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PRELIMINARY BALANCE OF THE LATIN AMERICAN  
ECONOMY IN 1980\*

\* Information supplied by the Executive Secretary of CEPAL, Mr. Enrique V. Iglesias, at the end-of-the-year press conference held at the headquarters of CEPAL on 22 December 1980.



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As on previous occasions, we should like to give public opinion an advance look at some of CEPAL's preliminary estimates for the main characteristics of the evolution of the Latin American economy during the year now closing and formulate some reflections on those which in our opinion constitute some of the central problems which the region will face in the near future.

However, before considering these subjects, and so as to situate them in a broader framework, this seems a good moment to review very briefly some basic features of the world economic situation during 1980.

### I. The international context

A year ago, referring to the external framework which had conditioned the evolution of Latin America, we said that 1979 had been a bad year for the world economy. We based this categorical opinion on the downward trend in the rate of economic growth of the industrialized countries, the simultaneous re-emergence in them of unemployment, inflation and protectionism, with their consequent adverse effects on the possibilities of growth of the exports of the Third World countries and on the cost of their imports, and the new disequilibria and challenges created by the large and successive increases in the international price of oil.

Unfortunately, this negative opinion can be reiterated even more emphatically in connexion with developments in the international economic scenario during the year now ending. In 1980 the drop in the growth rate of the industrialized economies was accentuated and the intensity of inflation once again increased. It is estimated that the joint product of the countries of the Organization for Economic Co-operation and Development (OECD) only increased by slightly over 1% in 1980, i.e., at a rate of barely one third of the already quite low rate recorded in 1959, and that the product dropped in absolute terms during the second half of 1980 in the United States and other OECD countries. Naturally, this decline in the dynamism of the industrialized economies had an adverse effect on the evolution of world trade, which practically did not increase in real terms in 1980, for the first time in the last 22 years.

/Moreover, as

Moreover, as the result of the increases in oil prices, this standstill in the volume of international trade was accompanied by a further substantial redistribution of current account surpluses and deficits among the OPEC countries, the industrialized economies and the developing countries. The surplus of the main oil-exporting countries, after increasing from US\$ 5 billion in 1978 to US\$ 68 billion in 1979, underwent another radical increase in 1980 which brought it up to a figure of around US\$ 115 billion. Naturally, to balance this increase in the financial surplus of the oil-exporting countries, the current account deficit of the industrialized economies also shot up from US\$ 10 billion in 1979 to US\$ 50 billion in 1980 - as well as those of the non-oil-exporting developing countries - from US\$ 53 billion to US\$ 70 billion (see table 1).

In brief, during the year now ending some of the main features which characterized the 1974-1975 crisis tended to recur, putting an end to the quarter century of rapid growth in world trade and economy which began at the start of the 1950s.

What is more serious is that the prospects for the immediate future continue to be sombre, particularly in the industrialized economies, the evolution of which, as we know, substantially influences the possibilities of growth of our exports and the cost of our imports of manufactures. It is estimated that the recovery of the OECD economies from their present recession will be very weak in 1980, that inflation in the OECD will tend to drop slowly and that the number of unemployed may rise to nearly 25 million persons by the end of next year.

It is in this adverse international economic context laden with uncertainties, therefore, that both the evolution of the Latin American economies in the year now ending and some of the challenges and main problems which they will be obliged to face in the decade now commencing must be considered.

Table 1

BALANCE OF THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS 1973-1980

(Billions of dollars)

	1973	1974	1975	1976	1977	1978	1979	1980 <sup>a/</sup>
Industrialized countries	19.3	-11.6	17.9	-0.5	-4.1	35.4	-9.0	-50
Main oil-exporting countries	6.6	67.8	35.0	40.0	31.9	5.0	68.4	115
Developing non-oil-exporting countries	-11.5	-36.9	-45.9	-32.9	-28.6	-35.8	-52.9	-70

Source: International Monetary Fund, Annual Report 1980.

<sup>a/</sup> Preliminary estimate.

## II. Main aspects of the economic evolution of Latin America in 1980

We shall go on to refer to four main aspects of the economic evolution of Latin America in 1980, i.e., economic growth, inflation, the external sector and the processes of regional integration and co-operation. It should, however, be stressed that the estimates which we shall give for the development of the region in 1980 are based on the preliminary and partial figures available at this point in the year, and that they are therefore subject to considerable margins of revision.

### 1. The growth of the economy

During 1980 the pace of growth of the Latin American economy slowed. According to CEPAL's preliminary estimates, the region's gross domestic product which rose by 6.3% in 1979 grew by around 5.3% in 1980. All in all, this rate, although considerably lower than the very high rates achieved on average during the first five years of last decade (7.2%), exceeded those registered in each of the years of the period 1975-1978 (see table 2).

