial risks. The various countries' ability to compete at the international level thus became subject to sudden and unpredictable changes.

So it was that, in August 1982, the crisis finally came to a head and the debt problem exploded. It was Mexico which set off this bombshell when it announced that it was unable to continue servicing its debt. Four months into the moratorium, the situation was described in the following terms: “Mexico suspended its external debt service payments in late 1982. The total amount involved was US$ 87.4 billion, equivalent to nearly 53% of the gross domestic product. The due dates for debt payments were excessively concentrated in the short term: according to the terms and conditions of the loans, 46% of the debt was to be paid within not more than three years, and 27% was to be paid during 1983. Under these terms, the external debt was unpayable” (de la Madrid, p. 31).

The situation was also untenable in Latin America as a whole: the cumulative level of the external debt was equivalent to over half of the gross regional product and was three times as great as its annual exports; debt service payments were increasing twice as fast as exports, and the average annual outlays on debt service were over US$ 29 billion, with each rise of one percentage point in interest rates adding US$ 2.5 billion to the annual expenditure on debt service. In short, the region had become a net exporter of capital and was thus in a position that was incompatible with any hope for a resumption of sustained development.

In order to deal with the crisis and its attendant problems (especially their indebtedness), the debtor countries were compelled to embark upon adjustment programmes which were generally of a recessionary nature. It was imperative to re-establish the fiscal and external equilibrium of their economies; in order to do so, the countries resorted to cutbacks in spending and imports which resulted in stagnation or outright reductions in activity. In the years immediately following the debt crisis, many debtor countries managed to produce large surpluses on their current accounts as a result of their adjustment programmes, and they used these surpluses to pay the service on their debt. Nonetheless, the adjustment effort was made within an international context which made it difficult and more costly than it would otherwise have been.

During the following twenty months (between August 1982 and April 1984), each of the debtor countries made a determined effort to cope with the resulting problems. No country considered the option of resorting to unilateral action, either individually or collectively, which might have entailed the risk of causing the collapse of the international financial system. This interest was shared by the governments of the developed countries, the international banking community and multilateral financial agencies. It was thus possible to organize the first round of negotiations and to provide emergency financing. These financial operations were, in general, very costly: high interest rates and unprecedented spreads (sometimes over two points); heavy commissions and other rescheduling charges; virtually punitive interest rates on the additional funds made available; and narrowly short repayment periods which gave rise to untenable payment profiles.

The first round of renegotiations ran parallel to the sustained effort on the part of debtor countries to carry out a drastic adjustment. Indeed, the renegotiations and the granting of the fresh financing demanded by the situation were contingent upon such an effort being made. Despite the very high costs involved, this situation was endured throughout the period under discussion. The series of large increases in interest rates which occurred in early 1984, however, once again ushered in the danger of a collapse, and this situation brought a collective reaction from four Latin American governments.

On 19 May 1984, Presidents Raúl Alfonsín of Argentina, João Figueiredo of Brazil, Belisario Betancur of Colombia and Miguel de la Madrid of Mexico issued the following statement:

“We are greatly concerned by the fact that our peoples' hopes for development, the progress of democracy in the region and the economic security of the continent are jeopardized by situations not of our making and beyond our governments' power to control.

'Successive rises in interest rates, the prospect of additional increases, and the proliferation and intensity of protectionist measures have
made the outlook for our countries and for the region as a whole a dim one indeed.

"Our countries cannot continue to accept these risks indefinitely. We have affirmed our resolve to rectify the existing imbalances and to restore the conditions which will permit the resumption and consolidation of economic growth and progressive improvement in the living standards of our peoples.

"We have been the first to demonstrate our determination to meet our financial obligations on terms in keeping with the interests of the international community. We will not allow ourselves to be pushed headlong into forced insolvency and continued economic stagnation.

"We believe that it is imperative for the international community to make a concerted effort, without further delay, to agree upon cooperative action and measures aimed at resolving these problems, particularly in the related sectors of international trade and finance.

"We therefore propose the adoption of specific measures designed to bring about substantial changes in international financial and trade policy in order to afford greater access for our countries' products to the markets of the developed nations, to provide real and substantial debt relief, and to ensure the reinstatement of the flow of development financing. In particular, suitable amortization and grace periods must be established and interest rates, spreads, commissions and other finance charges must be reduced.

"In view of the foregoing, we intend to convene a meeting as speedily as possible of the Foreign Ministers of our countries. Ministers of other Latin American governments will also be invited to this meeting in order to define the most appropriate initiatives and courses of action with a view to finding satisfactory solutions for all the nations involved" (Ministry of Foreign Affairs of Mexico, 1984a).

This statement, whose objectivity and restraint were widely acknowledged, was drafted within a remarkably short time thanks to direct consultations among the foreign ministries of the four countries.

The parties involved could not have reached agreement on this joint statement if one vital step had not already been taken which paved the way for it: in early 1984, the President of Mexico visited a number of Latin American countries, among them the other three nations which signed the declaration. This visit provided an opportunity for an exchange of ideas concerning the debt problem and related trade and financial issues. Indeed, many of the basic proposals made in the declaration had already been outlined in the joint communiqués issued as a result of the visit.

The reactions came immediately. The most common one, which was expressed in both the European and United States press, conjured up the spectre of a "debtors' club"; this idea has since made the rounds of international financial circles and has given rise to all sorts of misinformed speculation. The reference to defining "initiatives and courses of action" was said to be an advance indication of the debtor countries' determination to take collective decisions with the intention of imposing them unilaterally upon the banking system and multilateral financial bodies. Those who called up this fearful vision overlooked the fact that the creditor banks had been guilty of manifest and open collusion when, several months before, they had created machinery for an exchange of information and the definition of collective actions vis à vis each of the debtor countries. They also overlooked the fact that at no time had the governments which signed the declaration announced or even implied the possibility of abandoning the idea of dealing with the problem on a case-by-case basis, inasmuch as they recognized the substantial differences between the various situations and specific prospects of each country, although they were also aware of those areas in which the debt's repercussions on their countries were similar.

