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Economic Commission for Latin America

STATEMENT BY THE EXECUTIVE SECRETARY OF THE ECONOMIC COMMISSION FOR LATIN AMERICA, MR. ENRIQUE V. IGLESIAS, AT THE EIGHTH REGULAR SESSION OF THE LATIN AMERICAN COUNCIL OF THE LATIN AMERICAN ECONOMIC SYSTEM (SELA)

(Caracas, Venezuela, 23 August 1982)

82-9-1996

Mr. President
Mr. Permanent Secretary
Ministers
Ladies and Gentlemen:

I wish to begin by once again thanking the Council of SELA and the Permanent Secretariat for giving me this opportunity to address you and bring you the views of CEPAL concerning the common problems and concerns of Latin America and of both institutions.

On this occasion, the privilege is even greater, inasmuch as this is one of the most important meetings ever held by this great forum.

Indeed, SELA, the only political body for economic co-ordination and consultation in the region, could not avoid being affected, as is all of Latin America, by the difficult times the region has gone through as a result of the events with which we are all familiar and which have represented a serious blow to a sister nation.

For the first time, and for painful reasons, the region has been made aware of the extent to which, when faced with truly difficult circumstances, it is left to its own devices and its own capacity for collective response. As a result of this phenomenon, Latin America has been brought face to face with a political and economic crisis and a crisis as regards its place in world politics; this must lead us to do some serious thinking and to discover that along with dangers, a crisis also brings opportunities.

Yesterday the President of Venezuela, in a masterly manner and with true Bolivarian inspiration, outlined the circumstances that have shaken the geopolitical make-up of the region and drew a visionary and constructive picture of a future based on collaboration and friendship.

Many opportunities may be opened up by a renewed and positive vision of Latin American action: i.e., a vision in which regional co-operation and continental unity are not "against something" but rather "in favour of something". In favour of fully utilizing the region's capacity for joint action to obtain positive results not only for Latin America but also for all those countries with which this region -which is increasingly interdependent with the international economy- has and will continue to have relations.

This new appreciation of regional co-operation must not be based only on a legitimate reaction aimed at seeking collective economic security vis-à-vis acts of external economic agression that might in future affect the region.

As you all know, ever since the 1950s CEPAL has been working enthusiastically and with great conviction for the cause of regional integration, and provided the forum where the first co-operation schemes were drawn up. There was a strong motivation behind that movement, which subsequently grew and expanded as a result of the dynamics of events and institutions: the need to expand the narrow and limited domestic markets to protect new units of production that could operate with reasonable degrees of productivity and efficiency.

Today a new and singularly serious development has shaken the world: the great crisis of the international economic system. If at that time integration was justified as a mechanism for promoting the economy and for breaking open the isolated compartments of domestic markets, today it is an absolutely indispensable element to which we must resort in order to lessen the impact of the international economic crisis that has hit the main centres and, consequently, the entire periphery.

The central idea to which I wish to address myself today is precisely the idea that a new kind of regional co-operation should be built on the legacy we will now have as a result of having had to face the current world crisis: on the one hand, there is a need to consider complex antirecessive or adjustment policies in every country of the hemisphere and, on the other, there is a need to take up the challenges that will arise as the centres recover and as new patterns are set in the economic development of the industrial countries.

It is our belief that both things will call for a renewal of the forms of co-operation and their incorporation into both our antirecessive policies and our future development strategies.

The great crisis of the 1980s

I will not dwell here on the crisis now affecting the great centres, which has also been projected over the entire periphery and especially over Latin America. Yesterday President Herrera Campins painted a sombre picture of that crisis in which he referred to the reports of our organization. We ourselves have just reported on it to the United Nations Economic and Social Council.

All indicators, even the most recent OECD ones, point to a prolonged crisis which constitutes without a doubt the deepest and most serious recession we have experienced in the entire period since the war.

This year the growth rate of the centres will not be over 0.3% and it is estimated that the anxiously awaited recovery will only mean -with luck- a growth rate for the gross domestic product of 2.4% in 1983: that is to say, considerably lower than the averages for the 1970s.