Although the lower rate of global economic dynamism in the region originated in the slower growth of economic activity in 1970 in 13 of the 19 countries for which comparable data are available, it particularly reflected the decline in the rate of economic growth of Argentina, in view of its high weighting in the total product for Latin America. Economic activity in that country, after increasing very rapidly (8.5%) in 1979, came practically to a standstill in 1980.

During 1980 the rate of economic growth of the Central American countries also slowed, with the sole exception of Nicaragua, where global output increased by around 14%, thus partially recovering from the sharp drop of the previous year as a result of the civil war. In El Salvador, however, the continuation and exacerbation of the domestic conflicts contributed to a reduction of the product in absolute terms for the second year running, although to a greater extent than in 1979. The global growth of the economy both in Costa Rica and in Guatemala was barely adequate to maintain the per capita product constant, while in Honduras it decreased after four years of rapid and persistent growth.

Table 2

LATIN AMERICA: EVOLUTION OF THE GROSS DOMESTIC PRODUCT

(Annual growth rates)

	1970- 1974	1975	1976	1977	1978	1979	1980a/
Argentina	5.2	-0.9	-1.7	4.9	-3.4	8.5	0.0
Bolivia	5.8	5.1	6.8	3.4	2.8	1.4	1.0
Brazil	11.5	5.7	9.0	4.7	6.0	6.4	7.5
Colombia	6.9	4.3	4.2	4.8	8.8	5.1	4.0
Costa Rica	7.1	2.1	5.5	8.9	5.7	4.3	2.5
Chile	2.6	-11.3	4.1	8.6	7.8	8.5	5.5
Ecuador	8.6	6.8	9.3	7.5	5.4	5.4	4.5
El Salvador	4.9	5.6	4.0	5.9	4.4	-3.1	-6.0
Guatemala	6.4	1.9	7.4	7.8	5.5	5.0	3.0
Haiti	4.7	2.2	5.3	1.3	3.9	1.9	3.5
Honduras	3.5	-2.0	7.0	5.8	7.9	6.8	1.0
Mexico	6.2	4.1	2.1	3.3	7.3	8.0	7.5
Nicaragua	5.3	2.2	5.0	6.3	-7.2	-24.8	14.0
Panama	5.2	0.6	-1.1	0.2	3.7	5.0	5.0
Paraguay	6.4	5.0	7.5	11.8	10.3	9.0	9.5
Peru	6.3	3.3	3.0	-1.2	-1.8	3.8	3.5
Dominican Republic	10.1	5.2	6.7	5.5	2.3	3.6	3.0
Uruguay	0.8	4.5	2.6	3.4	3.9	8.4	5.0
Venezuela	5.2	5.9	8.4	6.8	3.2	0.7	1.0
<u>Latin America</u> <u>(19 countries)</u>	<u>7.2</u>	<u>3.3</u>	<u>4.6</u>	<u>4.5</u>	<u>4.6</u>	<u>6.3</u>	<u>5.3</u>

Source: CEPAL, on the basis of official figures.

a/ Preliminary estimate subject to revision.

/The growth

The growth of the economy was also very slow (around 1%) in Venezuela and Bolivia, although in both countries real incomes increased more rapidly as a result of the improvement in the terms of trade, the evolution of which also benefited Ecuador, whose product increased by approximately 4.5%, a lower rate than that registered in any of the five previous years. The rate of economic growth also dropped to around 4% in Colombia while it remained about 3.5% in Peru.

However, during 1980 the rate of growth of the Paraguayan economy rose to 9.5% - this was the Latin American country where economic activity increased most intensively and consistently during the second half of the 1970s. The same thing happened in Brazil, whose product increased by around 7.5%, mainly thanks to the noteworthy recovery of the agricultural sector and the rapid increase in manufacturing output.

As in the two previous years, economic growth was also considerable (7.5%) in Mexico, where economic activity continued to be stimulated by large-scale increases in production, exports and international oil prices. In Chile and Uruguay, however - where in 1979 very high growth rates of around 8.5% were achieved - economic growth was considerably slower, and increases of 5.5% and 5% respectively were registered.

Lastly, Panama achieved a growth rate of 5% for the second year running, thus consolidating its domination of the stagnation which affected its economy during the five-year period 1974-1978, while according to very preliminary estimates the increase in the domestic product was around 3.5% in Haiti and approximately 3% in the Dominican Republic.

## 2. Inflation

During 1980 inflation rates were once again very high in Latin America. For the region as a whole, consumer prices rose on average by nearly 54%, practically the same as in 1979 and considerably higher than the approximately 40% registered the two previous years. As in 1979 the inflationary process was fairly generalized to the extent that only 2 out of the 23 countries considered were able to keep the increases in their price levels below two figures (see table 3).