Two weeks later (5 June), on the eve of the meeting of the Heads of State or Government of the seven major Western industrial countries in London, the same four Latin American presidents plus Presidents Osvaldo Hurtado of Ecuador, Fernando Belaúnde of Peru and Jaime Lusinchi of Venezuela decided to send communications to the political leaders of those countries. These messages (which were also drafted very speedily by means of consultations among the foreign ministries), in addition to reiterating the basic content of the declaration of
19 May, set forth some other fundamental concepts: "There is clearly an urgent need to take concerted action, especially with respect to the debt. It cannot be imagined that contacts with the banks or the participation of international financial bodies alone will be enough to resolve these problems. A constructive dialogue between creditor and debtor countries is needed in order to identify specific measures to ease the burden of the external debt while giving due consideration to the interests of all the parties involved... a set of integrated policies and actions in the fields of finance, the debt and trade must be defined. It is essential that a candid atmosphere of cooperation should be established on the basis of shared responsibility and consideration for the interests of the international community as a whole". In closing, it was emphasized that "a manifestation of the major industrial countries' political willingness to work towards the achievement of these objectives would... be particularly opportune" (Ministry of Foreign Affairs of Mexico, 1984b).

The statements issued on 15 May and 5 June 1984 laid the foundations for the meeting of the foreign ministers and finance ministers of eleven Latin American countries which was to be held in little over two weeks after the latter date in Cartagena. The attendance at Cartagena of the four countries which had signed the first declaration (Argentina, Brazil, Colombia and Mexico), the three other countries which had also signed the message sent to the London summit (Ecuador, Peru and Venezuela) and four other countries (Bolivia, Chile, Dominican Republic and Uruguay) provided incontrovertible evidence of the region's growing acceptance of the statements made in these declarations.

II
Cartagena:
the basic platform

The platform decided upon by the countries participating in the Cartagena process found its first expression in the Cartagena Consensus, which was adopted at the first ministerial meeting of these eleven countries (21-22 June 1984) and was then further developed during two subsequent ministerial meetings in Mar del Plata (13-14 September 1984) and Santo Domingo (7-8 February 1985).

The platform adopted by these countries at Cartagena has three main components: political declarations, proposals for specific policy measures and action, and institutional considerations. The platform is addressed as a whole, without attaching too much importance to the specific forum where an idea was first expressed, inasmuch as the three basic documents in question (the Consensus and the statements issued at the meetings of Mar del Plata and Santo Domingo) are clearly just three stages in a single ongoing process.

1. The main political pronouncements

a) The co-responsibility of debtors and creditors

In view of the fact that the Latin American debt problem largely stems from "drastic changes in the terms under which the debts were originally contracted" in regard to interest rates, liquidity, the composition of the debt and the outlook for economic growth, and that these changes "originated in the industrial countries and lie beyond the reach of the region's decision-making capacity" (Cartagena Consensus, paragraph 7), it is evident that debtors and creditors are jointly responsible for its nature, scope and manifestations. This pronouncement was made
in response to the clearly biased approach which has been taken to the problem, whereby the burden of undertaking the necessary efforts and actions to deal with the problem has been shouled by the debtor countries alone.

b) **The resolve to fulfill external payments commitments**

The countries concerned have consistently asserted and reiterated their “intension to comply with the commitments relating to their external indebtedness” (Cartagena Consensus, paragraph 8) and to carry forward adjustment processes with a view to re-establishing the necessary conditions for the resumption of the region’s economic development and social progress. This statement was a refutation of the speculations which had circulated both on the eve of the Cartagena meeting and at the time of the subsequent conferences, according to which the countries involved were seeking ways to avoid fulfilling their commitments.

c) **A political dialogue on the debt problem**

The most controversial pronouncement to come out of the Cartagena process was without question the statement referring to a “political dialogue” concerning the debt problem and the related issues of financing and trade. This pronouncement was based on the recognition of the fact that, because its implications go far beyond the financial sphere and have “obvious political and social consequences”, the debt problem clearly has a political side that makes its “political consideration... at international level” imperative, inasmuch as “only a meeting of minds of the governments of the debtor and creditor countries will bring about a change in present conditions, which are making it impossible to reach adequate and lasting solutions” (Cartagena Consensus, paragraph 9). The pronouncement also reflected the fact that such a dialogue would contribute to an understanding and that in the specific case of the debt, “a dialogue between creditors and debtors is essential if the problem is to be fully comprehended and an understanding is to be reached”, since “failure to conduct such a dialogue would prevent the co-operation between the parties which is necessary in order to resolve the crisis on a joint basis” (Mar del Plata Communiqué, paragraph 7).

d) **Dealing with the situation on a case-by-case basis**

In view of the particular circumstances of each individual nation and “the diversity of external indebtedness situations and of the measures needed to re-establish the conditions for growth”, the countries involved in this process are of the opinion that “each country is responsible for the way in which its external debt is negotiated” but that, at the same time, “there is a need to define and agree to general policy approaches to restructuring and financing to serve as a frame of reference for the individual negotiations of each country” (Cartagena Consensus, paragraph 10). In this statement, the countries reconciled the obvious need to maintain national responsibility and control as regards the process of renegotiations with the desirability of defining a broad and generally applicable framework within which specific cases are to be handled. At the same time, they also rejected what would appear to be the main objective of a “debtor’s club”, i.e., collective renegotiation.

e) **An even-handed adjustment**

Recognizing the biased nature of the international adjustment effort, inasmuch as the debtor countries have been saddled with virtually the entire burden of making such an adjustment, the signatory countries enunciated “the concept of equity in the distribution of the cost of economic readjustment”, stating (Cartagena Consensus, paragraph 12) that “the adjustment process should be symmetrical and equitable if it is to be effective” as regards re-establishing worldwide economic growth.

f) **The relatedness of the issues of the debt, financing and trade**

In view of the tendency to compartmentalize international economic problems, ignoring their obvious relationships, the countries stated that “debt, financing and trade problems are closely related, so that the region’s payment capacity could be strengthened by stimulating economic
growth through an increase in exports, the re-opening of financial flows and the maintenance of adequate import capacity levels” (Cartagena Consensus, paragraph 13).

