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LATIN AMERICAN DEVELOPMENT PROBLEMS AND THE WORLD ECONOMIC CRISIS

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CONTENTS

/Chapter I

Chapter I

THE SLACKENING OF ECONOMIC DYNAMISM AND THE INTENSIFICATION OF SOCIAL PROBLEMS

A. EVOLUTION OF THE ECONOMY: ITS INSTABILITY AND THE SHARP DECLINE IN THE RATE OF GROWTH

The International Development Strategy (IDS) sanctioned by the General Assembly of the United Nations and the Regional Programme of Action adopted by CEPAL at its last session in the framework of that strategy were designed to provide guidelines for the action that should be taken at the national, regional and international levels in order to promote during the 1980s the development of the peripheral countries in general and of Latin America in particular. The implementation of IDS depended upon concerted action in the international, regional and national fields conducive to the adoption of decisions intended to eliminate or mitigate structural situations in the world economy -particularly in the industrial countries- which represent obstacles to the practical application of the Strategy. Unfortunately, the developments that were bred and propagated by the world economic crisis generated new political and economic situations which drove events along a course essentially different from the basic premises and guiding principles propounded by the International Development Strategy and CEPAL's Regional Programme of Action.

No progress whatever has been made in concerting the global negotiations that had been envisaged for the structuring of a new international economic order, and the first year of the present decade and as much of this second year as has elapsed display in the international sphere a panorama of profound economic recession, with high indexes of unemployment and inflation, and at the regional level of our own countries a severe deterioration in economic and social conditions. If the region is considered as a whole, it can be seen that the per capita domestic product in 1981 failed to maintain its 1980 levels, real per capita income declined, and the results expected for 1982 are yet more unfavourable.

International events and the aforesaid deterioration of economic and social conditions are tending to propagate a dangerous climate of instability and confusion in the context of which substantial changes in national policies are often brought about in many countries, in an endeavour to control almost unmanageable situations.

/These processes

These processes have indubitably been influenced by factors of different kinds, both internal and external, which differ from one country to another. Among the former may be mentioned policies of greater or lesser openness; the scale and terms of the use of external financial resources; the protection or non-protection of national economic activities; the placing of emphasis on certain economic and political objectives to the detriment of others of a socio-economic character which are of special significance; the modus operandi and degree of efficacy in the administration of reserves and of the external debt; and over-estimation of the soundness of specific policies in the light of experiences which were apparently satisfactory over the short term, but were really -in part at least- the result of the favourable evolution of other factors. Generally speaking, it seems that in many cases domestic policies prevailed which were based on a diagnosis of the situation and an evaluation of international trends which with the passage of time became more and more widely divorced from reality.

Obviously, however, it has been the changes and unfavourable trends in external variables stemming from the policies pursued and the stagnation and inflation faced by the industrial countries, as well as from the world economic recession, that have made for a tight bottleneck in the economic growth of the great majority of the countries of the region and for an atmosphere of uncertainty as regards their subsequent development. The factors in question can be controlled by the developing countries only in part and in certain respects, and their influence determines a high degree of economic and technological dependence upon the industrial countries.

Many Latin American countries contracted debts on the assumption that the crisis in the developed world was basically of a conjunctural nature. During the second half of the 1970s they managed, by means of borrowing and a rapid expansion of exports, to maintain what in the circumstances under which the world economy was labouring appeared a relatively high rate of economic growth, until the persistence and aggravation of the external crisis made their economic policy models untenable.

The problems of external indebtedness and financing besetting most of the Latin American countries and their effects on the decline in growth are not a crop of yesterday's sowing; they are really the result of institutional changes and of a cumulative process that began midway through the 1970s. To shed light on these aspects of the question and gain a more precise idea of the nature of the prevailing

/economic and

economic and financial situations it is desirable to review, if only succinctly and in broad outline, the various phases that have been occurring.

With this end in view, and for the sake of simplicity, in the evolution of the region's economy, from the beginning of the past decade up to the present time, four periods or phases might be considered which reflect changes and trends of a general character, albeit not always exactly applicable or significant for each and every country. These phases correspond to the following periods: (i) the period of intense dynamism recorded in the early 1970s; last decade; (ii) the period 1974-1975, marked by changes in the direction of an economic depression which became more pronounced in the latter year; (iii) the moderate and costly recovery which extended from 1976 to 1980; and, lastly,(iv) the economic and financial crisis of 1981 which is stretching over into 1982, and which, unfortunately, may likewise prevail in 1983. Thus the period is clearly one of sharp contrasts, in which the optimism of the early 1970s seems to have influenced the maintenance -if not the accentuation- of patterns of external trade and financing whose non-viability has become evident at the dawn of the 1980s, when hard facts are finally spreading an attitude of pessimism.

The early 1970s -up to 1974 in certain respects- witnessed the culmination of a phase of rapid economic growth which had started in the second half of the 1960s, although with notable differences from one country to another.

Up to 1973, a boom in exports of goods and services occurred in the great majority of the countries of the region, and for many of them the external terms of trade followed a favourable trend, thus strengthening the purchasing power of their exports. Accordingly, imports expanded appreciably, on a scale exceeding the increment in the domestic product, without thereby causing any significant increase in balance-of-payments deficits on current account, at any rate for the region as a whole.

The year 1974 marked a phase of transition from the boom of the preceding years to a definite depression in 1975. This transition has one noteworthy feature. The growth rate of the product remained relatively high and the petroleum-exporting countries increased their real income by virtue of the rise in the price of their exports. Imports, in their turn, expanded considerably in almost all countries; but at the same time, in an important group of countries exports remained static or decreased and the external terms of trade deteriorated in almost all the

/non-petroleum

non-petroleum-exporting countries. Thus the real value of these countries' exports of goods and services contracted. In 1975 the economic recession became general; for the non-petroleum-exporting countries as a whole exports continued to stagnate, and their terms of trade deteriorated considerably, the result being a pronounced reduction in the real value of exports which affected the petroleum-exporting countries as well. In this setting the rate of economic growth dropped to only 3.5%, and imports dwindled, except in the petroleum-exporting countries.

In these circumstances, in 1974 the non-petroleum-exporting countries as a whole appreciably enlarged their balance-of-payments deficit on current account, which, in the case of a group of 20 countries,1/ climbed from approximately 4 500 million dollars in 1978 to 13 500 million in 1974. The main causes were the expansion of imports and the decrease in the real value of exports. This swollen deficit was partly financed by the use of reserves, but principally by an increase in external borrowing. In 1975 the increment in the deficit was still bigger; for the same group of countries it reached a figure of approximately 16 200 million dollars, at current prices, which seems to have been determined by the contraction again recorded in the real value of exports, and this notwithstanding the decrease in the value of imports and the decline in the rate of economic growth. Thus, in a brief period the proportion of the value of exports represented by net external financing rose from 19% to 51%. International reserves were again reduced, but the bulk of the financing contributed to the accumulation of a huge external debt, which -in default of the restoration of conditions in respect of economic dynamism and the terms of trade similar to those of the early 1970s- had subsequent effects on the rate of economic growth and on national measures of economic policy.

The phase covered by the years 1976-1979 may be described as one of merely moderate recovery, especially if it is taken into account that the average annual growth rate of the domestic product attained only a little over 5%.

Noteworthy features of this phase were the vigorous expansion of exports and the maintenance of a considerable flow of external financing, notwithstanding the high levels of previous borrowing. This facilitated an increase in imports, which, nevertheless, was less than the rise in the real value of exports. Although for the group of 20 countries under consideration the balance-of-payments deficit on current

1/ Comprising all the countries of Latin America and the Caribbean, with the exclusion of Bolivia, Cuba, Ecuador, Trinidad and Tobago and Venezuela.

/account decreased

account decreased in relation to the peak figure of 1975, the imbalance remained at relatively high levels, and throughout this period the external indebtedness of the countries of the region continued to increase. What is more, in 1979 there was a further rise in the deficit, which, for the same group of countries, mounted from approximately 11 600 million dollars in 1978 to 19 100 million in 1979.2/

Economic development in 1980 differs greatly from one country to another. Thus, for example, Mexico gradually increased the economic weight it carried among the countries of the region while at the same time acquiring special characteristics as a result of the growing importance of its production and exports of petroleum. Broadly speaking, the economic growth rate for the countries as a whole may be described as resembling or slightly exceeding the average for the period 1975-1979; although in many countries the high rate of increase in the volume of exports was maintained, signs of deterioration began to appear, downswings occurring in some countries, while the terms of trade worsened in most cases, the petroleum-exporting countries excepted. The reduction in imports observed in a few instances was more than offset by the sizeable increments in others. Furthermore, the effects of previous external borrowing began to make themselves felt. Profits and interest on foreign capital and the external debt increased considerably, and the net figures reached some 13 300 million dollars in 1979, rising to 18 100 million in 1980. These figures were influenced not only by the increase in the debt but also by the rise in rates of interest.

Accordingly, the balance-of-payments deficit on current account for the 20 countries under discussion soared from 19 100 million dollars in 1979 to 32 400 million in 1980. It should be added that the other countries defined as the petroleum-exporting group also witnessed an increase in the current deficit on their external accounts.

In 1981, despite a renewed expansion of the volume of exports of the group of non-petroleum-exporting countries, the signs of deterioration that had appeared in 1980 spread more widely, sales abroad contracted in a larger number of countries, and there was a tendency for the deterioration in the external terms of trade to be generalized. Thus the real value of exports increased only slightly, and still

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2/ All these figures are expressed in current values. If they were adjusted in terms of constant prices of any previous year, the absolute increase would be less, in consequence of the rise in the prices of goods and services marketed.

/less if

less if the petroleum-exporting countries are taken into account, with the exception of Mexico, where a markedly favourable trend was observable. In terms of real value this country's exports increased by more than 15%, a fact which highlights the importance that petroleum exports are acquiring in Mexico's total external sales. Imports decreased in many countries and the region's gross domestic product rose by only 1.5%, an increment much smaller than that of its population.

In this situation the group of 20 countries still under review once again showed a significant upswing in the deficit on their external current accounts, which mounted from 32 400 million dollars in 1980 to 41 900 million in 1981. This increase of somewhat over 9 000 million dollars was virtually due to the net flows of profits and interest on external investment and debt, which climbed from 18 100 million dollars to 27 100 million. This meant that during 1981 the deficit on the trade balance was contained, and the increase in external financing was absorbed by the payment of profits and interest. Such is the interpretation that can be inferred from the aggregate figures, since experience may vary as regards the individual evolution of each of the countries of the region.

The nature of this evolution does not change if attention is turned to the group of 24 countries in the region on which balance-of-payments information is available. The total balance on current account rose from 28 100 million dollars to 38 600 million, and net profits and interest paid abroad increased from 18 900 million dollars to 29 800 million.

B. SOME SALIENT ASPECTS OF THE DEVELOPMENT PROBLEMS FACING THE REGION

The brief review presented in the foregoing section may usefully be followed by a synthesis, still on the macroeconomic level, of the most salient internal and external aspects of the problems facing the region in present conditions. These aspects relate to economic dynamism, the problems of the external bottleneck and the intensification of social problems and pressures.

The moderate economic dynamism which the region had been displaying since 1976, to some extent as a recovery from the 1975 recession, went to pieces in 1981 and the economy sank into a severe depression which up to now has been extended and aggravated in 1982. In 1981 the rate of increase of the domestic product was little more than 1%, definitely below the growth rate of the population, and thus the per capita product of the region as a whole diminished for the first time in the whole of the post-war period.