Table 3

LATIN AMERICA: ANNUAL VARIATIONS IN CONSUMER PRICES

	1979 <u>a/</u>	1980 <u>b/</u>	
Argentina	139.7	88.9	November
Barbados	16.8	23.0	June
Bolivia	45.5	50.0	October
Brazil	76.0	87.0	November
Colombia	29.8	27.0	October
Costa Rica	13.2	18.2	October
Chile	38.9	31.6	November
Ecuador	9.0	15.1	October
El Salvador	14.8	17.2	October
Guatemala	13.7	9.6	September
Guyana	19.4	15.7	May
Haiti	15.4	6.3	September
Honduras	18.9	20.7	July
Jamaica	19.8	26.4	May
Mexico	20.0	28.2	October
Nicaragua	70.3	30.0 <u>c/</u>	October
Panama	10.0	13.6	September
Paraguay	35.7	16.6	October
Peru	66.7	59.1	October
Dominican Republic	26.2	15.7	August
Trinidad and Tobago	19.5	15.6	September
Uruguay	83.1	49.3	November
Venezuela	20.7	22.2	September
<u>Average Latin America</u>	<u>53.8</u>	<u>53.6</u>	

Source: CEPAL, on the basis of official statistics.

a/ Variations December to December.

b/ Variations over 12 months, up to the month indicated in each case.

c/ Estimate.

/Of course,

Of course, the intensity and trends of inflation were very different in the different countries of the region. Price increases amounted to nearly 90% both in Argentina and Brazil and fluctuated between 50 and 60% in Bolivia, Peru and Uruguay. However, while in Argentina this figure meant a considerable drop compared with 1979 and thus meant that this country had an inflation of less than three figures for the first time since 1974, the very similar rate of inflation recorded in Brazil meant a further acceleration of inflation the intensity of which brought the 1980 rate to twice the average for the period 1975-1978. Similarly, the relatively similar rates of inflation recorded in Bolivia, Peru and Uruguay implied a slight worsening of inflation in the first of these countries, a small alleviation in the second, and a big step forward in the fight against inflation in the third.

The implications of the relatively similar rates of inflation - between 27 and 32% - registered in 1980 in Colombia, Mexico and Chile differ when compared with the rates for 1979, and particularly if they are situated in a longer time context. Although the highest rate of inflation in the three countries considered corresponded to Chile, this meant a drop of some importance compared with the 39% recorded in 1979. The 27% inflation which affected Colombia, on the contrary, meant only slight progress compared with that of nearly 30% recorded in 1979 and naturally meant that the rate of Colombian inflation once again maintained the noteworthy stability which it has been showing since 1976. Lastly, the increase of 28% in 1980 in the level of consumer prices in Mexico represented a considerable speeding-up of the rate of inflation both compared with 1979 and particularly compared with Mexico's far more moderate rate of inflation up to 1972.

The contrast with the historical trend was even more notorious in Venezuela. While the inflation of 22% recorded in 1980 only meant a slight increase over that of 1979, it almost tripled the average rate of increase in prices during the period 1975-1978.

In the remaining economies of the region, in the majority of which inflation was traditionally very low until the beginning of the last decade but where it underwent sharp increases both in the period 1973-1974 and in 1979, as a consequence of the speeding-up of imported inflation, the rate of increase in consumer prices fluctuated between 15 and 20% in 1980. The sole

/exceptions were

exceptions were Nicaragua - where it is estimated that inflation dropped by around 30% after reaching a rate of 70% during the previous year - and the cases of Guatemala and Haiti which have already been mentioned, which were successful in keeping the rate of price increases below 10%.

3. The external sector

The international economic recession and the increases in the prices of hydrocarbons contributed to the fact that the evolution of the external sector of Latin America was clearly less favourable in 1980 than in previous years. For the region as a whole, the deficit on current account increased by over 30% and reached a sum of US\$ 25 billion while net capital income dropped from slightly over US\$ 26 billion in 1979 to US\$ 22.5 billion in 1980, thus interrupting the persistent and marked upward trend which this sector had shown since the beginning of the previous decade. Thus the balance of payments which generated surpluses throughout the last decade, with the sole exception of 1974, and which in 1979 gave a surplus of nearly US\$ 7.1 billion, swung radically and closed the year with a deficit of US\$ 2.55 billion (see table 4).

However, these global trends concealed still more than in previous years the very different courses taken by the six oil-exporting countries - Venezuela, Mexico, Ecuador, Trinidad and Tobago, Peru and Bolivia - and the rest of the region's economies. While the former had large increases in their trade balance surpluses, reduced their current deficit from US\$ 5.1 billion in 1979 to US\$ 2.1 billion in 1980, and achieved a surplus on their balance of payments, the latter found their trade deficit doubling, while their current account deficit rose between 1979 and 1980 from US\$ 13.9 billion to nearly US\$ 23 billion and the surplus on the balance of payments of US\$ 4 billion in 1979 became a deficit of US\$ 4 billion in 1980.

