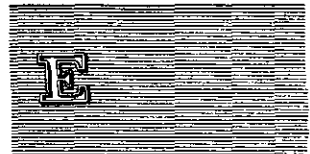


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INTERNATIONAL TECHNICAL CO-OPERATION AND THE  
CURRENT CRISIS IN LATIN AMERICA:  
POSSIBLE SPHERES OF ACTION

Note by the Secretariat



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## PREFACE

This document provides a brief description of the main characteristics exhibited by the acute crisis currently being experienced in Latin America. It is also intended to identify those fields or sectors in which activities should be undertaken in order to co-operate with the governments of the region in overcoming these adverse conditions.

## 1. Characteristics of the crisis

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The characteristics of the crisis are described in the first part of this document, and some considerations are set forth which are valid for Latin America as a whole. In view of the specific conditions prevailing in Central America and the Caribbean, these subregions are then discussed separately.

### a) The Latin American region

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Beginning in 1981, and with increasing intensity since then, Latin America has been facing the severest and longest economic crisis of this century.

In 1983 the per capita product decreased for the third year in a row; it dropped by 5% with respect to 1982, and this seriously affected employment.

Worse yet, due to the deterioration in the terms of trade and the transfer of resources abroad, per capita income in 1983 was 13% less than in 1980. This was compounded by the fact that the average inflation rate for the region was 130%, after it had already reached 86% and 53% during the two preceding years, respectively. It was not until 1984 that any possibility of halting the drop in the product began to be seen. It was also the first time that there was any sign of a recovery in the economies of the relatively more developed countries in the region (see table 1).

Another aspect of the crisis has been the increasing imbalance in the external accounts of the countries of the region since 1981. The current account deficit rose about 33%, on average, during the 1981-1982 period, while it increased approximately 50% in the non-oil-exporting countries.

This deficit has had both external and internal causes. The former include: the repercussions of the 1979 energy crisis and the ensuing contractionary policies of the industrialized countries, which have posed greater difficulties with respect to exports; a further deterioration in the terms of trade; a rise in the benchmark LIBOR interest rate; and the subsequent runaway growth of interest payments on the external debt. On the domestic front, the crisis was exacerbated (and, in some countries, was set off) by the adoption of inappropriate policies, such as too great an expansion of domestic spending (especially in the oil-exporting countries), excessive and mounting foreign borrowing, the use of exchange policies as a means of curbing inflation (especially in the countries of the Southern Cone) and premature moves to

liberalize the domestic financial system without a sufficient degree of regulation, thus giving rise to financial crises which jeopardized the solvency of the productive sector as well as the entire national financial system in a number of countries.

Furthermore, following upon the deterioration in the terms of trade, the slow growth of world trade and the high interest rates seen in 1981, in 1982 and 1983 the inflow of new foreign capital plunged and the flight of private capital sped up. By subtracting the interest payments and expenditures on other services from the net inflow of capital, it may be seen that -because of the above factors- by 1982 Latin America had already become a net exporter of resources to the industrialized countries, thus finding itself in just the opposite position of what would be proper for a developing region. The situation worsened to such an extent in 1983 that this outgoing transfer equalled nearly 30% of the value of the region's exports. Thus, whereas in previous years the inflow of capital had mitigated the negative effects which the energy crisis has on the current account, this time the flow of capital actually deepened the foreign deficit (see table 2).

In response to the continued increase of the foreign deficit, which was compounded by the flow of capital and which could not be checked because of the slow recovery in the industrialized countries, the economic authorities of the countries of the region implemented stringent adjustment policies that quickly had an impact on the balance of payments. In the main, the adjustment took the form of a reduction in spending and imports, without an attendant reorientation of production towards exports and import substitution.

The major devaluations which were carried out in a number of the countries in the region in order to redirect spending towards internationally marketable goods contributed to the deterioration in the terms of trade, thereby detracting from the effect on the allocation of resources. The policies aimed at reducing spending by placing restrictions on credit, taxes and salaries had a greater impact. The volume of exports grew very slowly (less than 4% annually in 1982 and 1983) due to the sluggishness of international trade, and the volume of imports plummeted (over 40% in 1982 and 1983).

In 1983, for the second year running, the investment was the component of demand which was most affected by the drive to reduce imports, rather than consumption spending. Since the sharp decrease in domestic demand was only partially offset by the increase in exports, the region's gross product fell by nearly 3%, which was the biggest drop in the past 50 years; as a result, the situations with respect to employment and underemployment worsened.

The current economic picture that has just been described points up the region's extreme external vulnerability, and one of the most immediate and visible manifestations of this is Latin

America's present level of indebtedness.

The region depends on the market of the industrialized countries for the bulk of the foreign exchange income which it uses to import the goods it must have in order to maintain its levels of activity, especially the capital equipment it needs for its development. The agonizing snags and delays faced in the process of refinancing and renegotiating the foreign debt -whose cost, primarily in the form of interest, is dictated by policies over which Latin America has no control whatsoever- are a magnified reflection of that structural situation within the international capital market.