2. Proposals for specific action and policy measures

a) The reduction of interest rates

There is a need for the “adoption of measures leading immediately to a drastic reduction in nominal and real interest rates in international markets” (Cartagena Consensus, paragraph 18 A). Furthermore, the developed countries must rectify those aspects of their policy which tend to raise the cost of credit or to maintain it at levels “several times higher than historical averages” by taking “action to bring real interest rates back down to reasonable levels” (Mar del Plata Communiqué, paragraph 2).

b) Compensatory financing to help offset increases in interest rates

The countries proposed “the putting into practice of temporary machinery to ease the impact of high interest rates” (Cartagena Consensus, paragraph 18 D), along the lines of the compensatory financing facility in the International Monetary Fund, or the extension of official concessory loans for this purpose.

c) The postponement of interest payments

In the case of countries “with extreme balance-of-payments difficulties”, a proposal was made for “the deferment of the payment of some of the interest” (Cartagena Consensus, paragraph 18 F); such interest payments would be resumed once an increase in a country’s exports allowed it to allocate a portion of its additional earnings for that purpose.

d) The introduction of new features into renegotiations

A series of features which should be incorporated into the rescheduling of debts were set forth, including the following: i) applying interest rates “which should, in no case, exceed the real costs of securing the funds in the market or be based on administered rates” (Cartagena Consensus, paragraph 18 B); ii) keeping “the margins of intermediation and other expenses” down to a minimum and “eliminating commissions” (Cartagena Consensus, paragraph 18 C); iii) establishing debt payment profiles that are in keeping with the country’s “capacity for economic recovery” and substantially lengthening the “repayment and grace periods” of loans and extending the bases of renegotiation “to periods covering a number of years” (Cartagena Consensus, paragraph 18 E); iv) preventing rescheduled payments from involving the commitment of “income derived from exports... beyond reasonable percentages compatible with the maintenance of adequate levels of domestic production activity” in the debtor countries (Cartagena Consensus, paragraph 18 G); and v) in renegotiations undertaken with the governments and official export-credit institutions of industrialized countries, granting more favourable terms with respect to repayment periods and interest rates than those provided in renegotiations with commercial banks.

e) The generalization of the positive features of renegotiation operations

Inasmuch as some of the rescheduling exercises carried out in the second half of 1984 adopted “some of the main principles set forth in the Consensus with respect to terms, costs and conditions” (Mar del Plata Communiqué, paragraph 6), the signatory countries drew attention to the need “to extend [such provisions] to include countries which are in the process of renegotiating their debts and [to make such provisions] a basic prerequisite for any future negotiations” (Santo Domingo Communiqué, paragraph 1).

f) Supplementary measures

In reference to the clearly expressed belief of the developed countries and the international banking community that the renegotiations, especially those carried out since mid-1984, are a solution to the debt problem, the signatory countries stated that such operations are insufficient and proposed that they should be supplemented with a political dialogue: “rescheduling the debt is not enough and only defers the
problem, since negotiations with commercial banks, by their very nature, do not provide an opportunity for addressing broader issues such as the co-responsibility of debtors and creditors, the even-handedness of the adjustment, the implications for the debtor countries' development and the future course of the international economy, trade and finance, which would allow a permanent solution to the debt problem to be found" (Santo Domingo Communiqué, paragraph 2).

**g) The modification of banking regulations in creditor countries**

The countries proposed the elimination of "the regulatory inflexibility of some international financial centres which automatically castigate the credit portfolios of developing countries and prevent a concession of new financing" (Cartagena Consensus, paragraph 18 I) and the adaptation of such regulations to the characteristics of debtor countries and to their status as sovereign nations.

**h) Proposals relating to multilateral financial institutions**

The countries set forth a series of proposals relating to the policies and activities of the International Monetary Fund, the World Bank and the Inter-American Development Bank. These proposals included the following: a) "the allocation of a greater volume of resources and the strengthening of the lending capacity" (Cartagena Consensus, paragraph 18 K) of these bodies, along with the speedier and increased use of their resources; b) "a new allocation of Special Drawing Rights... compatible with the need of the developing countries for liquidity; the lengthening of the duration of [the] adjustment programmes and increased access" (Cartagena Consensus, paragraph 18 L) to the resources of the IMF; and c) "a review of the conditionality criteria" of the Fund with a view to assigning "priority... to the growth of production and employment", excluding "the impact of the rise in international interest rates" from the assessment of the extent to which the fiscal and balance-of-payments goals of stabilization programmes have been achieved, and modifying "the monetary goals agreed upon" in order to "absorb unforeseen rises in the rate of inflation" (Cartagena Consensus, paragraph 18 M).

**i) Improving the international terms of trade**

The countries proposed courses of action for increasing their access to the markets of developed countries, including "the rapid elimination of tariff and non-tariff barriers", as well as the stabilization of commodity prices "at remunerative levels" in order to check the "sharp deterioration in their terms of trade" (Cartagena Consensus, paragraphs 18 P and Q).

**3. Proposals relating to institutional matters**

The countries decided to establish a "mechanism for consultation and regional follow-up... open to the participation of other countries of the region" in order to facilitate the exchange of information and experiences, to promote contacts with other developing countries and to "promote a dialogue with governments of creditor countries and, subject to appropriate arrangements, with multilateral financial institutions and the international banking system" (Cartagena Consensus, paragraphs 19 and 20).
III

The international response to Cartagena

The basic platform of pronouncements, proposals and lines of action which emerged from the Cartagena process had a major international impact. Initially (and in contrast to the impression given by the United States and European press, which conjured up the spectre of a "debtors' club" and attributed well-nigh apocalyptic intentions to its supposed members) the reaction was one of relief. The statements made by the 11 Latin American countries were recognized as being objective and reasonable and were regarded as highly feasible. In not a few cases, they were described as being moderate or even timid. There was speculation about the supposedly "radical" attitudes of some of the participants in the three ministerial meetings, which were believed to have been restrained by other "conservative" countries. In actual fact, the countries almost always took similar approaches to the issues dealt with in the debates and their proposals were formulated in a spirit of realism and objectivity. This does not mean, of course, that there was no controversy about such issues as the definition and content of a political dialogue and, above all, about the part to be played by rescheduling exercises in the search for an overall and permanent solution to the problem. Thanks to the understandings that were reached, it became clear that the Cartagena process constituted a new element in the international debt picture which, as was stated at the outset, opened up a new phase in the efforts to deal with this issue.