Although this latter result reflected the adverse changes in the balance of payments of the great majority of the non-oil-exporting countries, it stemmed for the most part from the tremendous change in direction in the external sector of Argentina and the accentuation of the disequilibria already seen in Brazil's external sector in 1979.

/Table 4

Table 4  
LATIN AMERICA: TOTAL BALANCE OF PAYMENTS AND BALANCE OF PAYMENTS BY COUNTRIES  
(Millions of dollars)

	Exports of goods FOB		Imports of goods FOB		Balance of goods		Income from net non-factor services		Trade balance		Net payments of profits and interest		Balance on current account <sup>a/</sup>		Movement of capital <sup>b/</sup>		Balance of payments before compensation	
	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980
<b>Latin America</b>	70 985	94 150	70 222	92 630	763	1 520	-6 531	-8 960	-5 768	-7 440	13 667	17 955	-19 066	-25 050	26 138	22 500	7 072	-2 550
<b>Oil-exporting countries</b>	31 626	47 180	28 575	37 950	3 051	9 230	-2 673	-3 290	378	5 940	5 339	7 800	-5 158	-2 120	8 189	3 570	3 031	1 450
Bolivia	777	910	931	800	-154	110	-183	-165	-337	-55	181	240	-506	-285	533	385	27	100
Ecuador	2 144	2 590	1 945	2 170	199	420	-388	-440	-189	-20	436	505	-625	-525	722	795	97	270
Mexico	9 416	16 600	11 632	17 900	-2 216	-1 300	1 306	1 100	-910	-200	3 856	6 000	-4 561	-6 040	4 961	6 540	400	500
Peru	3 469	3 900	2 088	3 130	1 381	770	59	-95	1 440	675	943	895	497	-220	568	1 100	1 065	880
Trinidad and Tobago	1 621	2 580	1 142	1 450	479	1 130	-101	-140	378	990	45	85	304	875	29	-475	333	400
Venezuela	14 199	20 600	10 837	12 500	3 362	8 100	-3 366	-3 550	-4	4 550	-122	75	-267	4 075	1 376	-4 775	1 109	-700
<b>Non-oil-exporting countries</b>	39 359	46 970	41 647	54 680	-2 288	-7 710	-3 858	-5 670	-6 146	-13 380	8 328	10 155	-13 908	-22 930	17 949	18 930	4 041	-4 000
Argentina	7 817	8 000	6 013	9 000	1 804	-1 000	-1 391	-2 080	413	-3 080	898	1 500	-449	-4 540	4 873	1 740	4 424	-2 800
Barbados	132	180	379	450	-247	-270	217	230	-30	-40	10	15	-23	-35	37	55	14	20
Brazil	15 235	20 000	17 942	23 000	-2 707	-3 000	-2 318	-3 040	-5 025	-6 040	5 460	6 250	-10 472	-12 270	7 612	9 000	-2 860	-3 270
Colombia	4 062	4 600	3 248	4 400	814	200	-101	-160	713	40	243	280	523	-185	1 030	1 415	1 553	1 230
Costa Rica	930	1 000	1 271	1 400	-341	-400	-109	-130	-450	-530	141	165	-574	-680	474	670	-100	-10
Chile	3 841	4 800	3 955	5 500	-114	-700	-159	-325	-273	-1 025	684	925	-876	-1 850	2 006	2 950	1 130	1 100
El Salvador	1 135	1 000	955	960	180	40	-180	-185	0	-145	67	85	-30	-190	-98	70	-128	-120
Guatemala	1 222	1 440	1 403	1 570	-181	-130	-139	-255	-320	-385	13	45	-210	-315	165	45	45	-270
Guyana	291	510	298	420	-7	90	-50	-75	-57	15	25	35	-86	-25	31	-5	-55	-30
Haiti	138	180	230	280	-92	-100	-40	-40	-132	-140	14	15	-114	-115	131	105	17	-10
Honduras	751	820	779	930	-28	-110	-73	-95	-101	-205	115	135	-211	-330	236	260	25	-70
Jamaica	815	1 130	883	1 180	-68	-50	48	10	-20	-40	202	260	-152	-250	-15	320	-167	70
Nicaragua	616	510	389	640	227	-130	-67	-85	160	-215	72	...	89	-190	-75	50	14	-140
Panama	334	410	1 105	1 400	-771	-990	520	600	-251	-390	80	75	-369	-505	349	485	-20	-20
Paraguay	384	380	577	610	-193	-230	-5	15	-198	-215	71	75	-266	-285	430	455	164	170
Dominican Republic	868	1 010	1 094	1 430	-226	-420	-83	-110	-309	-530	175	195	-366	-615	374	615	8	0
Uruguay	788	1 000	1 126	1 510	-338	-510	72	55	-266	-455	58	100	-322	-530	389	700	67	150

Source: 1979: International Monetary Fund; with the exception of El Salvador, Guyana and Uruguay.