It is evident that the development of Latin America in the immediate future will be influenced by many negative factors. These include its extremely large debt, whose service will continue to represent very high percentages of export earnings, and the persistence of restrictive macroeconomic policies and high interest rates in the central countries, which will hinder a widespread and sustained reactivation of the industrialized economies, as well as limiting the forward progress of international trade and of development in the region.

It is highly improbable that commodity prices will regain the levels they reached in the early 1980s. The intensification of protectionist policies in the central countries will continue to hamper the growth of international trade and will cause investment in the region's commodity -and manufacturing- related export activities to decline. So long as the basis, rules and power relations governing the North-South dialogue remain as they are, it is impossible to envision specific benefits for the countries of the region being produced by international co-operation. Finally, the possibility exists that the continuation of recessionary adjustment policies will exceed the limits of the Latin American countries' social and political tolerance.

By any reckoning, this extremely complex and delicate situation makes it essential for the countries of the region to work together in order to achieve a new, more dynamic, self-sustained, equitable and flexible development style which will make it easier for them to deal with changes in the international economy.

It will also be necessary to reinstate the idea of development as the main objective of social and economic strategies insofar as the transformation of society is concerned. It will be imperative to discard those conceptual approaches which, lacking a long-term perspective, are confined to a search for short-term economic balances that are primarily based on the manipulation of monetary and financial variables.



b) The Central American subregion

Central America also finds itself immersed in the deepest depression and most serious political upheavals of the past 50 years; the latter sets it apart from the rest of Latin America.

In order to gain an understanding of this crisis, a number of factors must be considered, including the rapid growth that has occurred over the past 30 years -which, of course, has differed from country to country- within an atmosphere of financial and monetary stability; the decisive influence which external factors have had on economic performance, in addition to the impact of many political factors; the fact that most of the major changes taking place in the region have been in juxtaposition to the existing economic and social structure, without there being any basic modification of the "additive development" process; and, finally, the fact that the distribution of the benefits produced by that prolonged period of economic expansion has been strikingly unequal, thereby preventing any mitigation of the extreme poverty which exists.

The present crisis takes the form of a slowdown in economic activity, mounting external deficits and a sharp drop in savings and investment, along with increasingly less manoeuvring room in which to combat these conditions. Worse yet, the high and growing levels of unemployment and underemployment will tend to deepen the long-standing inequalities which exist in the subregion's economies. Moreover, the prolongation of the depression and the limited external borrowing capacity of some countries have made it necessary to adopt adjustment programmes involving unpopular economic measures.

The serious political upheavals occurring in the region are also closely related to these economic problems. This may foreshadow a breakdown of the "additive development", at a time when no alternative modes of development are yet in sight. What is more, the none too promising economic prospects which have been discussed make it impossible to undertake the through-going social changes whose absence is jeopardizing the political stability of a number of countries. The lack of a clear idea of how to grapple with or overcome the crisis, the realization that many problems outstrip the governments' ability to act, and the erosion of the very foundations of the Central American integration process have given rise to an atmosphere of demoralization and confusion.

With respect to a short-term solution to the crisis, external demand will continue to play a decisive role in setting production levels, and external supply will perform a vital function in meeting the subregion's needs. There can be no question of an economic recovery based on the domestic recovery of savings and investment levels so long as the prevailing atmosphere of

instability is not surmounted; if this is to be done, meaningful changes will have to be made in the pattern of political interaction in most of the countries of the subregion.

In all events, if the necessary corrective measures are not taken in the near future, the present critical situation will inevitably deteriorate even further, with unforeseeable and perhaps even unmanageable consequences.

#### c) The Caribbean subregion

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The economic crisis has affected the Caribbean subregion even more severely. The English-speaking countries of the subregion, apart from their differences as regards language, ethnic structure and political systems, vary greatly in size, economic structure and development. Nonetheless, they have the common denominator of their small economic size in terms of surface area, population and markets, as well as the heavily dependent nature of their trade in goods and services.

When the recession began in the central countries, it became clear that the prevailing industrialization and integration policies in the subregion had been based on the assumption of a dynamic export performance. Despite efforts to expand and diversify production in each of the countries and to integrate their markets at a regional level, however, the behaviour of the international economy has a decisive effect on the Caribbean economy, since a large part of its productive resources are used by industries whose output is intended for the world market; on average, the ratio between the exports of goods and the gross domestic product is approximately 36% in the subregion.

The rate of economic growth has declined to such an extent in recent years that in 1983 it was even negative in some cases. Since the population has continued to grow relatively rapidly, real per capita income has fallen.