It is evident that many of the events which have occurred since mid-1984 with respect to the debt problem and the related issues of financing and trade have been influenced by the Cartagena process. It is equally clear, however, that many other factors, both actual situations and institutional elements, also influenced these events. It is therefore difficult to pinpoint any one factor as having been decisive in a given event. It can nonetheless be stated with certainty that the Cartagena process has had a major impact on the evolution of the debt problem and on the way the problem has been perceived by other debtor countries in Latin America and elsewhere, by the developed countries, the international banking community and multilateral financial institutions, as well as by the broader forum of world public opinion. An analysis of the main events since mid-1984 relating to the debt problem or affecting the way in which it is perceived will shed light on the nature of the international reaction to the pronouncements of Cartagena.

One factor to be considered is the final statement issued by the Heads of State or Government of the seven major Western industrial countries who met in London from 7 to 9 June 1984. The participants in this summit had received communications directed to them by the Latin American presidents urging them to demonstrate their political willingness to address the pressing problem of the debt. The statement issued by the London summit devotes an unusual amount of attention to economic relations with developing countries (which had always received short shrift at these meetings) and to the debt problem in particular. It was stated in this document that, in the light of the concerns expressed by the developing countries and the economic and political difficulties confronting many of them, there was a willingness in the IMF/IMF Development Committee to undertake a more thorough examination of the international financial problems affecting the developing countries in particular, and that this Committee was regarded as an appropriate and highly representative forum for the purpose. The summit participants also acknowledged that high (and even rising) international interest rates could exacerbate the problems of debtor countries and that this fact lent even greater importance to the measures which the developed countries should adopt in order to reduce interest rates. Finally, it was also announced that the participants had agreed, inter alia, to maintain and, if possible, to increase the flow of resources to developing countries; to uphold the strategy adopted to deal with debt problems and to continue implementing it and refining it in a flexible manner which would also involve the introduction of new elements, es-
especially that of rescheduling commercial debts and debts contracted with States and State agencies for periods covering a number of years; and to increase the pace of present programmes aimed at easing restrictions on international trade (London Economic Declaration, 1984).

This was the initial response—incomplete, insufficient and laden with nuances—to the proposals set forth in the communications received from the Latin American presidents regarding a dialogue concerning the debt problem and the need to lower interest rates, improve market access, obtain better terms in the rescheduling of debts and provide additional resources for development.

As from the second half of 1984, a large number of debtor countries, including many Latin American nations, embarked on a second round of renegotiations which, in general, followed the guidelines laid down in the Cartagena Consensus. Argentina, Brazil, Mexico and Venezuela were among these countries, to name only some of the more prominent ones. At the time of writing, early in the fourth quarter of 1985, these negotiations either had been or were about to be concluded. To date, the introduction of the desirable rescheduling provisions set forth in the Consensus into the actual renegotiations carried out by various countries has been the most positive manifestation of the international response to Cartagena.

These important rescheduling exercises, successive decreases in nominal interest rates, the promising outlook for continued economic growth in the industrial countries observed during the second half of 1984 and the sharp upturn in world trade occurring at that time all combined to produce a feeling of relief and even complacency with respect to the debt problem which was seen as a much less pressing matter. This attitude was remarked upon in paragraph 1 of the Mar del Plata Communiqué.

A few months later, however, beginning in the second quarter of 1985, international public opinion on the debt problem underwent an abrupt turnaround. The previously widespread complacency disappeared, and there was once again a sense of urgency. From the standpoint of the Cartagena proposals, this change in attitude was due to the fact that many of those proposals had not been heeded and that the international economy, trade and finance took an unexpected turn in 1985. Thus:

i) Uncertainty about the trend of interest rates has grown. Although there have been considerable reductions in these rates, which have provided some degree of relief from debt service payments, the fact remains that if (as noted in the document of the Group of 24 cited previously) the spreads over the basic rates corresponding to the risk associated with each country and the decline in export prices are taken into consideration, it becomes clear that the real interest rates to be paid by debtor countries on bank loans are unpalatable in the long run because they are higher than the probable growth rates of real income and of the real value of exports (Group of 24, page 16). Moreover, many of the factors which have pushed up the cost of credit in the past have not been eliminated (e.g., the combination of expansionary fiscal policies and restrictive monetary policies in a number of developed countries, as well as the United States’ huge fiscal deficit). The possibility of a renewed rise in interest rates, with all its adverse implications for the debtor countries, has not disappeared. In real terms, interest rates continue to be far higher than they were during the times of economic expansion registered since the war.

ii) Exchange rates have continued to be highly volatile in the short term and their misalignment has persisted, giving rise to sudden and uncontrollable changes in the relative prices of export products and services which alter the various countries’ competitive positions at the international level. This has also increased the exchange risk involved in current transactions, thereby creating a greater need for reserves, while another effect is the greater uncertainty with regard to future foreign exchange earnings from exports of goods and services. All of these factors have cast a pall over the outlook for continued payment of the debt service.

iii) The prospects for sustained growth in the developed countries have rapidly deteriorated as a result of the sharp slowdown in the United States economy, thus rendering the outlook for the second half of the 1980s even more uncertain; the assumption that there will be “slow but steady growth” during the coming five years in now being questioned and another recession
is beginning to be regarded as more probable. This uncertain outlook affects debtor countries because of its impact on commodity prices, the demand for the exports of those countries, and the flows of direct investment to them.