1980: CEPAL, preliminary estimates subject to revision.

a/ Including net private transfer payments.

b/ Including net errors and omissions.

In Argentina, the current account deficit rose from US\$ 450 million in 1979 to US\$ 4.5 billion in 1980. This result, stemming mainly from the growth of imports of goods (50%) and the virtual stagnation in exports, was accompanied by a drop in the net amount of capital entering the country. As a result of these changes, the balance of payments, which in 1979 had generated a surplus of US\$ 4.4 billion, is estimated to have given a deficit in 1980 of around US\$ 2.8 billion.

In Brazil the deficit on current account increased for the third year running although at a rather slower rate than in 1978 and particularly in 1979. Despite this change, attributable both to the rapid growth of the value of exports of goods and the constraint on the value of imports other than petroleum, the absolute value of the deficit on current account rose between 1979 and 1980 from US\$ 10.5 billion to 12.3 billion. As during the previous year, this deficit could not be covered by net inflows of capital and consequently it was necessary to resort for the second year running to the international reserves, which dropped by nearly US\$ 3.3 billion and were thus US\$ 6 billion lower at the end of 1980 than at the end of 1978.

The current account deficit of the non-oil-exporting countries also grew in 1980 as a result of the rise of nearly US\$ 1 billion estimated to be the deficit on Chile's current account and the downswing in the result of current operations in Colombia, which after producing a surplus of over US\$ 500 million in 1979, generated a deficit of nearly US\$ 190 million in 1980. However, in these two countries net capital income exceeded the amount of the current deficit by a considerable margin and consequently these were the only non-oil-exporting economies which obtained large surpluses in their balance of payments (see table 4).

The marked asymmetry of the trends in the external sectors of the oil-exporting countries and the other economies of the region was also reflected in the uneven evolution of the value of their exports and imports and the very different form in which the changes in volume and unit prices contributed to the variations in both.

/While the

While the value of exports of goods by the oil-exporting countries increased for the second consecutive year at the very high rate of around 49%, that of the exports of the other 17 countries rose by 19%. The substantial difference was also entirely due to the different course taken by the unit value of exports, which increased by 47% in the case of former and 14% in the case of the latter. Thus, the oil-exporting countries, with the sole exception of Mexico, where the volume of exports increased sharply, received considerably higher earnings from their exports although at the same time the export quantum dropped substantially - as in the case of Bolivia, Ecuador, Peru and Venezuela - or remained nearly constant - as in the case of Trinidad and Tobago (see table 5).

However, in the non-oil-exporting countries, the much smaller increase in the value of external sales, although mainly attributable to the increase in unit value which caused a noteworthy rise in the international price of sugar and much smaller, but also important, increases in the prices of bauxite, maize, fishmeal, iron, bananas and cotton, was reinforced in the great majority of cases by the growth in the volume of exports, which in the non-oil-exporting countries as a whole increased by 5%. This rate was, however, only equivalent to half of the very high rate recorded on average during the previous four years. Despite this slowing-down - partly brought on by the international recession - the share of these countries in the global volume of world trade continued to increase, because of the stagnation of world trade during 1980.

In contrast to the uneven evolution of the value of the exports of the oil-exporting and non-oil-exporting countries, they increased their imports at similar and very high rates of 33% and 31%, respectively. Once again, the origin of these changes was very different. While in the oil-exporting countries the increase was mainly due to the growth of the volume of imports, which rose by nearly 20%, in the group made up of the rest of the countries of the region the higher value of imports predominantly reflected the considerable increase in their average price (14%) and to a much lesser extent the increase in their volume (5%) (see table 6).