/This deterioration

This deterioration was influenced by both internal and external factors. The former are linked to national policies which in some situations have proved inadequate and in others have intensified the negative effects of the present conjuncture and the world economic recession. Nevertheless, it is evident that in the context of the current functioning of the national economies, it is the external factors that appear as the most conspicuous determinants, in one direction or another, of the essential features characterizing the evolution of the Latin American countries.

Stagnation and inflation in the industrial countries and the world economic recession have simultaneously engendered negative effects on trade and external financing, thus disrupting the trends followed in the 1970s, when trade crises were less acute and could be weathered by making extensive use of external financing. Countries have been facing at one and the same time a contraction in the volumes of demand, a deterioration of the terms of trade, a rise in real interest rates, a fall in the supply of external financing and a notable increase in protectionism. By the end of 1981 and the beginning of 1982 a conjuncture could be discerned in which the following facts coincide:

(a) The external demand of the industrial countries slackened in consequence of the stagnation and contraction of their rate of growth; albeit many Latin American countries did manage, except in the recession years, to secure an appreciable increase in the volume of their exports through the operation of other factors and the diversification of markets, as is discussed later;

(b) Primary commodity prices fell, in nominal or real terms, owing to the above-mentioned slackening of international demand and in some cases to the liquidation of inventories because of the high rates of interest;

(c) The persistent inflation observable in the industrial countries, even though some of them are succeeding in reducing it, has brought about a deterioration in the terms of trade for the countries of the region in their commerce with the industrial countries. Simultaneously, in some cases, there has been a decrease in the foreign currency prices of certain Latin American export items which has been caused by devaluations and other measures to gain a footing and favourable competitive conditions in the industrial countries' markets. This trend towards a deterioration in the terms of trade has sharpened with the rise of petroleum prices for the petroleum-importing countries, especially in the years in which changes in those prices have taken place;

/(d) The

(d) The rise in interest rates has considerably increased the cost of the external debt that has been accumulating as a result of the heavy balance-of-payments deficits. In this respect a stage has been reached at which the increments in balance-of-payments deficits on current account are being determined by the exceptional increases noted in net profits and interest on external investment and indebtedness. These results are observable in some individual countries, and in the movement of the figures for the region as a whole;

(e) The restrictive policies prevailing in the industrial countries have helped to underline these countries' postulates to the effect that international co-operation and external aid should be granted in accordance with a principle of graduality or of discrimination between the developing countries. The same thing is advocated for special or preferential treatment in respect of trade and other matters. Thus, almost all the Latin American countries would be excluded from treatment of this kind, which would be reserved for the lower-income countries;

(f) There is a recrudescence of proposals and concrete decisions relating to the adoption of protectionist measures in industrial countries with the aim of preventing or limiting the access of Latin American countries to the markets for manufactures or semi-manufactures which are of particular interest to Latin America.

Despite the decline in the rate of economic growth and the measures adopted in many Latin American countries to contain or reduce the volume of imports, balance-of-payments deficits on current account have risen considerably, especially in the last few years, and in this way an accumulative process has been generated which is bringing external indebtedness to dangerous levels and situations. This state of affairs creates a veritable bottleneck which is preventing the recovery and acceleration of economic dynamism and a more stable evolution than that exhibited in recent years. In point of fact:

(a) The balance-of-payments deficits on current account of the region as a whole, which -as stated above- had been increasing significantly, have doubled in the last two years. They rose from 19 800 million dollars in 1979 to 38 600 million in 1981. In relation to the domestic product the deficits in question showed the highest indexes in the whole of the post-war period, in almost all countries. Thus, for example, in the majority of countries the balance-of-payments deficits on current account came to represent between 60% and 12.0% of the gross domestic product. Prior to the depression, at the beginning of the decade, the corresponding figures ranged only from 0.5 to 0.6%.

/(b) The

(b) The relation between net external financing and earnings from exports of goods and services has appreciably increased, reaching between 25 and 88% in the year 1981 in most countries;

(c) A feature which has been gaining in importance since the mid-1970s relates to the fact that external financing funds are increasingly provided by the international private banking system, on burdensome terms and conditions, particularly in respect of loan repayment periods and high rates of interest;

(d) The aggregate increase in profits and interest on external investment and debt is surprising. In the majority of countries these payments represented from 3.5 to 7.0% of the domestic product in the year 1981, whereas in the early 1970s the corresponding index was only 1.6%;

(e) This is due to the stepping-up of interest rates and the persistent increase in the external debt. The latter reached a sum of about 250 000 million dollars at the end of 1981, whereas only two years before, at the end of 1979, it had amounted to 170 000 million dollars. This debt is concentrated in a small number of large and medium-sized countries, but the debt accumulated by other medium-sized and small countries is also of particular relative importance;

(f) Another especially significant aspect of the problem is the effect of the deterioration in the national economies' terms of trade. If the benchmark adopted is the year 1975, by which time the increases in petroleum prices registered in 1973-1974 were already incorporated, the terms-of-trade effect came to represent a loss of 1.9% of the gross domestic product in many non-petroleum-exporting countries;

(g) In these circumstances, the adverse effect on the purchasing power or real value of exports of goods and services was very considerable. This would seem to indicate that, for some countries at least, the impact of the deterioration in the terms of trade and the swelling external profits and interest were factors carrying special weight in the balance-of-payments problems and the decline in the rate of growth.

The fall in the economic growth rate and the crisis which is affecting most of the countries of the region have immediate consequences in the shape of a worsening of social conditions for a great mass of the population. This is evidenced in the increase in unemployment and underemployment, in the decrease in real wages, in the persistence and accentuation of extreme inequality in income

/distribution, and

distribution, and in the maintenance of situations of extreme poverty and indigence by which a high proportion of the population is afflicted. It should be taken into account that in boom periods, or in times of greater economic dynamism, income or the fruits of economic growth are distributed very unequally and employment levels do not rise to the extent desirable. In phases of slow growth or economic crisis it is the lower-income sectors that are hardest hit by the adverse effects of this trend in the national economies. It is explicable, therefore, that in the framework of extremely inequitable societies like those of Latin America, social pressures are intensified and the factors making for instability increase.

C. THE INTENSIFICATION OF SOCIAL PROBLEMS AND TENSIONS

In the report prepared by the Secretariat for the most recent meeting of CEGAN, which contained the Regional Programme of Action to facilitate the application of the International Development Strategy, consideration was given to various aspects of economic growth, social change, social distribution of income, the scale and extent of poverty and the problems of unemployment.3/

It was stated in the report that Latin America had obviously undergone a very important and meaningful process of economic growth and social change since the war; but it was no less true, as the report immediately went on to add, that the nature of that process had led and still was leading to the shaping of highly inequitable societies. The most salient features of the development process prevailing in the region are revealed in a socio-economic structure which is characterized by a very high degree of concentration of wealth and national income in small segments of the population, a great mass of the population living in conditions of extreme poverty, and a frequently rapid expansion of the middle social strata.

The factors determining these structures or inherent therein are related in essence with the concentrative forces of the prevailing economic system, with private appropriation of the surplus, with the degree in which the latter is used to boost non-essential consumption in a process of incessant diversification, and with consumptive investment.

3/ Latin American Development in the 1980s, E/CEPAL/G.1150; E/CEPAL/CEGAN 5/L.3; April 1981.

/At the

At the beginning of the 1980s the Latin American governments stressed in the Regional Programme of Action the imbalance between economic and social progress. "Latin America has undergone a significant process of economic growth and social change since the war, but the nature of that process has led and still leads to the shaping of highly inequitable societies."4/ The rise in unemployment and the fall in real wages which are more and more in evidence in the Latin American countries at the present conjuncture give reason to apprehend a deterioration in the situation of the more disadvantaged groups. In these circumstances, it becomes necessary to reaffirm the guiding principles of social development contained in the Regional Programme of Action and to adopt measures intended to redistribute the cost of the crisis and to strengthen strategies designed to "increase production capacity, so that the structures of production and consumption can be transformed in order to meet the basic aspirations of the majorities for a better life".5/

4/ See "Regional Programme of Action for Latin America in the 1980s", in Economic and Social Council Official Records, 1981, Supplement No. 16, Report of the nineteenth session of CEPAL (E/CEPAL/G.1176), May 1981, p. 204, paragraph 12.

5/ Ibid., p. 215, paragraph 60.

/Chapter II

Chapter II

THE ECONOMIC PROGRESS, INDEBTEDNESS AND CHANGES IN EXTERNAL ECONOMIC RELATIONS

A. INTERRELATIONS BETWEEN EXTERNAL FACTORS AND THE NATIONAL ECONOMIC PROCESS

Industrial development, progress in the field of training, the expansion of production capacity and the changes in production and technology that have taken place in most of the Latin American countries since the Second World War might have been expected to reduce, at least in the large countries and in some of those of medium size, the degree of sensitiveness, vulnerability and dependence of national economies in relation to the action of external factors, particularly as regards the unfavourable effects and repercussions of the world economic recession and economic and technological trends in the industrial countries with which Latin America maintains the bulk of its economic and financial relations. And all this in view, above all, of the significant progress that has been made in the development of the productive forces of the national economies.

It is true that obviously, to a lesser degree, the countries of the region possess a capacity and a radius of government action of wider scope than in the past, as well as sounder infrastructure and support bases to defend themselves against the unfavourable impact of external factors. Most of the countries are clearly in a better position than at earlier stages, when specialization in primary production predominated in domestic activities and in exports; and better, too, than in the early phases of the industrialization processes.

It is no less obvious, however, that in the context of the Latin American countries' present insertion in the world economy and, in particular, of their relations to the economic and technological evolution of the industrial countries, the national economies are markedly sensitive, in one way or another, to external events, and display a high degree of vulnerability and structural dependence. And the area of the favourable or unfavourable effects and repercussions of external variables has been broadened by the application of more liberal policies, characterized by the increasing external openness which the countries have been promoting, although with great differences from one country to another in respect of the nature and scale of the openness of government attitudes and initiatives vis-à-vis external events.

/In other

In other words, there can be no doubt that as has already been said, the growth and the far-reaching economic, social and technological changes which have taken place since the Second World War have appreciably strengthened the economic capacity of the countries of the region and have broadened the area of government action, advances that might be regarded as the conquest of a measure of autonomy. But there is no getting away from the conclusion that a new vulnerability and a new dependence have been shaped, more complex and diversified than in the past, which in some respects may be considered to produce wider and profounder relative effects. Let a little thought be given, for example, to the risk and possible consequences of the financial situations of indebtedness and balance-of-payments deficits, as regards the vulnerability and dependence of the Latin American economies in relation to the power exercised at the present time by the international private banking system and world financial institutions.