There have been unfavourable signs with respect to most of the other macroeconomic variables as well. Foreign exchange earnings have dropped as the volume of oil, bauxite and agricultural exports has decreased and as tourism has fallen off. The only sector in which the trends have been favourable is the services sector, but this reinforces the tendency towards an increasing emphasis on tertiary activities and towards margination in the subregion.

An examination of the goods and factors markets clearly shows up the structural imbalance of the Caribbean economies. For example, domestic demand represents a large percentage of the gross domestic product, and the deficit on current account represents a large and increasing portion of the GDP. Savings finances only a

fraction of domestic investment, and the fiscal deficit represents a high percentage of the product. Furthermore, monetary expansion in the subregion has been both widespread and excessive, while the oversupply of manpower leads to high and increasing levels of open unemployment. In view of these facts, it is no wonder that the compensating variables of prices, wages, interest and real exchange rates tend to undergo a continuous process of adjustment.

In addition to the disadvantageous factors noted above, subregional integration efforts have also been affected by the international crisis, since the existing import-substitution industries need net foreign capital flows in order to increase their production. After strong growth in the 1970s, intra-regional trade began to decline in the early 1980s, leading to payments problems and, in early 1983, the suspension of the multilateral clearing mechanism.

Despite the fact that, in the absence of a sufficient flow of private capital, there is a tendency to increase the foreign debt in order to ensure development, the ratio between the debt service and exports is still relatively low. Nevertheless, the growth of the debt may pose problems in the future if attempts to expand export capacity are not successful.

## 2. Possible spheres of action for international ----- technical co-operation -----

Obviously, it would be nearly impossible to identify all the economic and social topics or sectors on which international technical co-operation should be focused in order to help the countries of Latin America and the Caribbean to adopt policies and to implement appropriate programmes in order to resolve the present economic situation. Nonetheless, there are a few particularly important areas which require resources from the organizations and agencies of the United Nations system for development. These sectors were clearly defined by the governments at the recent Latin American Economic Conference (Quito, 9-13 January 1984), where decisions were reached concerning action to be taken in the fields of trade, international finance, the food supply, energy and services within the framework of reactivated and strengthened co-operation and integration processes.

a) At the regional level  
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i) Trade and development  
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In view of the fact that Latin America's trade imbalances primarily stem from the region's asymmetrical position in the world economy, a plan must be designed for achieving parallel advances in the conclusion of counter-balanced trade agreements and other bilateral instruments, as well as multilateral conventions.

One of the most important approaches which the Latin American governments have decided to take -and which should be supported- is to increase trade within Latin America by establishing a regional tariff preference, eliminating trade barriers, strengthening and improving reciprocal clearing systems for payments and credits, and utilizing the purchasing power of the State to divert imports towards the countries of the region.

In addition to these inner-directed regional efforts, Latin America's action as a unit in the international sphere needs to be reinforced. Mechanisms should be designed which will allow the region to apply a common-front system of trade vis - a - vis the developed countries which use protectionist policies or forms of managed trade to the detriment of its interests. Viable alternatives must be sought which are based on the region's own potential rather than on "concessions" granted by the industrialized countries. In this respect, consideration should be given to Latin America's potential joint buying capacity with a view to making purchases in the international market on the best possible terms, boosting the region's exports (especially of manufactures) and, finally, intensifying the Latin American industrialization process.

ii) Finance and development  
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The governments of the region feel that they must co-ordinate their positions in international forums in order to achieve an increase in world liquidity and to obtain additional resources on terms which will alleviate the present problem rather than exacerbating it. In relation to the external debt, the countries of the region are seeking to adopt common guidelines concerning the rescheduling and renegotiation of payments on their foreign debt and the implementation of adjustment policies which will allow them to increase their bargaining power and to turn the major part of their attention back to long-term development.

Even if all this is achieved, it is to be expected that the countries of the region will find it necessary to rely increasingly on their own internal resources in coming years in order to ensure their growth. The problem of the domestic indebtedness capacity will therefore take on greater importance, and now is the time to analyse, systematize and compare the experiences gained in the region with a view to contributing to the formulation of policies in this field. Specifically, a systematic study should be conducted of domestic financial policies -including those concerning savings and the debt- which would allow the countries to regain their former rate of growth despite the scarcity of external financing.

It is also important to design efficient and gradual adjustment policies which would increase the production of marketable goods at the same time that they reduce the production of non-marketable products and which, furthermore, would reduce imports while making it possible to increase exports and step up import substitution

### iii) Regional co-operation and economic integration

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It is imperative for the countries of Latin America and the Caribbean to join forces both in order to strengthen regional co-operation and integration among the countries and groups of countries which make up the region, and in order to undertake co-ordinated and concerted action at the international level.

In this respect, any "inner-directed" action which Latin America can take in order to form even closer bonds within the Latin American region would inevitably have a positive "outward-directed" effect by giving the region greater influence in the international arena. Despite the serious problems which have been encountered in connection with regional and subregional economic integration, it has always been possible to preserve part of the institutional framework for these processes and even to make progress in some branches of activity.