iv) There has been a marked increase in protectionist trends and measures aimed at restricting international trade, which have a directly adverse effect on the debtor countries’ export opportunities. The Group of 24 has noted that almost all the major debtor countries, after having achieved a sharp increase in their exports in 1984, are now experiencing a slowdown in the growth rate of foreign sales (page 16). World trade will probably not grow by even half as much in 1985 as it did in 1984, when the growth rate was estimated at 4.9%. Furthermore, there has been a proliferation of incipient trade wars involving a growing number of countries, sectors and products, such as, automobiles (Japan, the United States and Europe), electronic items (Europe and Japan), steel (United States, Europe, Japan and developing countries), textiles and garments (the developed countries and developing exporters), foodstuffs (the United States and Europe) and footwear (the United States and developing exporting countries)—to name only a few of the more outstanding cases. In some of the above instances, bilateral or trilateral agreements have been reached which are generally of a restrictive nature, as in the case of the trade wars over steel between the United States and Europe or over automobiles between Japan and the United States. The restrictive agreements negotiated between two or three major parties are then expanded to include the other exporters. Sometimes, the restrictions are specifically directed at the developing countries which have won competitive export positions in various branches of manufactures. Despite the fact that the official line taken in developed countries is that they continue to favour an open multilateral system of trade, which has its institutional expression in GATT, in actual practice they are moving towards a restrictive and bilateralized “system” whose institutional expression takes the form of a wide variety of special arrangements that limit trade: “orderly marketing agreements”, “voluntary” limitations on exports, the sharing-out of markets, the setting of quotas, etc., which are almost always established outside the framework of GATT. The impact on debtor countries is obvious: a decrease in the growth opportunities for exports and other non-compensatory foreign exchange inflows.

v) Financial flows to debtor countries have continued to be much smaller than what is needed. The banking community has become more reluctant to channel fresh financing to them and has delayed the restoration of voluntary flows much longer than had been expected one or two years ago. Furthermore, the volume of loans from multilateral finance institutions has remained insufficient due to some developed countries’ ongoing opposition to the authorization of substantial increases in these agencies’ capital or to the modification of the ratio between capital and credits (the “gearing ratio”) so as to bring about a significant increase in their lending capacity. Both these factors tend to perpetuate a situation in which debtor countries have become net capital exporters. According to estimates made by the Group of 24, in 1984 this net transfer from developing countries amounted to about US$ 40 billion. The debt service payments made to banks by Latin American countries totalled US$ 30 billion in 1983 and US$ 27 billion in 1984, making it necessary for them to generate trade surpluses equivalent to around two-thirds of total imports and over 10% of the region’s total GNP (Group of 24, pages 45-49). Obviously, this outflow of financial resources substantially reduces the debtor countries’ future ability to pay, as well as virtually ruling out any prospect of long-term development for them.

vi) The obvious economic, social and political difficulties that would result from an indefinite prolongation of the recessionary adjustment processes put into effect by the major debtor countries have also been brought to the fore. A combination of internal circumstances—which vary enormously from one country to another—and of external factors such as those mentioned above has made it more costly and time-consuming than was originally thought to achieve the aim of the countries’ adjustment programmes, i.e., the re-establishment of internal and external equilibria. It has thus become necessary to prolong these adjustment processes and to make them more severe, with the increasingly negative implications this has for the various spheres of life in debtor countries. This situa-
tion heightens the fears about the political stability and continuity of democratic systems in many of these nations.

During the first eight months of 1985, a number of important institutional events relating to the debt problem have also occurred which have done their part to increase the public's awareness of the proportions and scope of the problem and of the need to find permanent solutions. Directly or indirectly, these events represent part of the international response to Cartagena. Some of the most notable developments in this respect are as follows:

- The meetings held by the IMF Interim Committee and the IMF/IBRD Development Committee during the second quarter were in large measure devoted to the subject of the debt. The fact that these forums have embarked upon a discussion of this subject within the broad context of the developing countries' economic, commercial and financial prospects is a result of the "political dialogue" initiative of the Cartagena Consensus countries and constitutes a partial response to it. The meetings provided a first opportunity for exchanging opinions and viewpoints which revealed the great differences between the developing and industrialized nations' approaches to the debt problem and their points of view in this regard. Because of these differences, it was impossible even to decide upon definite follow-up steps aimed at establishing a procedure for a continued treatment of the subject, much less to agree upon specific policy measures. These bodies, together with their parent institutions, the International Monetary Fund and the World Bank, will surely continue to concern themselves with the subject of the debt and the related issues of financing and trade; nonetheless, it does not appear likely that at any time in the near future they will constitute appropriate forums for a political dialogue having the characteristics and objectives set out by the signatory countries of the Cartagena Consensus.

- When he became Head of State of Peru, Alan García announced that his country had decided, "in view of the need to move on from words to action, and in the spirit of the Cartagena Consensus" to enter into a dialogue with its creditors "without using the IMF as an intermediary" and, "during the next twelve months, and so long as there is no change in the situation" to allocate no more than "10% of the total value of our exports to servicing the external debt" (García, 1985). This statement electrified public opinion on the debt service problem and opened up the possibility of each debtor determining what percentage of its export earnings it could reasonably devote to servicing its debt, in accordance with the tenets of the Quito Declaration and the Cartagena Consensus.

- On the initiative of Mexico and Panama, a meeting "of a clearly technical nature" was held at Oaxtepec, Mexico, under the auspices of El Colegio de México, and was attended by experts from ten of the Latin American countries that were parties to the Cartagena Consensus. It is expected that the conclusions and recommendations of this conference, which was held in July, will be reviewed at the formal meetings of the Cartagena participants at Montevideo in the fall of 1985 (Oaxtepec Communiqué, 1985).