One global aspect worthy of mention is the marked parallelism during the 1970s between the evolution of economic growth rates in the industrial countries and in the Latin American countries as a whole. In contrast, the biennium 1981-1982 is witnessing a disruption of a parallelism that had been characterized by the higher levels of Latin America's growth rates, and it is therefore especially important to describe these phenomena in depth. The growth rates of the gross domestic product of the seven largest industrial countries show a movement through time whose periods or phases are distinctly similar to those identified in the preceding chapter in the context of the evolution of the annual growth rates of the gross domestic product for Latin America as a whole. Thus, in broad outline, the following points may be stressed: (a) the industrial countries reached the culmination of a long period of rapid economic growth in the year 1973, when the product increased by more than 6% in relation to the preceding year; while at the same time Latin America prolonged its intense economic dynamism until 1974, in which year the gross domestic product rose by approximately 7%, with a heavy balance-of-payments deficit on current account; (b) the crisis loomed up in Latin America in the year 1974, when the growth rate was a little over 3.5%, while the industrial countries lapsed into a state of stagnation or economic recession in 1974-1975; (c) in 1975-1980 a moderate recovery took place, with an average growth rate of 5.5% in Latin America. In the industrial countries too there was a temporary recovery in economic growth, whose quantitative evolution is expressed in an increase of 5.2% in 1976 and an uninterrupted slide-down to 3.7% in 1979; (d) in the biennium 1980-1981 this decline sharpened in

/the industrial

the industrial countries, whose average annual growth rate was only a little more than 1%, while in Latin America the downward movement took place in 1981 with a variation in the region's gross domestic product very similar in scale to that recorded in the industrial countries; and (e) for the present year (1982) a contraction -possibly of some significance- in the domestic product of the region as a whole and stagnation in the industrial countries are expected.

In the context of these trends in the economic growth rates of Latin America and of the industrial countries it is useful to point out three clearly distinguishable aspects. One is the fact that during the 1970s the economic growth of the region as a whole was always kept at higher average levels than that of the industrial countries, and only in 1981 was an increase witnessed of very similar magnitude in the two areas and of slight relative significance. For 1982, a contraction in Latin America's gross domestic product is expected; on the contrary, in the industrial countries taken as a whole the economy is likely to remain virtually stagnant. Another feature is that the periods of stagnation, of depression or of little economic growth were of longer (one or two years') duration in the industrial countries than in Latin America. Now, however, the region will be completing two years of stagnation. And, lastly, the third general observation to be made is that both in the seventies and today the years of scanty growth or contraction occur in the context of a fall or decline of the real value of exports, resulting from a combination of the evolution of exports in terms of constant prices and the variations in the terms of trade. But in the latter period there has also been a considerable increase in the relative importance of debt servicing.

No claim is made that from these comparisons it is possible to derive a precise definition of the quantitative relation between the economic growth rates of our region and the evolution of the industrial countries; and still less to explain the inverse relation. And this not only because of the heterogeneity of the two aggregates, but, essentially, because economic and financial relations are more complex and diversified than could be inferred from such a comparison between the global growth rates; and, furthermore, for the very important reason that the economic strategies and policies which have prevailed in the industrial countries and in Latin America play a supremely important part in the nature and magnitude of the effects and repercussions on trends in Latin America that may be produced by the operation of the industrial economies and the world economic recession.

/Nevertheless, this

Nevertheless, this global comparative analysis -the results of which have been synthesized in the foregoing paragraphs- sheds a great deal of light on the position of the two areas in the dynamic context of the world economy and poses several questions as to the vulnerability and pronounced sensitiveness to external variables displayed by the Latin American economic process. The following paragraphs will pursue this topic farther.

To make headway in the present study a selection has been made of the principal macro-economic variables that are generally incorporated in global economic projection models, and their historical evolution since 1950 has been examined, with special and more detailed attention to the period extending from the most recent years of the past decade up to the present time. These variables are the following: (a) the gross domestic product; (b) real national income; (c) effects of the variation in the terms of trade; (d) net external financing, which is conventionally considered equivalent to the balance-of-payments deficit on current account; (e) exports of goods and services; (f) imports of goods and services; (g) profits and interest on external investment and debt; (h) public and private consumption; (i) gross domestic investment including inventory variations; (j) ex-post domestic saving, which, according to the conventional definitions, is equivalent to the surplus of real national income over total private and public consumption.

Obviously, an analysis of the interrelationships between these variables and those corresponding to external factors must be based on each individual country's experience, since, inter alia, national economic policies have not been uniform, and the evolution of the variables in question has also differed from one country to another; so has the operation of the respective national economies. Moreover, considerable influence is exerted by other well-known factors, such as economic and demographic size and the stage of development through which the various countries are passing. In this analysis, yet more than in others, the aggregation of countries incurs the risk of concealing precisely what one wants to know, that is, the specific experience stemming from the different economic policies that countries have adopted.

Consequently, in this part of the document general observations will be formulated, and in the following section comments will be made with respect to specific countries which have been selected with a view to the desirability of taking into account dissimilar national experiences. The essential aim of this analysis is solely to describe the course followed by the process, not to evaluate the policy pursued in each of the countries in question. For that purpose further information and other background material would be required.

/The information

The information and background material supplied by the research conducted bears on various essential aspects of the operation of the national economies in relation to external variables. The following are among the features to which allusion should be made: (i) relations between the domestic product and real national income; (ii) the degree of sensitiveness, vulnerability and dependence of national economies with respect to external factors; (iii) the borrowing process and trends in total domestic investment and consumption; (iv) the nature of the external bottleneck. This part of the analysis suffers from certain limitations inasmuch as it does not take into consideration other aspects of special importance, such as those relating to the countries' economic policies and in particular their trade policies; to living conditions; to the displacement of production technologies; and to the participation of transnational enterprises.

The decline in the growth rate of the domestic product during recent years has been accompanied by a considerable increase in payments of profits and interest on external investment and debt, and in many cases by losses in the purchasing power of exports attributable to the deterioration of the terms of trade. The substantial rise in external profits and interest is due to two factors: one is the larger scale of borrowing and the other is the marked upswing in interest rates. In this connection it is illustrative to point out that in a group of sixteen countries, which does not include Ecuador, Bolivia, and Venezuela, net payments of profits and interest represented in 1981 3.6% of the gross domestic product, whereas in the 1950s and 1960s the corresponding percentage was not as much as 1.5%.

The significance of the amount of such payments becomes more clearly apparent if it is taken into account that the proportion of gross domestic investment they represented was as high as 15%. There are many countries for which the relative importance of these transfers was still greater than for the sixteen countries as a whole. These relations, because of the substantial changes that have taken place in them, are in marked contrast to those prevailing in the early 1970s. If, moreover, the effect of the deterioration in the terms of trade is superadded, an even higher figure would be reached which may be interpreted as a major erosion of the gross domestic product of many non-petroleum-exporting countries; since to determine real national income both the concepts under discussion must be deducted from the domestic product. According to one estimate of what the terms-of-trade effect plus payments of profits and interest will have signified in 1981, the gross domestic product will have decreased by 5.5% for a group of 15 non-petroleum-exporting

/countries, excluding

countries, excluding Mexico and taking 1975 as the base year for the terms of trade. This reduction represents one-fourth of the amount of those countries' gross domestic investment.

In chapter I a description was given of the evolution of the economic growth rate of the countries of the region and the course simultaneously followed by some external variables, and, in the preceding paragraphs, an attempt was made to outline the similarity between the evolution of the annual economic growth rate of the region as a whole and the growth rates of the domestic product for the group constituted by the seven largest industrial countries. With respect to this latter piece of research, it is very important to recall that while throughout the whole of the 1970s the average level of Latin America's economic growth rate stood higher than the annual growth rates of the domestic product of the industrial countries, in 1981, for the first time, Latin America showed a growth rate of little significance which virtually coincided with that of the industrial countries; while for 1982 a contraction in the absolute levels of Latin America's domestic product is anticipated, just when the industrial countries, taken as a whole, will be experiencing a positive evolution, although on a very modest scale. These recent trends are yet another indication of the depth of the crisis that is affecting the region.

Generally speaking, and with particular reference to the non-petroleum-exporting countries of Latin America, the interrelationships between external factors and rate of economic growth might be synthetized in accordance with the same periods that were used in describing the global evolution of the economy in chapter I.

(a) In the early 1970s the marked dynamism of economic growth was spurred by a deliberate national policy of growth which was reinforced by an expansion of exports and a simultaneous improvement in the terms of trade.

(b) In the biennium 1974-1975 exports of goods and services remained static and the terms of trade considerably deteriorated. These unfavourable factors made their influence felt in 1975 and the economic growth rate was relatively low in comparison with that corresponding to the preceding period. The countries tried to keep their growth rates up to a certain level and resorted to external borrowing and partly to their reserves to cope with the balance-of-payments deficit. A policy was thus initiated which attempted to maintain a fairly dynamic economic process on the basis of external loans, access to which was relatively easy because of the

/expansion of

expansion of available international resources generated by the balance-of-payments surpluses of the petroleum-exporting countries.

(c) During the period of moderate recovery which extended up to the end of the 1970s, the economic scene was characterized by the following features:

(i) a deliberate export promotion policy was pursued, export growth rates were high, but, at the same time, external borrowing to finance the balance-of-payments deficits continued to increase, especially in the later years of the period;

(ii) the servicing of this debt ultimately proved to be very difficult to absorb, especially in view of the rise in interest rates;

(iii) the deterioration of the terms of trade did considerable harm to many countries of the region; and

(iv) payments of interest and profits increased, representing growing proportions of the domestic product in almost all the countries of the region.

(d) In 1981 and 1982 this economic and financial process has reached a crisis: the most characteristic features of the existing situation are essentially the following:

(i) difficulties in continuing to step up external borrowing;

(ii) a considerable increase in debt services, which represent very high proportions of current export earnings; and

(iii) unfavourable prospects for export expansion owing to the prolongation of the crisis in the industrial countries and at the world level.

These aspects of the interrelationships between external factors and the national economic process might be considered, in part at least, of a conjunctural character. But the key question of the vulnerability and dependence of the rate of economic growth is essentially a matter of the asymmetry in the economic and technological structure of domestic production and of the trade flows between developing and industrial countries.

In reality, the Latin American countries, despite the progress made in the economic and technological diversification of their domestic production and of their sales abroad, are exporters of primary commodities with differing degrees of processing and of manufactures with a low technological content; whereas their imports from the industrial countries comprise intermediate products that are

/essential for

essential for economic activity and capital goods required for the establishment of basic infrastructure and for capital accumulation to increase production capacity and make headway in the incorporation of technological innovations. In these circumstances, when the capacity to import is reduced, and taking into account the policy resolved upon in relation to external financing and the terms for its use, national economic policy is confronted with several independent or complementary options, namely:

(a) promotion of a decline in domestic demand in order to reduce imports, which as is common knowledge, has a high social cost in terms of employment and income distribution, besides the fact that such a policy may take a long time to produce the results hoped for;

(b) containment or selective control of imports to limit purchases of non-essential goods from outside, to which end the adoption of specific policies and measures is necessary;

(c) deliberate policies to promote a greater expansion and diversification of exports, although they may have no immediate effect of much significance; and, lastly,

(d) promotion of an efficient industrialization policy, which, of course, transcends a short-term conjunctural problem and is identified with the basic and essential aspects of the national economy's development strategy and economic and technological transformation.

Over the short term, and especially when there is no significant margin of compressible imports, economic policy generally tries to avoid a contraction in supplies of imported intermediate products in order not to affect the level of economic activity and employment; and this would mean applying restrictions to imports of capital goods, which, in their turn, would affect the formation of production capacity for the immediate future.

Another topic of special relevance for conceptual propositions on development strategy and for the praxis of economic policy is the analysis of the relative changes that might take place in the course followed by domestic investment and total consumption, when variations occur in external financing, which in these analyses may be considered as the contribution of external resources to the formation of the total mass of available goods and services.

/In this

In this connection, it is worth clarifying the point that the amounts of external financing tend to be absorbed, at least to a large extent, by remittances of external profits and interest (although this situation varies from one country to another), and that in these circumstances external transactions, despite the swollen balance-of-payments deficits, do not make any real contribution to the total supply of available goods and services, especially in cases where the amount of financing is equivalent to the payments of profits and interest.