In this connection, it is essential to support any and all efforts to regain former intra-regional trade levels as soon as possible while using a minimum of convertible currency and taking advantage of the unused or underutilized production capacity which exists to guarantee the region's food and energy security. In the not-too-distant future, support for co-operation and integration efforts must be forthcoming in order to enable them to contribute to the completion of the industrialization process (which has not yet been brought full course, in that there are still various gaps - especially as regards capital equipment and intermediate inputs) and to the achievement of closer co-ordination among the various sectors of production, as well as the development of appropriate

scientific and technological systems to meet the current needs of the region.

iv) Industrial development

The development of the industrial sector in the region -albeit with differences and time lags from one country to another- has been one of the hardest hit by the current crisis in Latin America, since both the external demand and domestic supply of manufactured products have both declined.

The former has fallen off as a result of the international recession and the protectionism of the central countries, as well as because of the payments problems of the countries in the region. The latter has been hurt by the drop in industrial investment, high interest rates -and their subsequent effect on capital formation and profitability- and the prevailing atmosphere of uncertainty. Moreover, recently-implemented adjustment policies have placed restrictions on the importation of inputs as well as creating financial problems for companies with debts abroad.

Although, in the long run, the recovery and growth of the industrial sector will hinge on the overall reactivation of the economy, on the short term these processes could be started off on the basis of the internal demand of the regional market. Obviously, any action taken with regard to this sector will have to be accompanied by favourable development policies which eliminate the constraints upon it and must be based on the existing regional and subregional co-operation and integration schemes.

In order for an industrial reactivation to come about, public agencies devoted to industrial promotion and to State business operations need to be strengthened, a scientific and technological development strategy must be formulated and adopted, and co-operation schemes will have to be designated which are aimed at better utilizing and developing the capital goods industry.

State undertakings with respect to promotion and industrial operations should focus on the full utilization of installed industrial capacity in order, first of all, to meet regional demand and, subsequently, to gain access as a group to major external markets.

Technological development should play a central role and should include a large endogenous component so that the resources of all social strata may be utilized and their full participation in development may be secured. This could be accomplished by fostering complementation in the exchange of technologies, thereby taking advantage of the disparities in the relative development of the countries in the region.

The development of the capital goods industry should include the initiation of co-ordinated action by the companies of the region aimed at satisfying demand both inside and outside the region and gaining access to other larger markets by utilizing the idle installed capacity which exists and undertaking joint ventures or projects.

v) Agriculture and food  
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The present crisis has been accompanied by decreases in the growth rate of agricultural production, in the amount of land under cultivation, in the use of fertilizers and other inputs, and in the utilization of the means of production; it should also be noted, however, that during the past three years a number of countries in the region have been very seriously affected by adverse weather conditions.

Internally, production has been hurt by the reduction in subsidies, purchasing power and minimum prices, as well as by increases in the prices for imported inputs. Externally, demand has dropped as a result of the world recession and the protectionist measures employed by the developed countries.

In this connection, it must be borne in mind that the agriculture of the region is marked by a high degree of asymetry. Exports consist of a small number of traditional items for which world demand is either growing very slowly or even dropping, and staple foods are imported almost exclusively from developed countries, while the trade in these products is controlled by transnational corporations. In addition to increasing the vulnerability of the countries' food systems, this situation has also reduced the relative share of world trade which is accounted for by the region's agricultural exports while increasing its share of imports.

This state of affairs makes it absolutely essential to find ways to reduce the external vulnerability of the countries' food systems and to strengthen the weakest components of the structure of production. Support should therefore be given to initiatives aimed at enhancing the value of the domestic and regional markets -which offer opportunities for co-operation that have not been used to full advantage- and at strengthening and expanding the potential of peasant agriculture. A particularly important approach in this respect would be the provision of direct assistance by the State to peasant producers, along with its regulation and control of the markets in which they buy or sell. Especially in those countries where the food situation is most precarious, such an effort could contribute to the development of equitable, stable and autonomous national food systems which could be maintained over the long term.

vi) Natural resources  
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The Latin American and Caribbean region is, in per capita terms, one of the richest in natural resources in the world; other geographic areas, with fewer resources, have nonetheless managed to deal with the present economic crisis more successfully.

With respect to the energy sector, it should be noted that the region is, in relative terms, more heavily dependent on oil than any other in the world. In conjunction with a slow reaction to the increases in hydrocarbon prices of 1973 and 1979, as well as the producer countries' mistaken interpretation of the trends in international oil prices, this dependency is one of the main reasons for the financial difficulties faced by the countries of the region.

In order to speed economic recovery, the countries should adopt a number of decisions concerning the management of the energy sector with a view to increasing the efficiency of energy use and the utilization of certain indigenous energy resources that are in great supply in some of the countries instead of petroleum, as well as the use of a large variety of energy sources as substitutes.