Along with this, unemployment now affects over 30 million persons in the OECD countries: a phenomenon attributable not only to the drop in demand, but also to a complex set of factors of a structural nature which can only be overcome by making profound changes in the future direction of the developed economies. I will return to this point later on.

Even though inflation has begun to slacken -and this is a positive development- questions arise regarding the capacity for keeping down the rate at which prices increase, once the recovery policies are under way.

But the most important feature, which is undoubtedly a new phenomenon in this type of crisis, has been the exceptionally high interest rates prevailing in the major international financial centres. These rates have unquestionably been the highest for the last 50 years, and this has had a profound impact on the economies of the centres, the flows of capital and the volume of investments: all factors which undermine the recovery and especially the rate and nature of future economic growth.

We are all familiar with the bitter controversies to which these policies have given rise in the northern countries. But what is even more disquieting -perhaps more than the indicators themselves- is the atmosphere of uncertainty, confusion and, above all, contradiction between the different diagnoses and prognoses.

"Forecasting capacity" is lower throughout the world than at any time since the Second World War, and we already know how this affects expectations, which are key factors in the orderly functioning of the world markets.

The reactions are well known: undeclared trade wars, a lack of transparency in the markets, a return to open or covert protectionist policies: all developments which represent backward steps from what we had thought to be definitive achievements

The effect of this situation on the periphery has not been long in coming. As is often the case, these recessive phenomena become enlarged as they are transmitted to the developing world. In this case, as in so many others, we could recall the saying that when the centres get a cold the periphery gets pneumonia.

The year 1981 will go down in history as the worst in the economy of the region for the last 40 years. And I greatly fear, gentlemen, that 1982 will not be any better.

In 1981, the growth rate of the gross domestic product of Latin America dropped to 1.7%, which is considerably lower than the population growth rate and means that per capita income also dropped. The average inflation of the region as a whole reached almost unprecedented heights of close on 60%. The balance of payments current account deficit, of the order of US$ 38 billion, made it necessary to resort to new external financing, particularly from private sources, which raised the debt to levels close to US$ 240 billion by the end of the year. Of course, when economic activity either declines or grows very slowly, it is the lower socio-economic sectors that suffer the most. In that regard, we only have to look at the figures for unemployment and inflation to see without a doubt who is paying the highest share of the cost of the recession.

Not all problems have their origin in the external crisis, of course. But there is no question that a large proportion of them do.

Over the last three years, the terms of trade have dropped by 30%, which means that in 1981 alone the region lost US$ 5 billion that it would otherwise have received.

The high interest rates have meant another drain on resources. For each point that the interest rates go up, the region must transfer to the exterior approximately one billion dollars. It may be said that during 1981, around US$ 5 billion was transferred to the exterior just because of the increase in average interest rates with respect to 1980.

Moreover, the financial and fiscal difficulties of the centres have led them to reduce their contributions to external bilateral and multilateral co-operation, especially for Latin America.

And, finally, in the face of the disequilibria affecting the region, the international banks have begun to show a growing reluctance to supply additional resources.

Antirecessive policies: international collaboration and regional co-operation

The first and most pressing problem at the present time is without a doubt the recessive crisis and the need to adopt internal policies to deal with it.

Perhaps we might begin with a remark that is as obvious as it is necessary.

There is no way of keeping the countries of the region from suffering the painful cost of the adjustments they must make to adapt to the external situation. It would be naive to deny this. It is also true, as statistics show, that the various Latin American countries are in very different situations. Some have followed more cautious policies than others, which means that they are now able to weather the storm at a lower economic and social cost. But unfortunately, that is not the situation of most of them.

There will be plenty of time to analyse the economic process of the last few years, which along with tremendous advances of the productive forces also nourished contradictions that are now taking their toll under the pressure of unfavourable external factors. A distinction must also be made between those factors that are external in origin and those that arise from the contradictions of internal policies: unrealistic exchange rates, excessive growth of expenditure, financial permissiveness vis-à-vis easy facilities for external indebtedness, excessively rigid policies of openness, etc. This is neither the time nor the place to discuss these questions, however.