In the more general case in which external saving really does contribute with an inflow of real resources to the total supply of goods and services, there is nothing to guarantee that in the economic process this contribution will be reflected in an increase in the relative participation of domestic investment in total goods and services, and a decrease in the share of total consumption. As a matter of fact, the research carried out shows that several situations may arise in different countries, as well as within one and the same country. Thus, while numerous cases are found, particularly among countries with a high degree of economic dynamism, in which the growth of net external financing is accompanied by an expansion of imports and an increase in the participation of domestic investment in total goods and services, there are also many instances in which this does not happen. Hence it would seem that in the experience of several countries external indebtedness went hand-in-hand with an increase in production capacity, while elsewhere it was accompanied by a process through which, to some extent, a larger share fell to total consumption, or the pre-existing relative distribution was maintained.

B. SOME SALIENT FEATURES OF THE INTERRELATIONS BETWEEN THE EXTERNAL SECTOR AND THE NATIONAL ECONOMIC PROCESS IN A GROUP OF COUNTRIES

1. The case of Brazil

Brazil's experience clearly shows the interrelations between the economic process and external variables in the context of different stages of development and of the strategies and policies adopted in each of these. In the course followed by economic development since the Second World War three phases can be identified:

(a) The so-called "import substitution" phase, which extended up to the mid-1960s, and during which the growth of imports and exports was on a much smaller scale than that of the gross domestic product. The latter rose during the period in question at an average annual rate of a little over 6%;

/(b) From

(b) From the mid-1960s up to 1974, the Brazilian economy attained peak indexes of economic development. So dynamic was it that the gross domestic product increased at an annual rate of approximately 8.5%. In the framework of this intense dynamism the economy underwent sweeping changes in production and technology and exports and imports expanded even faster than the domestic product.

(c) From the mid-1970s up to the present time, the rate of economic growth has declined; although its average level remained relatively high during the period 1970-1980 (an average annual rate of 6.5%), it dropped in absolute terms in 1981 (1.9%). The fragmentary data available suggest that very probably the gross domestic product will continue to stagnate in 1982. The factors that most conspicuously influenced this evolution in recent years are undoubtedly the high balance-of-payments deficit on current account, which led to a substantial increase in the external debt; the heavy financial servicing of this debt, augmented by the rise in interest rates; and the negative effect of the deterioration in the terms of trade.

The action of these various factors has created a typical external bottleneck in Brazil's economic development process. And the most significant aspect of this situation is the fact that the external constraint does not originate in a slackening of exports, since the growth of these was speeded up and diversified; nor does it lie in an expansion of imports, which, on an average, remained static or increased only slowly as from 1975; rather has it been determined by the servicing of the heavy external debt and the unfavourable evolution of the terms of trade. The figures bear eloquent witness to this situation. In 1981, payments of external profits and interest alone represented 3.2% of the product, whereas in the 1950s and 1960s the corresponding proportion had not exceeded 1%. Moreover, the effect of the deterioration in the terms of trade (on the basis of 1975 prices) was equivalent to 3.7% of the product in the year in question. As for net external financing in 1981, it amounted to 3.7% of the product, a proportion exactly the same as that of payments of profits and interest. This exposes the vicious circle into which the flow of external financing is sinking: payments of profits and interest and a further increase in debt.

Another aspect of special interest is the evolution of gross domestic investment, domestic saving and total public and private consumption in the context of the various phases of Brazil's economic development. From this evolution some essential conclusions may be drawn:

/(a) The

(a) The coefficient of the relation between gross domestic investment and the product tended, as was to be expected, to rise with the speeding-up of the growth rate of the domestic product, and to diminish in the second half of the 1970s when the rate of economic growth declined. This trend sharpened in 1981 with the contraction of the product and investment in absolute terms. In brief, the gross domestic investment coefficient, which had been 24% in the early 1970s, climbed to 30% in 1974 and fell to approximately 22% in 1981; (b) as a general rule, increases in this investment coefficient occurred in the context of an economic process which stepped up the use of external financing and increased the product-elasticity of imports; (c) in these circumstances, during the first half of the 1970s the coefficient of domestic saving tended to rise, revealing a marked dynamism in the mobilization of national resources. In contrast, in the second half of the decade this coefficient gradually declined, along with the investment coefficient, while the coefficient of net external financing remained relatively high. The gross domestic saving coeffient was 21% at the beginning of the decade, rose to approximately 24% in the mid-1970s and dropped to 18% in 1981; while since the mid-1970s imports of goods and services have expanded very slowly or decreased in absolute terms, as happened in 1981. This is another typical element in the bottleneck that is affecting the Brazilian economy.

2. The case of Costa Rica

The economy of Costa Rica is characterized by a relatively high degree of openness as regards its external trade flows. In 1981 the value of exports amounted to over 30% of the gross domestic product, and the figure is the same for imports. Another important feature is the relatively large scale of external financing, which since the 1970s has come to represent about 10% of the gross domestic product (at 1975 prices); this means, in comparative terms, half of the gross domestic investment coefficient.

The rate of economic growth tended to accelerate in the 1960s and up to 1974. During the period 1964 to 1974 the gross domestic product showed an average annual growth rate of 7.2%. This trend took a drastic turn for the worse in the second half of the decade, when the annual growth rate was a little more than 5%; it remained static in 1980 and in 1981 contracted in absolute terms by 3%.

/During its

During its period of greatest dynamism, Costa Rica's economic process was characterized by a very high growth rate of imports (an annual average of 9%), and by an even more rapid expansion of exports (an annual average rate of 11%). In contrast, as from the mid-1970s, exports slackened appreciably, although with very irregular fluctuations, as was equally true of import flows. In any event, indexes of external financing in relation to the product reached very significant relative figures, which implies a substantial increase in the external debt.

The other factor which had a powerful influence on the balance-of-payments deficit was the sum represented by profits on foreign investment and interest on the increasing external debt. These remittances, as a whole, rose from a little over 2% of the gross domestic product in the early 1970s to almost 7% in 1981.

The investment coefficient increased over the long term and remained at relatively high levels throughout the second half of the 1970s, despite the decrease in the rate of economic growth. In 1981, however, it underwent a drastic contraction. From a figure of 25%, which roughly represents the average for the decade, it dropped to 18%, while domestic saving accounted for only about 50% of total gross investment.

3. The case of Mexico

Throughout the years following the Second World War the Mexican economy showed a long-term economic growth trend reflected in an average annual rate of a little over 6.5%. Naturally, in the course of this trend through time, the dynamism of the economy underwent spells of decline and invigorization. Thus, in the biennium 1976 to 1977 the annual rate of economic growth fell short of 4%, while in the subsequent years it exceeded 8%. This dynamism was largely given impetus by the production and export of petroleum, and was accompanied by massive increases in gross domestic saving. The productive and technological transformation of the Mexican economy, in its turn, developed in the context of a pattern of profound changes in the nature and structures of the country's external relations.

During a first phase, up to the mid-1960s, imports and exports increased less than the domestic product, shaping the familiar pattern of "import substitution"; during the 1970s, in contrast, external relations broadened out considerably. This was largely due to the growing importance of petroleum exports and the consequent improvement in the terms of trade. At the same time, an expansionist policy,

/promoted by

promoted by the inflow of capital and the liberal use of external financing, generated a considerable increase in imports during the second half of the decade, to such an extreme that their annual percentage growth was 2, 3 and even 4 times as high as the growth rate of the domestic product, particularly in the years 1980 and 1981.

Gross domestic investment (including inventory variations) increased considerably during the 1970s. Its coefficient in relation to the gross product rose from 20.8% in the early years of the decade to 28.6% in 1981. At the same time, the relation between net external financing and the domestic product increased from 2.3% to 6.4% in the years mentioned. Thus in 1981, the balance-of-payments deficit showed the highest absolute and relative figure in the whole of the period since the Second World War.

In these circumstances, gross domestic saving also rose, from 18.5% to 22.3%. Thus, the participation of gross domestic investment in the total supply of goods tended to increase, while at the same time the use of external financing showed an upward trend.

The growth of the balance-of-payments deficit on current account led to the gradual accumulation of a considerable external debt. External profits and interest alone represented in 1981 4.2% of the gross domestic product, while in the early 1970s the corresponding figure had been only 1.4%. Furthermore, total servicing of the external debt, together with profits on foreign investment, today absorb 54.3% of current export earnings. This indicates an extremely inflexible situation with respect to Mexico's external accounts, particularly because of the relations that have to be maintained between the evolution of external debt servicing and the growth rate of exports.

4. The case of Peru

To judge by estimates of the gross domestic product at constant 1975 prices, the Peruvian economy attained, over the long term, an average annual growth rate of 5%, throughout both decades of the period 1950-1970. This rate declined during the 1970s to an annual average of 3.5%, which improved somewhat in 1981 (4.4%).

In the 1970s imports, which in the past had increased faster than the product, especially during the 1960s, fluctuated very irregularly in one direction or the other: during the second half of the decade they declined in some years and in others increased considerably, particularly in the three-year period 1979 to 1981.

/Exports also

Exports also showed a marked instability, which up to a point is inherent in the nature and trade flows of the country's principal export products, especially fish meal. This instability, which results in significantly wide fluctuations over the short term, detracts from the meaningfulness of comparisons between extreme years. Even so, the figures at constant 1975 prices suggest that net external financing increased appreciably during the 1970s, and also in 1981. It is estimated that on an average the financing in question represented over 3% of the gross domestic product in the 1970s and approximately 7% in 1981.

This instability of the external variables affecting the Peruvian economy is also reflected in sharp fluctuations in the gross domestic investment coefficient. Generally speaking, historically this coefficient tended to decline, and there are signs of the same trend in the second half of the 1970s. A similar behaviour pattern is to be seen in the coefficient of domestic saving in relation to the gross domestic product.

The rising trend of the balance-of-payments deficit resulted in a considerable increase in the external debt, so that payments of profits and interest on foreign investment and the external debt came to represent 3.2% of the domestic product in 1981, whereas at the beginning of the decade this relation had been 1.8%.

/Chapter III

Chapter III

ECONOMIC PROSPECTS OF LATIN AMERICA, REGIONAL CO-OPERATION AND SOME ASPECTS OF INTERNATIONAL CO-OPERATION

A. ECONOMIC PROSPECTS OF LATIN AMERICA

The Regional Programme of Action for the 1980s, adopted at Montevideo, expresses the region's main aspirations in respect of socio-economic development. The attainment of the objectives and targets which the governments have set themselves is based on a strategy of economic and social transformation which envisages significant changes in Latin America's position in the international economy, in economic relations between the countries of the region and with other developing areas and in the socio-economic structure of the Latin American countries.

Now that the first two years covered by the Regional Programme of Action have elapsed, it can be seen that the international situation, far from changing in a direction favourable to economic dynamism combined with better-balanced external accounts, has swung the opposite way, and its evolution has come to be a very significant element in the recession affecting the Latin American countries. In these circumstances, the importance of many of the proposals of a regional character contained in the Programme is reinforced. Thus, in so far as the signs of international co-operation continue to be discouraging, the Latin American countries will obviously have to channel increasing proportions of their production and trade towards the markets of the region and of the rest of the developing countries, as well as towards their own domestic markets. A recovery in the developed countries' production and in world trade would undoubtedly facilitate the tasks in hand, but it clearly cannot become the indispensable requisite for the Latin American countries to regain their economic dynamism.