- In the last few months, the President of the Councils of State and Government of Cuba, Fidel Castro, has been unusually active in matters relating to the debt issue. His statements and initiatives culminated in a large-scale meeting at Havana in August which provided an opportunity for a wide-ranging and pluralistic confrontation among representatives of different viewpoints, although it did not aspire to achieve the impossible task of reaching conclusions that would be acceptable to such a wide variety of participants. Castro has maintained that "the debt is unpayable" and has proposed that creditor countries should allocate a certain percentage of their military expenditures for reimbursing the banks for the amounts owed to them by developing countries. Despite this proposal's obvious unfeasibility, Castro's initiative has helped to revitalize, expand and enrich the debate on the debt and has given rise to a number of other proposals, many of which are quite valuable.

- As a result, inter alia, of the discussions held in the Interim and Development Committees, both the developed and the developing countries have directed their efforts towards formulating new proposals for the reform of the international monetary system. The propositions advanced by the Group of Ten make no explicit reference to the subject of indebtedness, nor do they contain
any concrete proposals in that respect, as if it were possible to deal with issues relating to the international monetary system without considering the debt issue or the related problem of the transfer of resources. In contrast, the report of the Group of 24 (1985, pages 48-54) includes a very useful analysis and some proposals concerning the problems of the debt and the transfer of resources. These proposals will be examined at the meetings to be held by both committees in Seoul during the third quarter of the year and at the annual meetings of the IMF and the World Bank.

With direct regard to the debt problem, all these factors have raised the possibility that the main positive aspect of the international response to Cartagena — i.e., the second series of restructuring operations begun during the second half of 1984, which many countries have not yet concluded — may have ceased to be viable. In other words, between late 1984 and mid-1985, there have been radical changes in the assumptions regarding the performance of the international economy, trade and finance and the evolution of the debtor countries' economies on which this second round of rescheduling operations were based. As a result, there are pervasive doubts as to whether it will really be feasible for the countries to comply with the payment timetables provided for under these rescheduling agreements. There has also been a growing belief that their terms are not compatible with the resumption of growth because they do not include ceilings on transfers in the form of debt service payments. Since the second round of restructuring operations constituted the main grounds for the optimism and even complacency once felt with regard to the debt problem, the above-mentioned factors have clearly produced a radical change in attitudes and have brought back the former sense of urgency. It is for this reason that there is more and more talk of the need to begin a third round of rescheduling efforts on a different basis: an overall restatement of the debt problem through a political dialogue.

IV

The overall outlook for the Cartagena process

In the fifteen months which have passed since the first ministerial meeting, the Cartagena process has taken some major steps forward. One important advance is represented by the features included in the second round of restructuring operations; another is the contribution that this process has made to a better understanding on the part of the countries directly involved and the international community as a whole — including, of course, the public — of the nature, magnitude, scope and consequences of the debt problem. Nonetheless, a number of the political pronouncements and specific proposals made have not yet met with a positive response, while at the same time, the international economic, trade and financial situation has changed over the last few months in such a way that the debtor countries are now less likely to be able to cope with the problem on the terms resulting from the second round of rescheduling operations.

Hence there is now a need to update and revitalize the platform of the eleven Latin American countries participating in the Cartagena process in response to the changes that have occurred in the economic, trade and financial situation and the institutional events of recent months in order to go beyond the original proposals. The meetings of the Cartagena Consensus countries scheduled for the third quarter of 1985 in Montevideo, and especially the fourth ministerial meeting, provide an opportunity to do this. In order to update, revitalize and carry forward the ideas of the Cartagena process, the following issues and proposals might be considered:

1. Initiating a political dialogue with the creditor countries

There is an urgent need to define strategies and
procedures that will allow the political dialogue between debtors and creditors proposed by the Cartagena countries to be begun as soon as possible.

In principle, the concept should not seem in any way unusual to the advanced countries: indeed, the most highly developed example of a political dialogue concerning international economic, trade and financial issues is provided by the annual meetings of the political leaders of the seven major Western industrial countries, which have been held for the past eleven years running. The possible subject matter of such a debate should not seem unusual to them either: issues are addressed at this type of meeting which cannot be properly resolved at conventional forums for contact and negotiations among government representatives because far-reaching political decisions are required to do so. Nevertheless, the governments of the developed countries have not fully understood (or have not wanted to understand fully) the proposal of the Cartagena countries, and it is therefore necessary to clarify and refine it.

To this end, in September 1984 the Mexican Government issued a memorandum setting forth the main guidelines for such a political dialogue, stating that it should be a "direct [dialogue] between governments of industrialized and debtor countries". It went on to say that "...there must be an acknowledgement of the fact that the governments' direct participation is essential if they are to deal with the broadest aspects of the debt issue and reach definitive agreements which will allow this problem to be resolved...

"It is clear that this [the agenda for an intergovernmental dialogue] should include issues relating to relief of the debt service burden as well as subjects of a broader scope which concern financing and trade in addition to the debt, with a view to restoring the necessary conditions for the sustained economic growth of debtor countries. It should include, firstly, the definition of general criteria that will provide a frame of reference for [the third round of] national renegotiations and, secondly, the definition of criteria and guidelines concerning the adoption by multinational financial institutions of new measures that are needed to deal with the debt problem within their sphere of operation (e.g., the extension of the IMF's Compensatory Financing Facility to cover increases in interest rates). The agenda could also include issues relating to the regulation of the national banking systems of countries which act as financial centres in order to permit such steps as setting the interest on the accumulated debt at levels below market rates or the establishment of interest rate caps on loans to developing countries."

These statements in connection with the political dialogue proposed by the Cartagena countries should be reiterated to the developed countries. The strategy for initiating the dialogue should also be developed more fully. It is important, inter alia, to underscore the fact that it would be of an informal nature, to look into the possibility of initiating the dialogue with those developed countries that are most willing to pursue it; and to agree upon a plan for the gradual and progressive introduction of the issues to be considered. The essential point is to clarify and refine the proposal in order to avoid its rejection on the grounds that it is unclear and to find the appropriate channels to ensure that the proposal is heard and given positive consideration by the governments of the developed countries.