Table 5  
LATIN AMERICA: EXPORTS OF GOODS

	Value (millions of dollars)			1980 indexes (1979 = 100)		
	1979	1980		Value	Unit value	Quantum
	Current values	Current values	Constant values at 1979 prices			
<u>Latin America</u>	<u>70 985</u>	<u>94 150</u>	<u>73 640</u>	<u>133</u>	<u>127</u>	<u>104</u>
<u>Oil-exporting countries</u>	<u>31 626</u>	<u>47 180</u>	<u>32 470</u>	<u>149</u>	<u>144</u>	<u>103</u>
Bolivia	777	910	680	117	133	88
Ecuador	2 144	2 590	1 930	121	134	90
Mexico	9 416	16 600	12 000	176	138	127
Peru	3 469	3 900	3 330	112	117	96
Trinidad and Tobago	1 621	2 580	1 630	159	158	101
Venezuela	14 199	20 600	12 900	145	160	91
<u>Non-oil-exporting countries</u>	<u>39 359</u>	<u>46 970</u>	<u>41 170</u>	<u>119</u>	<u>114</u>	<u>105</u>
Argentina	7 817	8 000	6 700	102	120	85
Barbados	132	180	140	136	131	106
Brazil	15 235	20 000	17 700	131	113	116
Colombia	4 062	4 600	4 500	113	102	111
Costa Rica	930	1 000	910	108	110	98
Chile	3 841	4 800	4 200	125	115	109
El Salvador	1 135	1 000	960	88	104	85
Guatemala	1 222	1 440	1 270	118	113	104
Guyana	291	510	320	175	160	110
Haiti	138	180	160	130	112	116
Honduras	751	820	760	109	108	101
Jamaica	815	1 130	840	139	134	103
Nicaragua	616	510	440	83	115	71
Panama	334	410	340	123	119	102
Paraguay	384	380	380	99	101	99
Dominican Republic	868	1 010	720	116	140	83
Uruguay	788	1 000	830	127	121	105

Source: 1979: International Monetary Fund; with the exception of El Salvador, Guyana and Uruguay.  
1980: CEPAL, preliminary estimates subject to revision.

Table 6  
LATIN AMERICA: IMPORTS OF GOODS

	Value fob (millions of dollars)			1980 indexes (1979 = 100)		
	1979	1980		Value	Unit value	Quantum
	Current values	Current values	Constant values at 1979 prices			
<u>Latin America</u>	<u>70 222</u>	<u>92 630</u>	<u>78 030</u>	<u>131</u>	<u>118</u>	<u>111</u>
<u>Oil-exporting countries</u>	<u>28 575</u>	<u>37 950</u>	<u>33 970</u>	<u>133</u>	<u>112</u>	<u>119</u>
Bolivia	931	800	720	86	111	77
Ecuador	1 945	2 170	1 950	112	111	101
Mexico	11 632	17 900	15 900	154	113	136
Peru	2 088	3 130	2 800	150	112	134
Trinidad and Tobago	1 142	1 450	1 300	127	111	114
Venezuela	10 837	12 500	11 300	115	111	104
<u>Non-oil-exporting countries</u>	<u>41 647</u>	<u>54 680</u>	<u>44 060</u>	<u>131</u>	<u>124</u>	<u>106</u>
Argentina	6 013	9 000	7 600	150	118	127
Barbados	379	450	400	119	113	105
Brazil	17 942	23 000	17 400	128	132	97
Colombia	3 248	4 400	3 890	135	113	119
Costa Rica	1 271	1 400	1 190	110	118	93
Chile	3 955	5 500	4 600	139	120	116
El Salvador	955	960	810	101	118	85
Guatemala	1 403	1 570	1 350	112	116	97
Guyana	298	420	330	145	126	115
Haiti	230	280	230	122	123	99
Honduras	779	930	790	119	118	101
Jamaica	883	1 180	940	134	126	106
Nicaragua	389	640	530	165	120	137
Panama	1 105	1 400	1 130	127	124	102
Paraguay	577	610	530	106	116	91
Dominican Republic	1 094	1 430	1 160	131	123	107
Uruguay	1 126	1 510	1 180	134	128	105

Source: 1979: International Monetary Fund; with the exception of El Salvador, Guyana and Uruguay.  
1980: CEPAL, preliminary estimates subject to revision.

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In the circumstances, the terms of trade continued to evolve very differently in the two groups of countries. In the oil-exporting economies they increased by over 30%, while in the group constituted by the rest of the countries of the region they dropped by 8% (see table 7). This drop was also generalized, since only Barbados, Guyana, Jamaica and the Dominican Republic escaped it, benefiting from the particularly marked increases in 1980 of the prices of sugar and bauxite. However, in the rest of the countries of this group the increases in the prices of their export products, although very frequent and of some magnitude, were not sufficient to offset the effects of the higher cost of their imports of manufactures and particularly the increases in the price of fuels. All in all, for Latin America as a whole the terms of trade improved significantly by around 8%, which brought them up to their highest level in the last quarter of the century with the sole exception of the level reached in 1974.

#### 4. Regional integration and co-operation

In the twenty years which have passed since the first integration movements began in Latin America, the share of intra-regional trade in the total external trade of the countries of the region increased from 8% to 17%. During this period exports towards the region grew at a rate of nearly 50% more than exports towards other regions, reaching a value of close on US\$ 9 billion. What is more interesting is that in the case of LAFTA intra-area exports achieved a component of manufactures of nearly 60%, while exports to the rest of the world only contained 22% of manufactures.