In the earlier chapters of the present document the repercussions of the world recession on the Latin American countries were discussed. The data for 1981 and the provisional information available for 1982 show that external disequilibria have radically weakened economic growth and have had serious effects on the social situation. In these circumstances, changes in policy have come about which, with greater or lesser degrees of emphasis, are switching the possibilities of reactivation to the domestic and regional markets. A process of negotiation of external financing transactions is also under way, its aim being to make the balance-of-

/payments situation

payments situation manageable. But even if progress is achieved in the fields of trade and finance, it seems hardly likely that the general recessive effects transmitted from the developed world can be significantly counteracted in 1983. Accordingly, the following review of prospects is based on the assumption of a more important recovery as from the biennium 1984-1985, as a step towards greater acceleration of economic dynamism in the second quinquennium of the 1980s.

The normative objectives and targets pursued by the region were clearly established in the Regional Programme of Action, and there is no intention here of preparing new projections of that kind. It has been thought useful, however, to present two exercises of a preliminary type whose sole purpose is to offer provisional orders of magnitude in respect of the effects that would be produced by a recovery of economic dynamism on the main internal and external macroeconomic factors of equilibrium. Basically, the exercises differ from each other in their assumptions as to the economic evolution of the developed countries and of world trade. Obviously, the more vigorous the reactivation of the developed economies, the better are the chances that the second quinquennium of the 1980s will usher in a dynamism more similar to that contemplated at the Third Meeting of the Inter-American Development Bank (IDB).

In the period 1983-1985 a moderate reactivation is expected, which would enable the region to attain average growth rates somewhat below 4% for the period 1981-1985. If this recovery were to be combined with a growth rate of about 6% during the second quinquennium, the average rate for the whole decade would approach 5%. If, as already stated, the growth rate achieved in the second quinquennium were slightly higher than 7%, the decade would end with an average of approximately 5.6% (see table 1).

The mere study of these aggregate figures reveals how deeply the region would be affected by the crisis. There can be no doubt that the reduction of the average economic growth rate for the decade will have profound repercussions on the economic and social situation.

In the economic field, it will be necessary to cope with a state of indebtedness that will weigh heavily on the external accounts for a lengthy period, which will unquestionably be prolonged in so far as external demand and the terms of trade fail to recover. Similarly, the producer sectors will have to readapt themselves to new demand and supply conditions.

/Table 1

Table 1

LATIN AMERICA (19 countries): a/ DISTRIBUTION OF GROSS DOMESTIC PRODUCT AND EVOLUTION OF THE EXTERNAL SECTOR

(Annual growth rates)

(Percentages) b/

Year	Gross domestic product	Gross domestic investment	Total consumption	Export of goods and services	Import of goods and services	Terms-of-trade effect	Net payment of profits and interest	Net external financing c/
1970-1980	5.9	7.4	6.3	4.2	8.6	-	8.2	12.1
1981	1.1	-1.2	0.6	7.8	1.7	-	41.2	29.5
				A				
1981-1985	3.8	4.7	3.1	4.6	2.5	-	6.1	-0.5
1985-1990	6.0	4.9	6.2	7.1	6.2	-	3.7	0.7
				A 1				
1981-1985	3.8	4.7	3.1	4.6	2.5	-	1.3	-4.4
1985-1990	6.0	4.9	6.2	7.1	6.2	-	2.5	-1.2
				B				
1981-1985	3.8	4.7	3.1	4.6	2.5	-	6.1	-0.5
1985-1990	7.1	8.9	6.3	8.5	7.8	-	4.1	3.1

Source: CEPAL, on the basis of official data.

Note: "A" exercise assuming recovery of the growth rate of the gross domestic product of the 1970s in the second half of the 1980s.

"A 1" corresponds to exercise "A" plus the hypothesis of an average decrease in interest rates from 12% to 10% in the decade, and maintenance of export requirements.

"B" exercise assuming recovery and acceleration of the growth rate of the gross domestic product during the second half of the 1980s.

a/ Not including Cuba or the English-speaking countries of the Caribbean.

b/ Of values at 1975 prices.

c/ Including net private donations.

/In the

In the social aspects of the situation, setbacks in terms of employment and distribution have occurred in the two-year period which will be far from easy to reverse. An accentuation of the social orientation of policies thus becomes indispensable, both for reasons of equity, and as an indispensable requisite for the reactivation of the domestic markets.

At the opening of the 1980s, the secretariat drew attention to the nature and magnitude of employment problems. To these difficulties, significant in themselves, must now be added the consequences of the virtual non-existence of economic growth in 1981-1982. It is estimated that in this biennium the labour force increased by about 5.5%; for the mere reason that there has been no increase in job opportunities a rise of about 5 points should be expected in the percentage of overt unemployment. Moreover, the crisis has compelled some enterprises to step up their productivity and others to declare themselves bankrupt and close down altogether. Thus, even if as from 1983 a level of activity were regained similar to the 7% which secretariat studies assumed necessary to absorb the growth of the labour force and gradually reduce underemployment, the period 1983-1990 would start with a backlog of overt unemployment amounting to more than 10%. Given the present style of development many years of rapid economic growth will be needed for the productive absorption of this contingent of human beings that has been cut off from job opportunities. Although part of this group may possibly find forms of underemployment which are not reflected in overt unemployment statistics, it is indispensable to reinforce the employment policies contained in the Regional Programme of Action in order to tackle so serious a problem.

The fall in real wages is another source of profound concern. To set up this reduction as a condition for an increase in employment and domestic saving might have adverse effects on the role that it is desired to assign to the domestic market in economic recovery, and on the social objectives postulated for the development process. What seems essential in this respect is a simultaneous revision of policies relating to the consumption and saving of the upper income strata and of the government. The consolidation of a domestic market, in which the participation of the broad masses and the process of capital accumulation acquire increasing importance and a high degree of permanence, will be a decisive factor in the definition of policies concerning real wages, saving and investment.

/The degree

The degree of dynamism postulated in the exercises will call for growth rates of saving and investment which resemble or somewhat exceed those recorded over the long term. Of course, to reach investment percentages ranging from 24% in 1990 according to the first exercise to 27% in 1990 according to the second exercise, will imply extra effort in view of the deterioration shown by the initial situation today (see table 2).

These amounts of investment represent, moreover, a component of demand of the greatest importance for development strategies in which regional integration will play a more important part than in the past. The investment required in 1990 for the 19 countries under consideration to attain the growth rate for the gross domestic product envisaged in the first exercise (5.0%) would be about 170 000 million dollars at 1975 prices; and this investment figure would rise to 204 000 million dollars if the targets established in the second exercise were to be reached (see table 3). The size of investment requirements reflects a significant potential demand which would have to be taken into account in drawing up any industrial complementarity or intra-regional co-operation programme.

Similarly, the speeding-up of the growth rate will necessitate appreciable increases in domestic saving. By the end of the decade the coefficient in relation to the domestic product would exceed 20% and 23% in the two exercises, and this would require annual growth rates of 5.8% and 8.1%, respectively, as from 1981. It should be noted that this increment in domestic saving is indispensable if, as will be presently explained, the relative importance of the external debt is to be appreciably reduced.

One of the central problems with which the Latin American countries have to cope in the present economic conjuncture is the critical balance-of-payments situation, whose characteristics have already been discussed in some detail. In this context, it is useful to explore a few lines of policy which may facilitate placing the region on a new footing in the international economy, reducing the impact of external pressures, and undertaking joint action at the regional level whereby Latin America will be enabled to meet the challenge of the existing situation.

In external relations three broad areas of action are generally distinguished in which measures could be adopted to further an appreciable improvement in the delicate situation of the Latin American external sector: (i) international trade, (ii) external financing and (iii) international co-operation. In the field of

/Table 2

Table 2

LATIN AMERICA (19 countries):a/ DISTRIBUTION OF GROSS DOMESTIC PRODUCT AND EVOLUTION OF THE EXTERNAL SECTOR

(Percentages of gross domestic product) b/

Year	Gross domestic product	Gross domestic investment	Total consumption	Exports of goods and services	Imports of goods and services	Terms-of-trade effect	Net payment of profits and interest	Net external financing c/
1970	100.0	21.7	75.5	15.6	12.8	-3.0	1.9	2.2
1980	100.0	24.9	78.3	13.3	16.5	1.7	2.4	3.9
1981	100.0	24.3	78.1	14.2	16.6	0.8	3.4	5.0
				A				
1990	100.0	23.9	76.6	15.4	15.9	0.5	3.3	3.3
				A 1				
1990	100.0	23.9	76.6	15.4	15.9	0.5	2.6	2.5
				B				
1990	100.0	27.4	73.3	15.6	16.3	0.6	3.2	3.5

Source: CEPAL, on the basis of official data.

Note: "A" exercise assuming recovery of the growth rate of the gross domestic product of the 1970s in the second half of the 1980s.

"A 1" corresponds to exercise "A" plus the hypothesis of an average decrease in interest rates from 12% to 10% in the decade, and maintenance of export requirements.

"B" exercise assuming recovery and acceleration of the growth rate of the gross domestic product during the second half of the 1980s.

a/ Not including Cuba or the Englis-speaking countries of the Caribbean.

b/ Of values at 1975 prices.

c/ Including net private donations.

/Table 3

Table 3

LATIN AMERICA (19 countries):a/ DISTRIBUTION OF GROSS DOMESTIC PRODUCT AND EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at 1975 prices)

Year	Gross domestic product	Gross domestic investment	Total consumption	Exports of goods and services	Imports of goods and services	Terms-of-trade effect	Net payment of profits and interest	Net external financing b/
1970	253 930.7	55 206.7	191 704.9	39 547.4	32 528.3	-7 692.3	4 941.3	5 615.1
1980	451 011.7	112 423.5	352 982.3	59 902.3	74 296.4	7 740.4	10 894.6	17 549.0
1981	456 127.2	111 031.6	356 124.5	64 555.4	75 584.3	3 688.2	15 385.8	22 724.9
					A			
1985	529 143.6	133 280.6	401 976.4	77 176.0	83 289.8	3 134.9	19 473.9	22 286.6
1990	707 776.3	169 129.4	542 111.7	108 894.2	112 358.7	3 790.5	23 408.4	23 034.3
					A 1			
1985	529 143.6	133 280.6	401 976.0	77 176.0	83 289.8	3 134.9	16 179.6	18 992.5
1990	707 776.3	169 129.4	542 111.7	108 894.1	112 358.7	3 790.5	18 349.2	17 855.8
					B			
1985	529 143.5	133 280.6	401 976.4	77 176.0	83 289.8	3 134.9	19 473.9	22 286.6
1990	745 015.0	203 871.9	546 215.0	116 138.7	121 210.2	4 524.1	23 759.0	25 918.5

Source: CEPAL, on the basis of official data.

Note: "A" exercise assuming recovery of the growth rate of the gross domestic product of the 1970s in the second half of the 1980s.
"A 1" corresponds to exercise "A" plus the hypothesis of an average decrease in interest rates from 12% to 10% in the decade, and maintenance of export requirements.
"B" exercise assuming recovery and acceleration of the growth rate of the gross domestic product during the second half of the 1980s.

a/ Not including Cuba or the English-speaking countries of the Caribbean.

b/ Including net private donations.

/international trade,

international trade, measures should be directed towards a decisive increase in export earnings, either through expansion of the volumes exported or through an improvement in prices, or through both these things at once; attention should also be devoted to the region's possibilities of supplying increasing percentages of imports with a satisfactory degree of economic efficiency. In the area of external financing, it is indispensable to call for a redefinition of the conditions (loan periods and rates of interest) on which these resources have been transferred to the Latin American countries. Lastly, in the sphere of international co-operation, the region should take concerted action to obtain better contitions of access to the markets of the industrialized economies, and should intensify intra-regional collaboration and co-operation with other countries of the Third World. As this last area to a certain extent overlaps the first two and possible propositions are closely linked to those put forward in respect of them, the analysis will be focused on the first two aspects in question.