2. Establishing the principle of "growth for payment"

A common denominator in all the more intelligent proposals put forth with respect to the debt problem is that they stress that the debtor countries must be able to resume and sustain their economic growth at a satisfactory pace if they are capable of continuing to make debt service and amortization payments. This idea was expressed with particular clarity at Oaxtepec when it was said that the principle of "growth for payment" should replace the idea which has thus far prevailed in practice, namely, "payment and—maybe—growth" (page 3). The principle of the co-responsibility of debtors and creditors was laid down in the Cartagena Consensus and, no one has in fact rejected it; the next pronouncements to emerge from this process should set forth, just as vigorously, the idea that the debtor countries' resumption of sustained economic growth is a sine qua non for their continued fulfilment of their external payments obligations.
3. Moving on from a "recessionary adjustment" to a "positive adjustment"

In order to put the principle of "growth for payment" into practice, a substantive change must be made in the debtor countries' adjustment processes. A transition must be made from the recessionary adjustments that have been prevalent up until now to a positive type of adjustment which will permit and foster the resumption of sustained economic growth. Such a transition will obviously involve highly complex policy changes whose specific nature will vary from country to country, as well as the reform of the International Monetary Fund's standards and practices, including those relating to conditionality and other procedures mentioned in the Cartagena Consensus. In order to further this aspect of the process, the necessity of a transition to a positive type of adjustment might be set forth and an in-depth analysis of the domestic and international policy implications of such a transition might be suggested.

4. Completing the second round of rescheduling operations

It will be recalled that the main thrust of the original platform of the Cartagena Consensus concerned the definition of features which should be included in rescheduling exercises. Most of the provisions recommended in the Consensus have been incorporated into the second round of rescheduling operations, which some countries have completed and others are in the process of bringing to a conclusion. It is therefore important, as recommended in the Oaxtepec Communiqué (page 4), for the debtor countries "to proceed with and consolidate 'round II' in accordance with the principles of the Cartagena Consensus: rescheduling over a number of years, the elimination of managed interest rates, the reduction of spreads and the elimination of commissions on restructuring".

5. Defining the characteristics of the third round of rescheduling operations

As noted earlier, between late 1984 and mid-1985 the assumptions relating to trends in the international economy, trade and finance and in the debtor countries' economies which had served as a basis for the second round of rescheduling operations underwent a radical change, and an effort must therefore be made to determine what characteristics would be desirable in the third round. Obviously, not all the debtor countries must undertake a third round of renegotiations, much less begin them simultaneously. Nonetheless, just as the desirable features of a second round were defined in the Cartagena Consensus despite the fact that at that point in time not all the countries planned to undertake such an exercise, the desirable features for a third round should now be defined. These features mainly relate to interest rates, repayment and grace periods, the availability of fresh financing, ex post rectifications in the transfers made in the form of service payments, and the ratio between payments of principal and interest on the debt.

Interest rates. In view of the persistence of international interest rates which are extremely high in real terms despite the nominal reductions made in recent months, purposeful action must be taken with respect to this variable in the third round of renegotiations. In other words, the attitude that the only applicable interest rates are those prevailing on the international financial markets must be abandoned, since it is inadmissible that interest rate fluctuations should directly affect the level of the service commitments on the renegotiated debt. A first step has already been taken in this direction with the elimination of "managed rates" (such as the prime rate) and the use of rates more closely related to the cost of obtaining resources (such as the LIBOR); this change was recommended in the Cartagena Consensus and was incorporated into many of the renegotiations that took place during the second round. Basically, what must now be done is to make further progress in the same direction. There are a number of possible ways of going about this.

The most innovative option would be to replace market interest rates with a different interest rate on the cumulative debt whose level would reflect, on the one hand, the average real interest rate prevailing during the postwar periods of economic expansion and, on the other hand, the projected rate of growth of debtor countries' real income and of the real value of their exports.
The difference between this rate and market rates would be absorbed by the creditor banks, which would take it out of their proceeds, or be financed by the monetary authorities of the creditor countries. In principle, the debtors should not have to bear any additional burden on account of this differential.

The Group of 24 (page 49) has recommended that urgent consideration be given to "progressive measures for rolling over a certain percentage of interest payments as, for example, that portion which is in excess of the long-term trend of real interest rates". This approach, which would be similar to the establishment of a cap on the interest rates applicable to the cumulative debt, would involve the establishment of some means of capitalizing interest.

A variation of this idea was proposed in the Oaxtepec Communiqué (page 4). In that document, it was recommended that, rather than setting interest rates at a given level, the essential point was to establish "ceilings on capital transfers which are in keeping with the minimum acceptable [economic] growth rate [of debtor countries]", and that "this would open the way to systems for postponing interest payments... and, in extreme cases, systems for the partial cancellation of interest payments". A procedure for capitalizing interest is also implicit in this proposal.

There is also, of course, the proposal (which has been pending for quite some time now) for the establishment of machinery in the IMF to provide compensatory financing for increases in debt service caused by rising interest rates (i.e., an interest rate facility).

In short, regardless of the specific type of measure adopted, the important point is, within the context of the third round of rescheduling operations, to establish the need to insulate service payments on the restructured debt from increases in the interest rates on creditor countries' money markets. As a complementary measure, it would be desirable to establish the procedure that unpaid interest should not be capitalized, but rather absorbed by the banks or monetary authorities of creditor countries.

Repayment periods. The repayment periods provided for in the second round of restructuring operations were generally much longer than in the first round. This trend may well continue.

Grace periods. Another feature of the second round of rescheduling operations was the abandonment of the concept of grace periods and the establishment, in their stead, of a payment profile in keeping with the debtor country's ability to pay. An essential component of the third round would be the establishment of payment profiles in which a priority consideration is the need for such profiles to be compatible with the resumption of a sustained rate of economic growth in the debtor country.