In this connection, support in the form of international co-operation should be provided to the countries of the region in the following areas: the formulation and implementation of appropriate energy price policies aimed at promoting the rational utilization, conservation, substitution and diversification of fuels; the allocation of public funds for the purpose of increasing and diversifying the supply and utilization of indigenous energy sources; the analysis of alternative ways to combine public and private sources of capital, both national and foreign, and the exploration of administrative options as regards energy production and distribution; and, finally, the design of an energy security strategy for the oil-importing countries.

In relation to the mining sector, it should be noted that four fifths of the output of Latin America and the Caribbean is sold on international markets, while the export product mix is concentrated in only about eight metals. Domestic consumption of minerals in the region is low in comparison to that of the industrialized countries.

The growth of exports slowed in the late 1970s vis - a - vis the rate recorded for previous periods, and actually dropped in 1981-1983. Although a slight recovery in the international mineral market is expected, another consideration to be borne in mind is that the regional demand for capital equipment and the region's use of metal-based goods is bound to increase relatively rapidly during what remains of this century.



In view of the foregoing and given the existence of large mineral reserves and resources in the region, a way should be sought of achieving a more diversified production and export structure. International co-operation could be focused on helping the Latin American and Caribbean countries to expand horizontal co-operation activities and projects with a view to: diversifying mining output and exports in an attempt to achieve regional self-sufficiency and to produce surpluses for export; integrating mining and metallurgical activities and achieving a complementarity between the two in order to contribute to the regional industrialization process and secure a higher level of income per unit exported; and, finally, assisting mining and metallurgical institutions in reaching more equitable agreements with respect to investments, technology transfer, etc.

The current approach to the management of renewable natural resources is marked by outdated structural traits which favour some elements -especially investment- while neglecting others, such as extension activities, training and assistance in connection with the development and conservation of a variety of resources, primarily water, forests, fauna and soil. As a result, investment has mainly been directed towards construction and extraction, and due consideration has not been given to operational aspects or conservation. The deterioration of the region's renewable natural resources, particularly in the form of soil erosion, water pollution and the inefficient utilization of available resources, is the result of this imbalance in resource allocation.

Although a better management of renewable natural resources will not be enough in and of itself to overcome the current economic crisis in the region on the short term, there is no doubt about the fact that steps could be taken in this field which would have a substantial and immediate effect; the impact of such measures would primarily be felt in the social and environmental spheres and would tend to favour rural areas, which are usually bypassed by development activities. To these ends, there are a variety of opportunities for action which the international community could support. Some of these areas are: attempts to increase the operating efficiency of the existing waterworks infrastructure and of river basin management, instead of diverting large amounts of capital to the construction of large new development facilities; the more effective utilization of price, taxes and subsidy policies; and the provision of the proper technical and credit assistance to users. To achieve this, the government services's capacity to perform these tasks will have to be improved and the active participation of users must be promoted.

## vii) Transport

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The crisis has directly hurt the development of regional shipping and has shown up the existing weaknesses in the overland transport system.

As result of the world recession, the volume of sea cargo has decreased, freight levels have dropped, many shipping companies have suffered operating losses and many ships have switched over to flags of convenience. Moreover, shipping companies in the region have had a great deal of difficulty in making the necessary technological changes and in competing successfully at a world level.

Although the existing road and railway infrastructure in Latin America has not yet reached the optimum level for ensuring national development and regional integration, it does not, in its present state, constitute a major obstacle. It is nonetheless clear that the incompleteness of the existing institutional framework and non-tariff barriers are hampering trade in the region. The countries of the Southern Cone, the Andean Group and the Central American Isthmus are aware of this problem and have made efforts to develop the institutional structure in order to facilitate international highway transport. Despite the progress which has been made, however, the international transport system still amounts to little more than an overlapping of national transport systems and involves a large-scale border storage and transshipment infrastructure.

In order to improve the situation in this sector and help to overcome the crisis, the various bodies of legislation should be brought into alignment with one another, as exchange of experience should be promoted with a view to improving maritime, overland and multi-modal transport, and the conditions should be created which would allow the establishment of an expanded freight market at the regional level. Obviously, this presupposes that energetic and determined efforts will be undertaken within the framework of regional and subregional co-operation in relation to the facilitation of transport and international trade.

## viii) Social development

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From the midpoint of this century up to and including 1980 the region experienced steady economic growth and its social structures underwent various changes; however, this economic expansion was not accompanied by social policies aimed at reversing the trends towards concentration and diversification in the upper-middle sector of the population and the resulting exclusion of the lower

strata from society.

During that period, the population more than doubled. Urban growth was so fast and so great that it was impossible to adopt policies to ensure that the inhabitants' basic needs were met; this resulted in social crises and marginality. In the rural sector, the illiterate population remained settled on poor land and lacked the capital or appropriate technologies to develop it, as they underwent what was clearly a process of social deterioration.