Obviously, solutions based on the expansion of international trade would tend to give the region a greater degree of autonomy than those that postulate a moratorium in the servicing of the external debt, since they have more to do with the countries' own decisions. They depend not only upon the capacity to generate increasing flows of exportable products, but also, and to a large extent, on concerted intra-regional action. The first requisite is linked to the creation and adaptation of domestic production capacity which will allow of a more vigorous and diversified export drive; thus, an indispensable step is the strengthening of the economic structure and its readjustment in this direction. The other requirement is regional integration and co-operation, which must be regarded as an essential component of the dynamism of exports, both from the standpoint of the broadening of markets, through regional co-operation, and from that of united action and adoption of joint policies in trade negotiations with the industrialized countries.

These two aspects have already been underlined in the Regional Action Programme in the context of the need to boost export earnings. In the projections prepared to that end 6/ attention was drawn to the changes in the composition and destination of exports that were needed to make this increase in earnings possible.

6/ Latin American Development Projections for the 1980s (E/CEPAL/G.1158/Rev.1), United Nations publication (Santiago, Chile), April 1982.

/Another point

Another point emphasized was that manufactures ought to be the most dynamic Latin American export item, and that efforts to boost them would have to be based mainly on intra-regional trade.7/ Moreover, a significant effort would have to be made to increase exports of primary commodities and fuels, to expand trade with other developing areas and with the socialist countries and to secure a more co-operative attitude on the part of the industrial countries.

The radical deterioration in the terms of trade which took place in 1981-1982 has placed the region in an extremely delicate situation. The greater the recovery in the prices of Latin American exports, above all those of primary commodities, the easier it will be to cope with the balance-of-payments problems. This latter possibility, however, is largely outside the range of the region's power of decision. In contrast, the expansion of intra-regional trade depends to a great extent on internal decisions. In so far as the pertinent targets set up in the Regional Programme of Action are attained, a change in the terms of trade should occur in consequence of the greater asymmetry that foreign trade would acquire.

As regards net external financing, possible lines of action are to a very great extent conditioned by the region's present situation of indebtedness. The high levels of the external debt and its servicing clearly reveal the impossibility of keeping up the trend which net external financing has been following in recent years. Consequently, possible measures would have to be directed towards relieving pressure on the balance of payments through a change in the terms of the existing debt and an inflow of new credits which, by virtue of the special terms on which they were extended, would not result in additional pressure.

The foregoing aspects have been taken into account in the projection exercises cited, with the aim of bringing them to the fore, establishing certain orders of magnitude of external macroeconomic relations and analysing their possible implications.

The projections have established the reduction of relative levels of indebtedness as an essential condition for a more balanced management of external accounts. To that end a gradual decrease in the external-financing product ratio is assumed,

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7/ The proportion of total exports for which manufactures account would have to rise from 15% at the present time to 42% in 1990, which would require annual growth rates of about 17%. Intra-regional trade, on its part, would have practically to double its participation.

/so that

so that by 1990 the percentage in question would be more or less similar to the average for the 1970s. That is, in Latin America's case the proportion referred to would decline from 5.0% of the gross domestic product in 1981 to 3.4% in 1990. This proposition is complemented by another restriction which postulates that debt servicing should not exceed a predetermined proportion of the value of exports. Secondly, it is assumed that the terms of trade will remain constant at their 1981 level, which constitutes a relatively pessimistic hypothesis, based on the observations made in earlier paragraphs. A final hypothesis is that the terms of the external debt as regards loan periods and rates of interest will more closely resemble those of the second quinquennium of the 1970s than those of today, which implies accepting that the region will have some degree of success in the negotiation of its debt.

The internal repercussions of this relative decrease in external financing would be reflected, as already pointed out, in a rise in the levels of domestic saving. In this connection, it should be noted that the participation of saving in the financing of total gross investment would climb from the level reached in 1981 (almost 80%) to 86% and 87% in 1990, in the first and second exercises, respectively.

Within the frame of reference described, in both exercises imports would grow at the very slow rate of 2.5% up to 1985. This would reflect on the one hand the effects of the recession on the countries' foreign trade, and, on the other, the restrictive policies that have been applied on account of the familiar balance-of-payments problems. After 1985, given the speeding-up of economic growth and the improvement of terms that are postulated, import requirements to sustain this growth will be considerably greater. For the region as a whole, their annual rate of increase would have to be higher than that of the gross domestic product: i.e., 6.2% in the first exercise (against 6% for the product) and 7.8% in the second exercise (7.1% for the product). These rates imply, however, a decline in the long-term product/elasticity of imports (see table 1).

The exports projected are such as would correspond to the earnings required for financing the imports in question and attaining the expected level of net external financing. These amounts necessitate relatively high growth rates in both exercises. In the first they are reflected in an annual rate of 6.0% in the period 1981-1990, and in the second the rate rises to 6.7%. It is worth noting

/that the

that the necessary rate of expansion of exports fits fairly easily into the export potential developed by the region in recent years; it must not be forgotten, however, that measures and decisions in international trade are of a multilateral character, which makes it indispensable to strengthen the system of international co-operation if the goals established are to be reached.

Export expansion requirements are determined not only by the relatively high economic growth rates which are postulated for the second quinquennium, and which are reflected in large volumes of imports, but also by the heavy external debt accumulated and the high interest rates in force. The accumulation of the external debt has generated services which call for abundant export earnings to meet the targets established with respect to external financing. Analysis of the period 1981-1985 makes this clear. As already said, imports would have to increase by only 2.5% a year, whereas exports would need to do so by 4.6%. If it is taken into account that in 1981 the servicing of the external debt absorbed about 40% of current export earnings, it becomes obvious that a relation of this magnitude cannot be kept up without aggravating the already delicate balance-of-payments situation; hence the proposal that it should be reduced to about 35% by the end of the decade (see table 4).

The restrictions imposed on net external financing in relation to the product, and on the servicing of the external debt in relation to export earnings, necessitate -as has been pointed out- a major effort to increase exports. But such an effort is inevitable if Latin America's external sector is to be placed on a sound footing and the bases are to be established for achieving an economic growth less vulnerable to external vicissitudes. Although it might be possible to obtain more external financing than is projected in these exercises, requirements in respect of export earnings would not appreciably decrease, because of the high percentage which is tied up in the servicing of the external debt and which is precisely what it is proposed to reduce. In this connection it should be pointed out that even with the severe restrictions imposed on external financing, the servicing of the external debt would rise by 1990 to about 175 000 million dollars, a sum almost four times as large as that paid out at present (see table 5).

/Table 4

Table 4

LATIN AMERICA (19 countries):a/ EVOLUTION AND PROJECTIONS OF THE EXTERNAL SECTOR

(Percentages on the basis of current prices)

Year	Percentage relations with exports of goods and services					Relation between external debt and gross domestic product c/
	Net payment of profits and interests	Net external financing b/	Servicing of external debt			
			Amortization	Interest	Total	
1970	16.1	17.8	12.8	5.5	18.3	...
1980	16.9	26.7	17.4	13.2	30.7	25.9
1981	23.2	33.5	19.8	18.8	38.6	27.9
			A			
1985	24.5	28.1	24.3	19.1	43.3	26.8
1990	21.3	21.3	20.4	16.5	36.9	22.9
			A 1			
1985	20.4	24.0	23.2	15.1	38.2	25.3
1990	16.6	16.6	18.0	12.2	30.2	19.5
			B			
1985	24.5	28.1	24.3	19.1	43.3	26.8
1990	20.1	20.8	19.2	15.6	34.8	22.1

Source: CEPAL, on the basis of official data.

Note: "A" exercise assuming recovery of the growth rate of the gross domestic product of the 1970s in the second half of the 1980s.
"A 1" corresponds to exercise "A" plus the hypothesis of an average decrease in interest rates from 12% to 10% in the decade, and maintenance of export requirements.
"B" exercise assuming recovery and acceleration of the growth rate of the gross domestic product during the second half of the 1980s.

a/ Not including Cuba or the English-speaking countries of the Caribbean.

b/ Including net private donations.

c/ On the basis of values at 1975 prices. The debt balance was deflated with the implicit index of imports of goods and services.

/Table 5

Table 5

LATIN AMERICA (19 COUNTRIES):a/ EVOLUTION AND PROJECTIONS OF FINANCIAL VARIABLES OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)

Year	Net payment of profits and interest	Net external financing b/	External debt servicing			Exports of goods and services
			Amortization	Interest	Total	
1970	2 751.1	3 046.6	2 195.9	938.9	3 134.8	17 106.8
1980	17 956.6	28 256.0	18 474.5	14 031.9	32 506.4	106 011.0
1981	26 558.0	38 369.8	22 667.2	21 599.7	44 219.9	114 676.9
			A			
1985	51 222.9	58 741.2	50 682.9	39 809.7	90 492.6	208 852.6
1990	100 364.9	100 260.3	96 097.3	77 830.8	173 928.1	471 712.9
			A 1			
1985	42 622.8	50 141.1	48 370.6	31 489.5	79 860.4	208 852.6
1990	78 477.4	78 372.9	85 032.0	57 620.4	142 652.4	471 712.6
			B			
1985	51 222.9	58 741.2	50 682.9	39 809.7	90 492.6	208 852.6
1990	101 314.2	104 822.4	97 162.3	78 658.2	175 820.5	505 163.8

Source: CEPAL, on the basis of official data.

Note: "A" exercise assuming recovery of the growth rate of the gross domestic product of the 1970s in the second half of the 1980s. "A 1" corresponds to axercise "A" plus the hypothesis of an average decrease in interest rates from 12% to 10% in the decade, and maintenance of export requirements. "B" exercise assuming recovery and acceleration of the growth rate of the gross domestic product during the second half of the 1980s.

a/ Not including Cuba or the English-speaking countries of the Caribbean.
b/ Including net private donations.

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Attention has previously been drawn to the importance that has attached to the high interest rates in the world financial situation in recent years. With the aim of examining the implications of lower interest rates for external-sector variables, another exercise was carried out, derived from the first, in which the average rate of interest was lowered by two points and export requirements remained the same as in the first exercise. The results show a marked reduction in 1990 of the percentages of the gross domestic product represented by net payments of profits and interest, on the one hand, and net external financing on the other; in both cases these relations fell from approximately 3.3% to 2.5%. Furthermore, the servicing of the external debt would correspond to about 30% of current export earnings and the coefficient of the external debt in relation to the gross domestic product would drop from 23% to 19% in the same year. The significance of this reduction becomes clearer still if it is borne in mind that by 1990 the servicing of the debt would amount to only 143 000 million dollars; that is, 31 000 million less than in the reference example (see table 4). It is important to note that this considerable impact is closely linked to the maintenance of the export earnings assumed in the basic exercise.

To sum up, the results obtained make it possible to show not only the magnitude of the balance-of-payments problem and the principal factors that determine it, but also the considerable effort represented by certain policies designed to bring about a more balanced external situation. In this context, orders of magnitude are presented which make it possible to evaluate the absolute and relative importance that might attach to the expansion of export earnings and to new terms and amounts of external financing.