What Latin America must do now is to make massive adjustments, involving a period of highly pragmatic and flexible economic policies, with a high degree of austerity and efficiency in the use of resources and with an imaginative mix of economic policies in all areas of public activity.

But whatever the degree of adjustment required, it is absolutely clear that the adjustment will be much more bearable, economically and socially, if two important conditions are met: intelligent international collaboration that is suited to the circumstances, and a dynamic response from regional co-operation.

International collaboration suited to the circumstances

I think it is very important at this time for the countries of the region to identify clearly where they must concentrate their efforts to seek external co-operation in the context of the overall objectives of the lamentably delayed process of the global negotiations and the position of the developing countries in that process.

In order to do this, we must begin by stressing that the problems now being experienced by most of the countries of the region (and I might add in passing that similar traumas are being experienced by other industrializing countries) are of such a magnitude that they cannot be dealt with from the purely technocratic standpoint of traditional cures or conventional adjustments.

Thus, for example, in addition to being the most important problem in the current economic situation, external indebtedness calls for innovative and action-oriented policies, both in the field of international financial co-operation and in that of international trade relations.

Under the present circumstances, with overall exports of goods from the region coming close to US$ 100 billion, Latin America has to make interest payments which this year will amount to nearly US$ 30 billion -i.e., 30% of total export income- not counting amortization payments. As many of the loans were granted in the late 1970s, many of the grace periods will begin to expire this year or next year, thus substantially raising the amortization payments. It should be noted that for the developing world as a whole, the average amortization period for public debts is approximately 17 years, whereas for Latin America it is only 11 years. Countries with intermediate industrial economies similar to those of Latin America, such as the south-east Asian countries, are given average periods of over 16 years.

There is no doubt that a reduction of interest rates would give us a healthy respite. But this does not change the nature of the problem nor the painful and perhaps unbearable implications of making an adjustment through the reduction of internal activity, which might result from the conventional application of the criteria used.

To face this challenge, and given the mediocre prospects of the demand for and prices of basic commodities, the necessary international co-operation must be based on new criteria that will be appropriate for the qualitative change which the magnitude of the problems has imposed on the region. Thus:

(a) At a time when most of the disequilibria in the balance of payments are beyond the control of the countries themselves or are beyond their normal adjustment capacity, the criteria of conditionality that operate in every exercise aimed at supporting the balance of payments and reprogramming the debt profile cannot be applied in the conventional manner without provoking serious and perhaps unbearable economic, social and political disequilibria.

(b) The principle of a "pure and simple conditionality" cannot be sustained without relating it to the principles of "additionality". In other words, at times such as these, the private and public financial sectors must understand that the best way of avoiding the difficulties of the adjustment period is not simply to cut expenditures, which usually leads to a short-lived slowdown in inflation rather than real stability.

(c) In recent years, harsh effects have been felt from the fallacy of classifying or discriminating against Latin America in the multilateral credit institutions, on the assumption that the time had ended when the region needed access to public credit, and that it could now operate alone, with the support of the private financial sector. The current financial situation and the reduction in financing from private sources have shown the simplistic thinking behind such a hypothesis and have made it clear how important it is for international public and private credit to reinforce each other and thus make it possible to improve the debt profile. Latin America cannot remain impassive in the face of the relative shrinking of multilateral credit in recent years and the probable continuation of this trend in the future. Net transfers of public credit to Latin America, which in 1978 represented US$ 13 billion, did not even reach US$ 1 billion in 1980.

(d) At a time when world trade is becoming less and less transparent, when dangerous protectionist trends are being suggested and implemented, it is more than ever necessary to maintain the export capacity of the region so that it can meet its international commitments. In the face of the sustained and inevitable

decline in the terms of trade, it is crucially important to keep up export volumes (especially of non-traditional exports), for which purpose the region has established a vigorous installed capacity, as shown by the way the trade balance has behaved in recent years. This new defence capacity is reflected in the volume of exports, which has grown even in the midst of the present recessive conditions.