At the same time the linking of the Latin American economies has continued to increase through specific agreements and projects of a bilateral and multilateral scope, in the field of trade, physical infrastructure, sectors of production, technological complementarity and financial co-operation, within a clear trend towards greater pluralism and an increasing tendency to make the respective processes more flexible.

In this regard, the recent creation of ALADI to replace LAFTA, constitutes a new recognition of the need to make integration machinery more flexible. Although ALADI does not observe strict deadlines or obligations for achieving its goals, and rather constitutes a framework within which economic co-operation and complementarity activities can be undertaken by implementing agreements

Table 7

LATIN AMERICA: TERMS OF TRADE AND PURCHASING POWER OF EXPORTS

(Indexes: 1979 = 100)

	Terms of trade 1980	Purchasing power of exports 1980
<u>Latin America</u>	<u>108</u>	<u>112</u>
<u>Oil-exporting countries</u>	<u>129</u>	<u>133</u>
Bolivia	120	105
Ecuador	121	109
Mexico	122	156
Peru	104	100
Trinidad and Tobago	142	143
Venezuela	144	131
<u>Non-oil-exporting countries</u>	<u>92</u>	<u>96</u>
Argentina	102	86
Barbados	116	120
Brazil	86	99
Colombia	90	99
Costa Rica	93	92
Chile	96	104
El Salvador	88	75
Guatemala	97	102
Guyana	127	138
Haiti	91	106
Honduras	92	92
Jamaica	106	110
Nicaragua	96	69
Panama	96	99
Paraguay	87	84
Dominican Republic	114	94
Uruguay	94	99

Source: CEPAL, preliminary estimates subject to revision.

/among the

among the interested countries, it represents a realistic solution which will allow the countries which so desire to undertake a broader range of activities in the field of regional economic co-operation.

The year 1980 also gave us a concrete example of the potential of regional co-operation for the solution of some of our most acute problems. I refer to the agreement drawn up between the governments of Mexico and Venezuela to ensure oil supplies to the countries of Central America and the Caribbean and to contribute to the financing of the respective payments by granting credits on a concessionary basis and financing development projects in these countries.

### III. The new dimensions of the international financial challenge

#### 1. The ambivalences of the region's economic growth

Any attempt to assess the economic development of Latin America on the basis of the evolution of a limited number of indicators over a limited period may easily lead to errors of appreciation. On the one hand, the regional averages, as is obvious, basically reflect the changes which have taken place in the largest countries and do not therefore adequately reveal what may have taken place simultaneously in the smaller and relatively less important countries. Also, as has already been said, the new characteristics of the international economic scenario, particularly those most directly linked to the increase in the prices of hydrocarbons, have had very different effects on the economies of the region, the capacity of which to adjust to the effect of such changes has also varied greatly. An adequate appraisal should use a broader time perspective and not only the conjunctural changes which may occur in a year. Lastly, in addition to the economic variables it would be necessary to take account of those of a social nature, with regard to which, unfortunately, statistical data are deficient and are usually obtained with a considerable time lag.

However, and if for the reasons indicated we restrict ourselves to the economic sphere, we can say that faced with the decline, fluctuations and uncertainties which were characteristic features of the international economy in 1980, Latin America showed once more a significant capacity for self-defence. The fact that the region's economic growth rate - although unsatisfactory vis-à-vis social and employment needs - far exceeded that of the industrialized /countries and

countries and the fact that the non-oil-exporting Latin American countries were able once again to increase the volume of their exports despite the almost total standstill in world trade in real terms in 1980, perhaps constitute the episodes which most adequately reveal the increased resistance and flexibility of the Latin American economy at the present time.

However, it is fundamental to recognize that the basic conditioning factor for maintaining these global growth rates in recent years in some countries of the region has been a persistent and growing external indebtedness.

Hence the need to analyse, although briefly, the main features characterizing the machinery of external financing to which Latin America has access at the present time and the desirability of some brief reflections on the reforms which in our opinion it would be necessary to introduce into them in order to make it easier to overcome a weighty problem faced by not a few Latin American countries - that of obtaining external resources which:

(1) will make it possible to finance adequately the large-scale deficits generated on the current account of the balance of payments as a result of the impact of external developments and which will make it possible to effect gradually the readjustments which these developments have made inevitable, and

(2) will be adequate in their amounts, deadlines and costs to supplement the financing of the substantial investments that the region should carry out in the course of this decade, particularly in the field of energy, so as to bring the structure and functioning of its economies into line with the new realities of the international economic scenario.