Lastly, the achievement of more equilibrium in the balance-of-payments situation will necessitate a set of measures relating to trade and external financing. In view of the importance of the subject, the other two sections of the present chapter are devoted to the suggestion of lines of action and policy measures for regional co-operation with other developing areas and with the developed countries.

/B. REGIONAL

B. REGIONAL CO-OPERATION AND ECONOMIC INTEGRATION

1. Priority areas

Latin America has demonstrated by now its ability to produce a large proportion of consumer manufactures, but it still shows great limitations in the manufacture of capital goods, intermediate products and certain consumer goods for which advanced technology is required. It is precisely these lines of production that need economic spaces which, as a general rule, exceed those separately offered by the national markets of the Latin American countries. Consequently, integration and co-operation are irreplaceable in their significance as basic mechanisms for complementing and accelerating these countries' industrialization processes, although this in no way detracts from the importance of the role they may also play in strengthening intra-regional commodity trade.

There are, of course, innumerable ways in which pooled action can make a substantial contribution to attainment of the objectives indicated while helping in addition to reach other goals of interest to the Latin American countries.

In a CEPAL document presented at the Commission's nineteenth session (Montevideo, May 1981),8/ a descriptive list was given of the possible priority areas for co-operation in the decade now beginning. This seems an appropriate opportunity for a review in depth of those spheres of action in which the Latin American countries should concentrate their co-operation efforts.

Thus, in addition to the assumption of the indispensable and resolute support of the countries of the region for the various integration systems existing in Latin America and the Caribbean -whose ultimate objective is essentially to create a zonal or subregional market which will promote an industrialization process of greater depth and scope- attention is devoted below to the fields in which co-operation can do a very great deal to speed up the development of the countries of the region.

8/ See CEPAL, Regional integration and co-operation in the 1980s (E/CEPAL/G.1151), April 1981.

/2. Joint

2. Joint rational development of resources and compensation for regional disequilibria

Efforts should be made to initiate or continue co-operative action to bring about: (i) a greater degree of self-reliance in regional supplies of food and raw materials in general; (ii) joint use of shared resources, such as water; (iii) re-channelling of trade flows in respect of primary commodities which the region exports to third countries and at the same time imports from the countries in question; (iv) improvement of income from commodity exports, through an increase in local processing which will raise their incorporated value added and lead to greater national participation in the distribution and marketing phases, as well as to a stronger position in international commodity negotiations. All these initiatives should be undertaken in an adequate framework of rational use of resources.

3. Energy

In this field there are major areas which have not been the object of sufficient attention, including, inter alia, the development of non-conventional energy resources; the systematization of full, rapid and accurate information, especially with regard to petroleum and petroleum products; manpower training; management of enterprises; and, in general, everything related to energy economics and technology. Lastly, it would be of interest to continue in greater depth co-operation efforts such as those made in recent years by Mexico and Venezuela with a view to relieving the situation of the Central American and Caribbean countries which are net petroleum importers.

4. Physical integration of transport and communications facilities and co-operation in respect of these and other public services

In order to surmount the obstacles posed by the long geographical distances existing between the countries of the region and to promote more efficient utilization of the existent infrastructure, it is important to pursue the initiatives aimed at facilitating the movement of persons and goods and at interconnecting the various transport and communications media. It will also be necessary to promote closer collaboration -especially in respect of production

/techniques for

techniques for certain inputs and capital goods- in other public services, such as drinking water, irrigation, urban sanitation and underground railways in metropolitan areas.

5. Food and agriculture

In this sector there is much potential room for co-operation activities in such fields as technology, foreign trade and the region's ability to supply its own food requirements. Complementarity in production, in line with climatic characteristics or the type of land available, may give rise to long-term supply agreements between groups of countries. Another point to note is that limitations in the available supply of foreign exchange and in other respects make it advisable that the region should produce as high a proportion as possible of the food it requires.

6. Science and technology

Science and technology are related with all productive activities and with the creation, application, dissemination, control and ownership of knowledge. Among the co-operation activities of regional interest may be mentioned the strengthening of scientific and technological capacity; promotion of the adaptation or creation of technology linked to priority sectors (energy, food, capital goods, etc.); interconnection of scientific and technological networks; organization of Latin American multinational technological enterprises; financing for the development of science and technology; and the adoption of common regional positions in international negotiations on such matters as industrial property and a code of conduct in technology.

7. Co-operation in industry

Apart from moves towards the creation of a common market, whose main beneficiary would be manufacturing industry, there are other co-operation activities relating to specific branches of industry at the level of both public and private enterprises. Complementarity or joint programming of industrial branches of high capital density and volume and with large scales of production, such as petrochemicals, the aluminium industry, shipbuilding, the iron and steel industry or the production of electronic components may contribute to a considerable increase in their efficiency and feasibility. A similar case is that of capital goods or heavy equipment, which call for continuity of demand and big production orders.

/8. Financing

8. Financing

There now exist financial mechanisms, both on a regional scale and within the integration systems, intended to facilitate trade between such systems, to support countries with balance-of-payments deficits and to finance projects relating to integration industries. Nevertheless, co-operation in seeking new zonal and extra-zonal sources of financing and in putting into operation an export insurance system is still of great importance, especially in order to cope with the needs for long-term credit generated by the energy disequilibria of many countries in the region, by the urgent necessity to create and consolidate new export flows, by the additional demand for financing which will result from increased trade in capital goods, and by the need to concert major financial arrangements in support of binational or multinational co-operation activities.

At all events, present circumstances open up the opportunity of improving the above-mentioned existing forms of regional and subregional financial co-operation in Latin America. It would therefore be desirable:

(a) To give greater impetus to negotiations conducted to secure larger amounts of reciprocal credits and longer repayment-periods under the ALADI system of compensation of balances and reciprocal credits. The success of this system, which has been in operation for more than 15 years, warrants extending the time limit for compensation of balances to 6 months, which would mean likewise enlarging reciprocal credit amounts so that as far as possible payment before the end of the compensation period could be avoided;

(b) To interlink the payment systems of the Central American Common Market and of ALADI. The interconnection of these systems, which would make it possible to operate at the Latin American level, has already been studied from the technical point of view, and the reason why no further progress has been made is basically the want of agreement as to the interest rates that should be applied and the length of the compensation period. If the compensation period were extended to 6 months under the ALADI system, it would be exactly the same as that used in the Central American Common Market, so that it would cease to be a factor of conflict. It should also be possible to reach rapid agreement on rates of interest;

/(c) To

(c) To increase credit amounts and repayment periods under the Santo Domingo Financial Assistance Agreement (to support trade balances and the balance of payments). This Agreement has been invoked on various occasions by several countries and in every case has worked satisfactorily. However, the resources at present committed under the Agreement are still of very little significance and the credit repayment periods are too short. Larger amounts and longer repayment periods would facilitate balance-of-payments financing in Latin America and would expedite intra-Latin American trade;

(d) To re-update studies for the purpose of establishing a Financial Security Network in Latin America, on the basis of the proposal submitted by CEPAL itself in the mid-1970s. The idea propounded envisages a commitment on the part of Latin American official financial institutions to provide funds as "last-resource lenders", where a member country so requests and provided that the country in question had previously resorted to other sources of financing, including the International Monetary Fund. The mechanism would create a system of evaluation and consultation which might sow the seeds of closer co-operation in the future in fields other than that of financing and in other aspects of financing itself.

9. Co-operation in the field of services, in particular in consulting and engineering

Consulting and engineering services have come to constitute, in some countries of the region, a significant item in their external trade, and, complementarily, it can be seen that there is a wide field for the development of the technological and scientific know-how by which these activities are sustained. Although all the countries, to a greater or lesser extent, possess experience and knowledge of the technology used in the production sectors most characteristic of their economies, there are still big gaps that can be filled if the capacities of the whole group of countries are appropriately combined and collective initiatives, are undertaken with a view to making better use of national consulting and engineering resources. The possibility of co-operating in large-scale works in such sectors as energy, transport and communications, mining, etc., may give continuity to the application of specialized knowledge, eliminating the sharp fluctuations in demand for consulting and engineering services within each country, and helping to train the Latin American countries for undertaking works in common outside the region

/10. Export

10. Export promotion

Regional co-operation in the area of export promotion might be directed both towards improving knowledge of potential external markets and towards strengthening Latin America's bargaining power, and, in addition, towards presenting a united front in face of the protectionist measures applied by the developed countries. Thus, regional co-operation among governments and among enterprises and their associations may help to perfect the various instruments of promotion (including insurance and re-insurance), to pool exportable supplies, to maintain publicity campaigns, to form associations of producers of exportable goods, to create multinational external marketing enterprises and to take such collective action as will facilitate access to international markets.

11. Co-operation with the relatively less developed countries of the region

If co-operation among the Latin American countries is to succeed it calls for special consideration of the principle of reciprocity, in the sense that the small and medium-sized countries which have not advanced in the industrialization process at the same rate as the larger countries should receive special support treatment, both under integration schemes and in all economic and commercial relations with the more developed countries of the region. Admittedly, this essential aspect of intra-regional relationships has been attended by serious problems when attempts have been made to put it into practice, either because of shortcomings in the means used to implement it or because the less developed countries have but slight possibilities of taking advantage of the opportunities offered. But at the present time there are sound political, economic and ethical reasons for seeking new paths and formulas which may contribute to the attainment of a more satisfactory intra-regional equilibrium.

/C. SOME

C. SOME ASPECTS OF CO-OPERATION AT THE INTERNATIONAL LEVEL AND WITH OTHER DEVELOPING AREAS

1. General remarks

In the 1970s the industrialized countries were harassed by persistent inflation, increasing unemployment and a very unstable balance-of-payments situation, in terms both of surpluses and deficits and of fluctuations in exchange rates. The policies applied to tackle these problems had major repercussions on the developing countries, above all on the non-petroleum-exporting group. Deserving of special mention is the impact of the combination of inflation and greater international liquidity whereby the industrial countries sought to cope with the first fuel crisis. In Latin America's case, as previously noted, the countries of the region made use of the abundant supply of credit and contracted heavy debts, with the aim of forestalling, as far as possible, significant declines in the growth rate of imports and of the product (and in some cases of consumption). Furthermore, through foreign trade, they added a considerable component of imported inflation to what were already traditional inflationary problems of their own.

At the beginning of the 1980s the United States decisively changed its policy, which altered the international panorama. The greater importance attached to anti-inflationary policies, in contrast with what happened in the crisis that started in 1974, resulted in a deeper-seated and more prolonged recession, a pronounced increase in unemployment and a notable rise in real interest rates. The effects on the developing countries have been manifold and have been superimposed on a high level of indebtedness which did not exist in 1973, thus fostering a situation of deterioration and instability which has already been described in previous chapters with respect to Latin America.

Increasing unemployment and difficulties of production and financing in many developed countries acted as a spur to protectionist tendencies just at the very time when, paradoxically, a tendency to adopt policies of openness in trade and finance was mainly predominant in the developing countries. The recession in the industrial countries added to their growing protectionism a

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decline in demand for primary commodities and in their prices, thus bringing about a clearly-defined trend towards an imbalance in foreign trade, as has been pointed out in earlier chapters.

Accordingly, the 1981-1982 crisis finds the Latin American countries in a particularly vulnerable situation, in the first place because their greater openness to international trade and to movements of capital facilitates the transmission of external impacts. Secondly, their high level of indebtedness seriously limits their chances of obtaining additional financing to cope with their balance-of-payments crises. Thirdly, some developing countries have not enough foreign exchange resources or accommodative capacity to maintain the regular servicing of their external debt, above all in view of the stagnation of international trade and the fact that their terms of trade have deteriorated.