Supply of fresh resources. Another point on which well-researched analyses of the debt problem are in agreement is that there is a pressing need to restore the debtor countries' access to external savings in order to put a speedy end to these countries' involuntary position as net exporters of capital. As noted in the Oaxtepec Communiqué (page 6), it is important for the third round of restructuring operations "to include commitments on the part of the banks to provide fresh financing as necessary during those years for which the corresponding due dates are being rescheduled". Furthermore, it is also important to incorporate an element of automaticity in the supply of fresh financing.

Ex-post adjustment of debt service transfers. Unlike the second round of rescheduling, where this element was absent, the third round must provide for the possibility of adjusting the total programmed amount of debt service transfers in the light of changes in international economic conditions affecting the debtor country's economic situation. Accordingly, as suggested in the Oaxtepec Communiqué (page 4), such phenomena as a sudden deterioration in the terms of trade, greater difficulties in gaining market access due to the establishment of new protectionist barriers or new restrictions on trade by developed countries, or a smaller supply of fresh financing in real terms than was expected or pledged in the renegotiations themselves would prompt a sufficient reduction in the debt service transfers to ensure that "the same volume of foreign exchange which had originally been allocated to finance imports for development would continue to be available" (page 5). The application of this principle would require accepting the practice of releasing debtors from interest payments or, alternatively, of capitalizing the interest
which, due to the above-mentioned changes, in not paid.

Proportionality between payments of principal and interest. The large resource transfers made by debtor countries in recent years have scarcely made a dent in the principal of the debt, because they have been applied almost entirely to interest payments. In the third round of restructuring, one possibility would be to establish an appropriate ratio between principal and service payments. If, as suggested in the Oaxtepec Communiqué (page 4), amounts are set that represent the “maximum... transfer of which the debtor countries are capable” on an annual basis or during the restructuring period, it is important that a significant percentage of these maximum amounts should be devoted to paying off the debt principal.

6. Securing real trade commitments: market access and essential imports

The close link between debt-related and trade issues was made clear in the Cartagena Consensus. Debtor countries have found it necessary to generate large trade surpluses in order to be able to meet their external payment obligations. Thus far, these surpluses have been the result of a recessionary adjustment process and have been based more on the restriction of spending on imports (with serious implications in terms of both economic growth and an increasing technological lag in production) than on an increase in non-compensatory foreign exchange earnings from exports of goods and services. The latter earnings grew somewhat in 1984 but, as already noted, have unfortunately begun to lose ground once again in 1985. One of the reasons, of course, is the proliferation of protectionist trade barriers and of all sorts of other restrictive measures in developed markets which have had a particularly strong impact on the export position of debtor countries. There is hence a need for a real commitment to provide access to the markets of industrialized nations. This commitment can, of course, be negotiated in the appropriate forums (UNCTAD and GATT), but its extremely close connection with the possibility of continued servicing and amortization of the debt should not be lost from sight. It is also necessary to ensure that the debtor countries have the necessary foreign exchange to finance the imports (especially inputs, capital goods and technology) they need to achieve and sustain an adequate rate of economic growth. In many cases, this means that they must have access to a sufficient volume of producer loans on acceptable terms.

7. Restoring access to external savings

In addition to the necessity of including commitments to supply fresh financing on an automatic basis in the third round of rescheduling operations, the debtor countries' access to external savings must be restored and expanded. Since they are developing countries, it is evident that they need to supplement the resources used to finance development with external funds. The need to bring about a reversal as soon as possible in many of these countries' present position as net capital exporters, as has already been noted repeatedly, is equally indisputable. In this regard, it should be noted that the countries in question clearly have no wish to return to the levels of external borrowing seen between the late 1970s and early 1980s, inasmuch as domestic savings should in future play a more important role in providing development financing. This source will still not be able to provide all the necessary funds, however, and will have to be supplemented with credit and direct investment. The essential point is to obtain sufficient financing from a balanced combination of sources, which should include multilateral bodies, bank credit and direct investment. No single one of these sources can be expected to provide all or even the major proportion of the required funds; instead, a balanced contribution will be needed from each. As pointed out by the Group of 24, part of the current debt problem stems from the fact that bank loans became by far the largest source of credit, and such loans were extended under much harsher terms than the credits granted by multilateral bodies. If the latter are to resume their proper role, a sufficient expansion in the resource base of the World Bank (including, of course, the IDA, regional banks and the IMF) is urgently required. An earnest effort should be made to achieve the implementation of the proposals regarding this subject set forth in the Cartagena Consensus, which, of course, coincide with the positions taken by the Group of 24.
There must also be no further delay in restoring debtor countries' voluntary access to bank credits on more favourable terms. Finally, the re-establishment of economic stability and growth in debtor countries will provide incentives for direct foreign investment which will attract it back to these countries without there being any need for guarantees or other mechanisms of that sort.

8. Setting in motion effective machinery for the exchange of information

Ever since the first meeting at Cartagena which gave rise to the Consensus, the eleven participating countries have agreed upon the need for a free-flowing exchange of information among them concerning the debt and particularly the characteristics of the renegotiations and related trade and financial issues (lending terms). For a number of reasons, it has not been possible to set up a mechanism that will ensure a speedy and automatic flow of information. An important step that should be taken at Montevideo is to design such a mechanism (at the technical meetings) and to establish it officially (at the ministerial meetings), as well as to decide what information should be exchanged among the participating countries on a regular (e.g., monthly) basis through the interim Secretariat.

In assessing the longer-term outlook for the Cartagena process as a whole, the fact must be borne in mind that the debt problem is itself a long-term issue. The international community will have to continue dealing with its manifestations and consequences throughout the rest of this century. The vital need right now is to make it manageable. If this is to be achieved, the basic prerequisite is to take the appropriate steps to ensure that the continued fulfilment of international payments commitments is accompanied by the resumption of sustained economic growth by debtor countries. The contribution of the Cartagena process to this objective has been and should continue to be gradual and progressive. In the immediate future, the full implementation of the specific proposals made in the Consensus and of those which are made in the future as it is updated and revitalized will permit further progress to be made in this direction.

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