I believe that the magnitude and the generalized nature of the problems make it necessary for the region to reappraise all these issues and take action in international forums -especially financial ones- to promote the new approaches which are advisable under the circumstances.

On an earlier occasion we proposed the need to establish a financial safety net. Today we are even more convinced that it is necessary to open new credit facilities in both the International Monetary Fund and the World Bank to ensure positive support for the adjustment process of our countries with a view towards their development; this would not only be in the interests of the financial health of the world but also of the contribution that the region itself could make to the productive recovery of the industrial world, if it could continue to expand its imports.

An appropriate debate, especially at the level of the central banks and ministries of the region, could now inspire the great agencies of the international financial system to take new approaches to this topic which is so important for achieving the "adjustment with development" of the regional economy.

A new concept of regional co-operation

It is within the above context that we visualize a renewed role for regional co-operation.

Let us begin by recognizing a fact which should be made clear from the start: regional co-operation cannot be a substitute for world co-operation. By definition, it is a supplement to the latter, whose duty it is in the present circumstances to moderate or slow down the impact of the international recession.

It is encouraging in this connexion to see the active and vigorous progress of intra-Latin American trade relations in recent years.

Let us take a look at some figures.

In the past twenty years, the share of regional trade in the total trade of Latin America rose from 8% in 1960 to 15.5% in 1981.

Specifically, trade in manufactures, which is the key to the industrial progress of the region and which accounted for 10% of total exports in 1961, now represents nearly 36%. In the ALADI countries, exports of manufactures within the region make up 56% of the total interregional trade volume.

Not all the achievements are to be attributed to formal integration machinery. There is no doubt that a significant contribution has been made by the reciprocal understanding which the systems of integration gave to the private business sector; export promotion policies; and the growing competitiveness of our national industry. Furthermore, we must recognize that the very policies of trade openness undertaken by most of the countries of the region have also had a positive effect on regional trade.

Whatever the causes, there is one significant conclusion: we are in the presence of an import and export potential which is becoming a vigorous reality.

We have worked out some hypotheses in CEPAL which are worthy of attention.

If the region manages to recover the economic growth rate of the 1960s, that is to say, an annual rate of 6%, foreign trade with the rest of the world should grow by 8% annually, and the share of regional trade, which is currently 16%, should double by the 1990s. This is a great and difficult challenge, but not impossible.

How can this be done?

The SELA Secretariat has submitted a document to this meeting which brings together some important initiatives in various fields and which, in addition to being a positive response as regards emergency measures in the case of possible sanctions, should constitute an authentic programme of work to which CEPAL will gladly offer its most dedicated collaboration.

But let us begin with some specific and immediate issues which could mean very substantial progress for regional trade.

I should like to mention three areas which I believe are of immediate and significant importance for expanding trade without requiring huge efforts;

(a) Promotion of a dialogue among those responsible for the foreign trade of the countries of the region, for the purpose of eliminating barriers of any kind which still create unnecessary stumbling blocks to interregional trade. The same climate of clarity that we are asking for world trade should be required of the region too.

(b) Stimulation of the State and private banks concerned with foreign trade to work out and promote financial incentives -already very well known in the developed countries- in order to encourage, from the financial end, new and existing trade flows in the region.

(c) Promotion of a dialogue among the private sectors connected with trade, whose understanding of the problems and opportunities could open new paths for trade expansion. In this vein we would like to mention some important efforts which have been made by CEPAL, such as putting business groups into contact with one another so that, by proposing reciprocal trade targets with official support, they can accelerate and stimulate the known possibilities already open to trade.

It is not only a question here of setting up those long-term initiatives which require sustained efforts and considerable time, but also of stimulating others which are right at hand and which could save time and create vigorous stimuli to trade in the next few years.

In the final analysis, regional trade must be taken specially into account in the adoption of the antirecessive policies which the countries of the region will have to tackle.

One final reflection: we cannot allow the balance-of-payments defence measures which are bound to proliferate in the next few years to damage the existing trade flows by creating unnecessary barriers and making us retrace our steps over the productive path we have taken in recent years.