The economic development which occurred during those years made it possible to absorb the increasing young population, so open unemployment levels were not excessive. The extent to which the urban population could be incorporated into the development process, however, differed widely from one part of the region to another; especially in those countries where per capita income grew less where the indigenous population emigrated from rural areas en masse, the situation was marked by employment within the informal sector and in activities whose productivity was low or in which earnings were minimal, as well as by marginality, the breakdown of families, a lack of sufficient access to education, etc.

Although the development of social services in the region was fostered during that period, minimum needs with respect to health, education and housing could not be met. Despite increased social spending, large portions of the population were not included in the primary school system, although a university system of limited scope was indeed developed. Social services thus mirrored the type of income accumulation and concentration which characterized the economic model applied during this period.

The changes which occurred in relation to the development of industry and services gave rise to a new form of duality in the cities. The upper stratum of the population became diversified and differentiated, while the lower stratum was excluded from this process, lacked the monetary income to meet basic needs, and was provided with an insufficient level of social services.

As a result, there was a failure to establish even a minimum amount of equality, to create the conditions needed for democratic participation, or to expand the consumer market to the point where a sustained and balanced development of the regional economy could take place.

The current crisis in the region has affected precisely those social groups which were not able to make advances during the preceding stage. The high levels of unemployment which are now being seen are superimposed upon the underemployment of the previous stage; the sharp slump in the market for the modern sectors prevents or substantially limits the incorporation of the masses of young people; the State finds itself forced to reduce social spending at a time when households at the low end of the

social scale lack a basic minimum income; and resources are not available for the urban renewal projects that are necessary in order to meet collective needs.

It is therefore essential, with the support of the international community, to adopt and implement policies for mobilizing the scant collective resources which do exist in such a way that, rather than being an economic burden, social considerations will give rise to a type of economic development that lays the necessary foundations so that equitable and democratic societies may be established and may function.

Some of these policies relate to health, the elimination of poverty, primary education for the entire population (and secondary education in the more advanced countries) and the creation of jobs which provide a sufficient income to meet basic minimum needs; this would create the necessary conditions in order for the Latin American and Caribbean population to be well fed, healthy and educated, and thus capable of engaging in shared cultural codes and understanding collective problems.

In the immediate future, it seems advisable to provide support, specifically, for the development of pre-school education and a minimum of six years of schooling for the entire population. This would call for a better utilization and expansion of existing educational facilities so that marginal groups might be reached. In the health field, support should be provided in order to ensure access to social security systems for mothers during pregnancy and for their children during the first year of life so that the high levels of infant mortality may be reduced. Attempts should then be made to solve the housing problem.

Qualitative changes must also be made in the field of education and science with a view to raising the quality of human resources, achieving a better understanding of the region's social problems, and establishing the scientific capability to meet challenges in industry with the full participation of the population.

#### ix) Statistics and projections

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It is important to point out that the source of some of the problems related to the crisis was the belated interpretation of future trends in the international economy. In other words, if more systematic information concerning the situation in the international economy and its future outlook had been disseminated among the countries of the region, they would have been able to deal more successfully with some of the problems which have arisen.

Unfortunately, the countries have not yet managed to take full advantage of the information potential of their own national systems. This has been one of the obstacles to obtaining reliable data quickly and furnishing it to regional and international agencies.

It is therefore imperative to support the efforts being made to strengthen information systems at the national as well as at the subregional and regional levels. In the latter context, ECLAC is developing a regional foreign trade data bank, which will very shortly provide rapid access to such information. The implementation of this phase is aimed at creating a statistical system which will be integrated in terms of both its technical/statistical and computer-related aspects and as regards the division of labour among the participating bodies.

The creation of this system should be carried out in stages so that the most critical aspects of the situation may be dealt with first. These include a forward-looking analysis of the economies of the developed countries and the upgrading of statistics on foreign trade and on external financing and indebtedness.

#### b) The subregions

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Aside from the above-mentioned general spheres of action pertaining to the entire region, complementary activities should be supported at the subregional level which address the special features of each such area.

#### i) Central America

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In an effort to resolve the critical situation they face, the governments in the Central American subregion could, with the support of the international community, attempt to identify the basic elements which are needed in order for them to take a more active approach to the tasks of adjusting for and offsetting the prevailing recessionary trends. These elements could form part of a new development style which would then have to be adjusted and adapted in successive stages in order to deal with the specific short-term demands of each country.

The governments of this subregion could take a pragmatic approach which would allow them to take the fullest possible advantage of the ongoing opportunities offered by the international market and to give strong encouragement to import substitution. They would also have to continue their efforts to increase their foreign currency export earnings by some means of fiscal and

exchange measures, as well as by organizing production and marketing in such way as to gain access to other markets.