The international trade and financial situation is reflected in a restrictive tendency in international banking systems, whose loan portfolio is affected by the world recession and particularly by the increasing difficulties of some debtor countries. Furthermore, the recession which is beginning to make itself felt in the Latin American countries in 1981-1982 has already compelled the Central Banks of some countries to adopt measures in support of the national banking systems.

In this connection, it should be borne in mind that a financial bank serves as an intermediary not only between savers and users of funds, but also between the present and the future. When cyclical fluctuations are very marked and are accompanied by sharp fluctuations in the exchange rates of reserve currencies, the possibility of intermediation between present and future diminishes, because the banks consider its economic feasibility to have lessened. If this phenomenon spreads to many banks, a choice has to be made between official support for the system or a major financial crisis; this holds good both on the national and on the international plane.

Thus, there is no solution for the foreign trade crisis in the field of finance; rather are the recessive trends strengthened, with the serious economic and social consequences already indicated in the present document.

/2. Some

2. Some aspects of international co-operation

(a) North-South co-operation

A general warning, of almost obvious purport yet indispensable, is that measures to reactivate the world economy must be adopted within the framework of necessary moves to bring about changes in greater depth which will lead not only to a reacceleration and reorientation of economic and social development at the world, regional and national levels, but also to a reorganization of international economic relations. It should be added that the implementation of such initiatives will be easier if, in the different countries, it is approached in a dynamic context within which price stabilization measures are not adopted at the cost of stagnation of investment and continuous worsening of the unemployment situation.

It is important to reiterate, too, that the principal capacity for action to reactivate the world economy lies in the hands of the industrialized countries, inasmuch as they constitute the hub of the system of international relations. Thus, an indispensable and priority requisite for the reactivation in question is a resolute, co-ordinated and steadfast policy on the part of those countries, aimed at surmounting the conjunctural and structural problems that are affecting their development processes, including those linked to the reorganization of energy resources and to the redeployment of industry. In this sense, the efficacy of the action undertaken is clearly correlative to the coherence both of the diagnoses made and of the measures adopted with respect to the trends and difficulties observable in the various industrialized countries.

At the level of the world economy, the international community, through the IDS for the United Nations Third Development Decade, has proposed specific objectives and targets for the developing countries, which have been ratified by the Latin American governments and the Regional Programme of Action. In this connection, the policies and measures adopted, both at the world and at the Latin American level, will have to take into account, inter alia, the points listed below:

(i) Countries with large and continuing balance-of-payments surpluses on current account should establish policies to facilitate their imports, since they are obviously in a privileged position to restore the dynamism of world trade;

(ii) Expansion of the developing countries' export trade should be facilitated with a view to reducing or eliminating their external imbalances. To this effect:

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- the developing countries would need to amplify and strengthen their export promotion policies, in relation both to traditional and to non-traditional exports;

- the developed countries should reduce or eliminate the tariff and non-tariff barriers (especially sliding-scale tariffs) which affect their imports from developing countries; this step is indispensable for the success of the export promotion policies suggested in the previous subparagraph and also in order to make sure that the increases in export volumes achieved by virtue of tenacious efforts on the part of the developing countries in general, and those of Latin America in particular, are not nullified by a serious deterioration of the terms of trade;

(iii) It would be necessary to reschedule the servicing of the developing countries' external debt while the world reactivation programme was gathering impetus. To that end it would be useful to place at the disposal of the countries a support mechanism for the refinancing of the debt, whose possible characteristics have been indicated in various CEPAL documents, and may be summed up as the right to automatic access to refinancing in accordance with certain objective indicators, and in the principle that the scale and terms of rescheduling must be decided case by case;

(iv) The developed countries should devise measures relative to the international private banking system, such as the acceptance of mechanisms for longer-term refinancing of their portfolios; the transfer of the effects of these measures to heavily indebted countries would enable the latter to obtain some relief of their payments situation;

(v) There would need to be a considerable increase in the operational levels (and also in some cases, in the types of operation) of multilateral financial institutions, in particular those of the International Monetary Fund and the World Bank, but in addition those of regional credit institutions. The present dimensions of the International Monetary Fund are absolutely insufficient to cope with the existing situation in respect of external disequilibria, and its usable resources run the risk of exhaustion during the first half of 1983. To prevent this, and to allow the Fund to play an active role in a non-depressive solution of the crisis, the scope of its operations should be enlarged by means of raising the member countries' subscriptions. It should be stressed that a hundred-per-cent increase in Monetary Fund subscriptions would mean adding from 30 000 to 40 000 million dollars to the Institution's total loan resources, and that these amounts represent

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only a proportion ranging from 10 to 15% of Latin America's current external debt. Lastly, the International Monetary Fund could establish a service for the financing of external deficits in the developing countries caused by increases in the international interest rates, as representatives of Latin American governments have been proposing for some months past, in various forums:

(vi) Simultaneously, the resources of the World Bank and the regional banks, both those of a concessionary and those of a non-subsidized character, should be boosted, to enable these institutions to provide financial and technical support for changes in the structure of production which are indispensable not only in order to weather the present crisis but also to regain reasonable and steady world economic growth rates during the rest of the 1980s. The enlargements of funds proposed by the international public banking system would be feasible, in the event of rapid and genuine fulfilment of the objectives consisting in the transfer to the developing countries of financial resources representing 0.7% and 1% of the industrialized countries' gross domestic product;

(vii) Lastly, it would be necessary to introduce at the earliest possible moment a reform of the international monetary system making adequate provision at least for the bases and conditions for a process of equitable and symmetrical adjustment; for the creation of liquidity linked to the expansion of world trade flows; for the existence of a régime of flexible but relatively stable exchange rates; and for the satisfaction of the developing countries' needs, especially in respect of the transfer of monetary resources. Similarly needful is a reform of the international system of trade making proper allowance for the interests of the developing countries.

(b) South-South co-operation

(i) Trends and potentialities. During the next few years the economic relations existing between the developing countries should be strengthened and amplified as a means of seeking new dynamic factors of growth and mitigating the harmful consequences of the slow development of the world economy. Increasing interregional co-operation would be superadded to intra-regional co-operation and to the expansion and reconstruction of the domestic market of the developing countries themselves, as a way of ensuring the Third World the more rapid rate of development which would permit of its insertion in an international economy dominated by the passive behaviour of the centres. Co-operation among the nations

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of the different developing regions is part of the quest for a new international economic order, and one of the essential elements in the International Development Strategy for the 1980s.

In the 1970s the real potentialities of linkage between the countries of the South became apparent. These countries' will to reduce their dependence upon the centres and to deepen their own interdependence has been reflected in action on the part of countries or groups of countries whereby they have been able to get to know one another better, to improve communications and transport, to establish special financing mechanisms, to create joint enterprises, to execute technical co-operation projects including transfer and development of technologies of their own, and, of course, to achieve a significant expansion of reciprocal trade.

The available background data on Latin America's trade with the rest of the developing countries suggest that during the rest of the 1980s an important and sustained expansion of interregional trade might take place. Between 1970 and 1978 Latin America's exports to the other developing countries as a whole raised their share in the region's total exports from 2% to 5%. The latter figure still seems relatively low, and may be pushed up considerably in the course of the 1980s. This impression is corroborated by the fact that in relation to the total imports of the developing countries (excluding Latin America), Latin American exports to the countries in question represented only 1.4% in 1978, a coefficient similar to that recorded in 1970.9/

In turn, the outlook is promising for a considerable increase in the direct inflow of loans and investment from the developing countries of the OPEC to the non-petroleum-exporting countries of the Third World, a large number of which will be generating persistent balance-of-payments deficits on current account. In particular, there are possibilities of a future increase in loans and investment of this kind, and specific initiatives in this direction exist already.

In another sphere, the experiences of Argentina and Brazil in co-operation with various African countries highlight the possibilities of collaboration in respect of technology. The "intermediate" technologies available in the Latin American countries for application in other developing countries are especially suitable, above all in comparison with those technologies which it is attempted

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9/ See in this connection CEPAL, "The External Economic Relations of Latin America in the 1980s", E/CEPAL/G.1160, April 1981, pp. 147-148.

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to transfer from the central countries. In 1982, the secretariats of the Economic Commission for Africa and the Economic Commission for Latin America launched a programme of horizontal co-operation between the two regions, particularly in the fields of foreign trade, of development of human resources and of science and technology.

(ii) Programme of action for South-South co-operation. The various aspects mentioned have led the developing countries to undertake a search in greater depth for systematic forms of joint action. As a result of the Conference on Economic Co-operation among Developing Countries, held in Mexico City, in 1976; the United Nations Conference on Technical Co-operation among Developing Countries, convened in Buenos Aires, in 1978; the Fourth Ministerial Meeting of the Group of 77, held at Arusha, in 1979; and the High-Level Conference of the Group of 77 which took place in Caraballeda, Venezuela, in 1981, a start has been made on various joint activities of Third World countries which have been reflected in orientations and decisions in several international forums, especially in United Nations agencies. These have not only given shape to guiding principles for the reciprocal co-operation of the developing countries but have also indicated priorities for action and specific mechanisms for putting it into effect. The will of the South to undertake further joint action was particularly clearly reflected in the Ministerial Meeting of the Group of 77 at Arusha, where a first Short and Medium-Term Action Plan for Global Priorities on Economic Co-operation among Developing Countries (ECDC) was adopted. In this it was established that reciprocal economic co-operation "is a key element in a collective self-reliant strategy and thus becomes both an essential part of and an instrument for the necessary structural changes required for a balanced and equitable process of world economic development, ushering in a new set of relationships based on mutual interests and accommodations".10/

Among the areas of interest defined at the Mexico Conference, the First Action Plan adopted at Arusha selected 9 in which to adopt the first measures of reciprocal co-operation; a global system of trade preferences among developing countries (GSTP); co-operation among state-trading organizations (STOs); establishment of multinational marketing enterprises (MMEs); strengthening of subregional, regional and interregional economic integration and co-operation; co-operation in

10/ See UNCTAD, Arusha Programme for Collective Self-reliance and Framework for Negotiations, UNCTAD V, Document TD/236, Manila, May 1979, p. 8.

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the transfer and development of technology; least developed countries; landlocked and island developing countries; monetary and financial co-operation; and multinational production enterprises among developing countries (MPEs). Furthermore, during the Ministerial Meeting at Arusha it was reiterated that technical co-operation is a basic instrument for the promotion of economic co-operation among developing countries, for which reason it was considered necessary that the Plan of Action and the corresponding resolutions adopted at the United Nations Conference on Technical Co-operation among Developing Countries should be soon and effectively implemented.

In view of the progress made to date, and of its paramount importance, special attention will be devoted here to the global system of trade preferences among developing countries. After the preparation of a number of technical studies by UNCTAD and the various meetings at the regional and world levels, the GSTP has entered upon the stage of negotiation and progress in this respect during 1982 is promising. The bases approved by the developing countries define the framework within which negotiations leading to the establishment of the GSTP will be conducted. By virtue of the scope and significance of these agreed bases, the setting-up of the GSTP may lead to the creation of an authentic economic system for the developing countries, which would thus permit the strengthening of relations among the developing countries in respect of trade and in many other fields of economic activity.

Lastly, it is of interest to note that at the Venezuela meeting in 1981, it was decided to set in motion a series of mechanisms (working groups, conferences, seminars) designed to strengthen co-operation among developing countries in the areas of energy, financing, agriculture, raw materials, technology, industrialization and trade.