Towards a new approach to Latin American development

We must also prepare ourselves for the profound changes which will occur in the international economy after the recessive adjustment period of the 1980s.

Latin America cannot ignore the fact that the industrial countries are not going to emerge from this crisis by reproducing the economic structures of the past.

There are factors which indicate there will be substantial changes.

At the recent Versailles meeting, the central countries emphasized the big challenges arising from the technological development of the modern world, and the inability of current economic structures to provide productive work to those who are currently unemployed and those who will be seeking work in the future.

There are serious doubts whether the millions of unemployed existing today in the industrial world can be absorbed once the recovery has occurred. At the same time, the changes in trade relations raise previously unknown questions.

Latin America, for example, must take into account the policy of recovery of markets being undertaken by the central countries, which for the moment is producing a new form of protectionism that has had an impact on the industrial activities we thought were finally within our reach on account of the comparative advantages offered by our region.

Nor can we ignore the fact that the new advances being made in genetic engineering are creating new competitors in the production of food products in which we have traditionally had clear-cut advantages in the international market.

This is to mention only a few of the issues on which Latin America, a continent constantly expanding towards the exterior, must take a position. I do not propose here to delve more deeply into these topics than is necessary. There will be other occasions to bring to the attention of this Council CEPAL's reflections and work in these areas.

But there are some conclusions which do need to be put forward here.

The style of development which is currently being imposed as the sole model for the region, i.e., that of growing linkages with the developed world and the elevation of exports to this market into the main stimulus for our internal growth, cannot be the only motive force for the growth of our region.

This subject has caused various controversies. In some cases the development model of the countries of Southeast Asia has created powerful illusions, but these have been showing increasing signs of weakness and great vulnerability.

Latin America cannot propose to reproduce within its borders a type of growth based only on exports to the rest of the world. There is no room in our region for a Hong Kong-style development model. Our economic, social and political reality is undoubtedly very different.

We must think along the lines of a new development scheme which will take special account of the potential of the domestic market, the capacity for exports to the rest of the world, and the vigorous opportunities of the regional market.

It is enough to recall that at the present time the regional market is already worth close on one billion dollars. This is a "critical mass" which, in itself, opens up totally new channels for our joint efforts.

Please understand me correctly. I am not advocating a reproduction of import substitution policies at any cost, at the high price of anachronistic protectionist policies. Facing the world and regional challenge will require diversification, efficiency, and above all a high technological level.

What is important to bear in mind is that Latin America, in this new strategy, cannot ignore the potential of the regional market, and whatever the solution adopted for its future development, it must necessarily include the proper use of this market.

The same could be said of the markets of other developing regions, which could expand through effective South-South co-operation.

In conclusion, Mr. President:

We are going through times of deep anxiety but also of fascinating challenges.

This meeting should be the beginning of a process of rethinking about this valuable capital which we have been creating in the course of time: the regional market. Let us approach it without preconceptions and in a spirit of great realism.

The regional market cannot provide everything, nor can it take the place of the essential linkage of Latin America with the rest of the world.

But let us be aware that it has an important immediate role to play and that it will be a key variable in the world in which we will have to live in the next few decades.

We must approach this with great responsibility, with special awareness that in the process of common growth what is important is not so much the mathematical distribution of gains as the objective of ensuring that at the end of the road we will all be better off.

Having said this, I should like to end on a note of realistic and prudent optimism.

No region of the developing world has at its disposal such promising assets as our region possesses.

Our natural resources, the quality and training of our people, our installed industrial capacity and, above all, the experience we have acquired -both good and bad- place us in a privileged position to face the arduous circumstances of the present time.

To confirm that these are difficult times, all we have to do is look at the economic and social indicators of the past five-year periods, which give the lie to the facile assertion that nothing has happened.

Our region must face the future by recognizing the seriousness of the current problems but maintaining its faith that with suitable domestic policies and intelligent and pragmatic international co-operation, not only can we take care of our economic development and seek a solution to our challenging social injustices, but we can also give a strong impulse to world growth.

With the confidence we have gained by facing the facts, and with the inspiration we can gain from the political will to work together, we need not fear the present, and still less the future.