Insofar as production for domestic consumption is concerned, some important issues are the food supply -and regaining self-sufficiency in this area- and the promotion of the type of links between agriculture and industry which would make it possible for the subregion to continue to be self-sufficient and to produce surpluses for export. In addition, its great potential for industrial import substitution could be exploited, especially in view of the economies of scale which are inherent in the subregional market.

The economic policy to be designed should be based on such factors as the capacity to utilize manpower, the reduction of poverty, the accommodation of spending and savings patterns in both the public and private sectors, an increase in efficiency and productivity and, possibly, a development style which is more inward-directed than the traditional model but which would not entail any slackening of the efforts being made to exploit the opportunities offered by external demand.

There is no question about the fact that the process of subregional economic integration is the best means of easing the limits placed on the Central American economies by the external sector so that the subregion may take advantage of the potentially greater dynamism of its internal demand and so that it may act as a unit in dealing with a number of specific aspects of its relations with the rest of the world.

Finally, the role of the State cannot be skirted, despite the fact that political motivations may vary, in view of the need to encourage the participation of the population in order to decrease the danger of instability.

Any assistance given to the subregion will have to be adapted to the prevailing conditions there, and the routine procedures and programmes which may be valid in a normal situation will have to be abandoned. Along these lines, the units in the public sector responsible for formulating and applying economic policy should be supported, and other public institutions should be helped to operate more efficiently.

Some of the main sectoral activities that are deserving of support are those aimed at strengthening the export sector, staple food production and, in general, all those activities which create jobs.

At the subregional level it is now more important than ever to reinforce the institutions that foster integration and to support those schemes, projects or activities which in any way help to coalesce diverse interests and channel them into joint action.

ii) The Caribbean

The structural problems of the Caribbean countries' economies can only be resolved through a resolute effort to achieve efficient economic growth and higher levels of employment. This could be accomplished by taking steps to diversify the economy and to develop new and efficient sectors which would be oriented towards exportation and import substitution, through-going changes in agriculture and rural development, increasing food production, attaining an appropriate mix of local and foreign investment, the development of human resources and institution-building.

As part of this process, special attention would have to be paid to designing trade policies that would maximize direct earnings from trade as well as the beneficial effect this has on the economy's efficiency of production. The export sector's contributions to the subregional economy should be based on the fullest possible utilization of installed capacity and on more efficient production and marketing of traditional export crops. Efforts should also be made to explore the possibility of using existing resources to manufacture new products for export, as well as for the domestic and, insofar as possible, the subregional markets. It would also be helpful to undertake a critical analysis of past and present import restriction policies, since their effectiveness in promoting the growth of protected industries has not been demonstrated.

Through-going changes in agriculture, both in terms of increasing the efficiency of the export sector and introducing new products for export and for import-substitution, should be a decisive element in this new type of development process. Despite the fact that the countries have the capacity to produce more food and even to be self-sufficient in some items, their chances of doing so have lessened during the last decade, as attested to by their growing dependence on imported foods. Policies must be implemented which will make it possible to use this capacity to the utmost, in addition to taking action in relation to prices, infrastructure and the marketing and transport of products intended for export and for domestic consumption.

The exchange parities in the countries of the subregion are another issue which should be considered. Exchange policies will have to be reviewed in order to avoid problems caused by an overvaluation of Caribbean currencies in relation to those of their trading partners. It would also be wise to consider the adjustment of exchange rates in conjunction with other national objectives, such as increased competitiveness in international trade, lower import costs and more investment, in order to avoid producing conflicting effects.

There is a wide gap in the Caribbean countries between consumption patterns and production capacities. Whereas the pattern of consumption is similar to that of the developed countries, the subregion's internal capacity for satisfying demand is limited, thus making it necessary to resort to imports; this uses up some of the scarce supply of foreign exchange which is needed for the producing sectors. Investment should be carried out in such a way as to stimulate domestic saving and increase the production capacity of the subregion's economy. Domestic saving is not regarded as being sufficient in and of itself to maintain economic growth at the desired level, and investment policies will therefore have to be designed to attract both public and private foreign capital on suitable terms.

The role of international co-operation in the Caribbean should be thoroughly analysed in view of the limitations imposed by the size of the countries in the subregion as well as by their scarce supply of human and natural resources. The spheres which lend themselves to this type of co-operation are, inter alia, trade, production, finance, human resource development and institution-building in the public and private sectors.



TABLE 1

## COUNTRIES OF LATIN AMERICA: SOME BASIC INDICATORS

COUNTRIES	Increase in per capita gross domestic product		Variation in consumer prices			Deficit on current account/ exports of goods and services		Variation in the terms of trade	Total external debt (billions of US	Total external debt Exports of goods and services	Net interest payments Exports of goods and services
	(percentage)		(percentage)			(percentage)		(percentage)	1983	(percentage)	(percentage)
	1981-1983	1984	1980	1983	1984	1980	1983	1979-1983		1983	1983
Latin America	-9.1	-1	53	131	...	27	9	-17	332.3	332	31
Oil-exporting countries	...	...	...	...	...	9	-15	3	137.4	281	26
Bolivia	-22.9	-1	24	329	1000+	16	30	15	2.8 b/	326	47
Ecuador	-6.0		15	53	25	23	5	6	67	255	24
Mexico	-5.5	0	30	81	70	35	-20	8	82.0	305	33
Peru	-15.0	1	60	135	110	2	30	9	12.4	335	29
Venezuela	-10.8	0	20	7	15	-24	-24	52	33.5 c/	225	12
Non-oil- exporting countries	...	...	...	...	...	44	33	-29	194.9	382	36
Argentina	-13.0	1	88	434	570	48	27	0	45.5	485	53
Brazil	-10.4	0	86	178	200	59	32	-39	96.5 c/	408	40
Colombia	-2.5	0	27	17	20	3	52	-24	10.7	261	15
Costa Rica	-17.3	...	18	11	...	55	37	-30	3.8	374	39
Chile	-14.3	2	31	24	15	34	27	-26	17.5	379	35
El Salvador	-20.7	...	19	16	15	0	26	-38	2.0	217	13
Guatemala	-12.3	...	9	8	3	10	20	-35	1.8	151	5
Haiti	-10/9	...	15	7	...	46	54	-30	0.5 b/	152	5
Honduras	-11.0	...	15	10	...	35	25	-24	2.0	249	16
Nicaragua	-0.7	...	25	37	...	101	117	-44	3.4 b/	759	13
Panama	3.2	...	14	2	1	24	26	-22	3.3 b/	208	...
Paraguay	-6.7	...	9	14	...	50	98	-35	1.5	310	9
Dom. Republic	2.4	...	4	6	...	53	37	-8	2.0	164	25
Uruguay	-14.1	-1	43	52	75	47	4	-15	4.5	326	23

Source: ECLAC, on the basis of official data; 1984: Preliminary estimates which are subject to change.

a/ Annual rate based on the available data for 1984.

b/ Public debt.

c/ ECLAC, on the basis of data provided by the Bank for International Settlements.

TABLE 2

## LATIN AMERICA: NET CAPITAL INFLOW AND RESOURCE TRANSFERS

(Billions of US dollars and percentages)

	Effective net capital inflow/ (1)	Unrecorded transactions b/ (2)	Net capital inflow (1+2) (3)	Net 2/1 payments of profits and interest (4)	Net payments of interest (5)	Transfer of resources of (1-5) (6)	Exports of goods and services (7)	Exports of goods and services (8)	6/8 (9)	7/8 (10)	Variation in the terms of trade (11)
1970	3.8	0.1	3.9	2.6	2.8	1.0	1.1	17.0	5.9	6.5	3.4
1971	4.5	-0.2	4.7	-4.4	3.0	1.5	1.7	17.7	8.5	9.6	-2.7
1972	6.0	1.0	7.0	16.7	3.1	3.9	3.9	20.5	14.1	19.0	2.8
1973	8.5	-0.7	7.8	-8.2	4.2	4.3	3.6	28.9	14.9	12.5	13.4
1974	12.7	-1.3	11.4	-10.2	5.0	7.7	6.4	43.6	17.7	14.7	15.8
1975	16.0	-1.8	14.2	-11.3	5.5	10.5	8.7	41.1	25.5	21.2	-13.5
1976	18.9	-0.7	18.2	-3.7	6.8	12.1	11.4	47.3	25.6	24.1	4.6
1977	15.4	1.6	17.0	10.4	8.2	7.2	8.8	55.9	12.9	15.7	6.1
1978	24.4	1.7	26.1	7.0	10.2	14.2	15.9	61.4	23.1	25.9	-10.6
1979	26.9	1.7	28.6	6.3	13.6	13.3	15.0	82.0	16.2	18.3	4.1
1980	35.5	-5.5	30.0	-15.5	18.0	17.5	12.0	105.8	16.5	11.3	3.3
1981	48.3	-10.6	37.7	-21.9	27.7	20.6	10.0	114.1	18.1	8.8	-8.9
1982	28.1	-7.8	20.3	-27.8	36.9	-8.8	-16.6	102.6	-8.6	-16.2	-8.6
1983	12.8	-4.5	8.0	-36.0	34.7	-22.2	-26.7	100.0	-22.2	-26.7	-7.1 c/

Source: 1970-1982: International Monetary Fund, Balance of Payments Yearbook; 1983: ECLAC, on the basis of official data.

a/ Equals net capital inflow minus unrecorded transactions.

b/ Corresponds to the errors and omissions entry on the balance of payments.

c/ Preliminary estimates.