Naturally, to stress the importance of adequate external financing should not lead to an exaggeration of its relative importance in the promotion of the economic development of Latin America in the decade now beginning, nor to ignoring the fact that the most significant factors for ensuring a dynamic course for the external sector continue to be the generation of a growing and increasingly diversified flow of exportable products and free access to the international markets. If in the reflections which follow, therefore, we concentrate on the topic of external financing it is not because we underestimate other factors of equal or greater importance for achieving a satisfactory economic development in Latin America, but because of obvious

/limitations of

limitations of time and the pressing need to create new forms of financing which will make it possible to recycle the major financial overflows of the countries with surpluses so as to facilitate the gradual and satisfactory readjustment of the world economy and the progress of developing countries in particular.

2. Limitations on present forms of international financing

As has already been said, the maintenance of relatively high growth rates in some Latin American countries during the last decade had persistent and increasing external indebtedness as one of its essential conditions. It is estimated that the global debt of the non-oil-exporting Latin American countries increased by around US\$ 143 billion in 1979. This figure is more than twice the value of the region's exports for that year, compared with a coefficient of only 1.5 in 1974 when the first and biggest increase took place in the price of petroleum. As regards the structure of the debt, loans from private sources, which in 1966-1970 accounted for one-third of the total external financing of the region, in 1979 accounted for over 75% of this flow, amounting to nearly US\$ 20 billion. The trend towards a drop in the relative importance of official sources of financing - both bilateral and multilateral - and the increasing participation of private sources has thus continued.

In the circumstances, the increase in the deficit on the current account of the balance of payments of the majority of the Latin American countries and the growth and change in the structure of their external debt, confront them with a new situation. In the past, the region's main problem in this field was the lack of external financing and the restrictions which this situation imposed on possibilities of economic growth. At the present time this situation has changed substantially. On the one hand, the Latin American countries have been gradually marginated from official development assistance. On the other, some Latin American countries have gained wide-ranging access to external credit and particularly credit of private origin. This brings them face to face with new opportunities but also with new obstacles.

As regards opportunities, new alternative sources of credit are available with the possibility of reducing the conditions imposed by the lenders on the domestic economic policies of the borrower countries.

/As regards

As regards the limitations of the new situation, it should first of all be mentioned that the credit is not always in line, in terms of deadlines or types of interest, with the maturity periods and the financial requirements of the investments which are needed in the developing countries, many of which have relatively long maturity periods. This, for example, is the case of investments in energy, which, as we have said, must be expanded considerably in the course of this decade.

Secondly, the predominance of private sources of credit brings to the fore the limitation of a tendency towards the use of criteria of private rather than social profitability with respect to the use of the funds. These criteria may differ considerably, particularly in countries which endeavour to follow new development strategies directed at social sectors marginated from the benefits of traditional economic growth.

Thirdly, the level and form which the international financing system is acquiring brings up the risk of postponing the basic readjustments which are necessary between countries with deficits and countries with surpluses. The postponement of the readjustment involves a danger that it will become inevitable at the most inappropriate moment such as, for example, when there is an exceptionally large drop in the terms of trade or a major world recession.

The excessive splitting up of the system brings about both an unequal distribution of the weight of the readjustment among the countries, and its resulting in a reduction of the growth possibilities of the world economy as a whole. If for various reasons some industrialized countries with large deficits on their external accounts are forced simultaneously, but independently, to apply restrictive measures to reduce their deficits, the readjustment will be achieved at the cost of a drop in the levels of economic activity and employment not only in these countries but in the rest of the world economy.

In practice, therefore, one of the main dangers stemming from the present situation as regards international financing would seem to be that the trends towards growing protectionism are becoming more acute in the industrialized countries and making it more difficult for the developing countries to place their exports. Alternatively, it seems possible that many developing countries are entering an "indebtedness spiral", where an increasingly large share of the new credit must be earmarked for paying the debt.

/What is

What is required, therefore, is to create levels of international concertation in order to carry out an orderly restructuring among countries with deficits and countries with surpluses before this readjustment is forced on them as a result of some crisis situation which will not allow more rational options to be selected.

3. The need to seek new forms of international financing

The above brings to the fore the imperative need to seek new forms of international financing which do not involve the dangers indicated above.

Following the first sharp increases in oil prices, the international banking system promoted relatively efficiently the process of recycling the financial surpluses from the oil-producing countries to the oil-deficit countries. However, vis-à-vis the increase in the disequilibria of the external accounts of the developing countries and the continuing and rapid increase in their external debts, it is legitimate to wonder about the prospects of the institutions which form part of the system continuing to carry out this role as they have to date.

Despite what has been said, these prospects do not seem excessively sombre. The capital coefficients of the private international banks do not yet seem to constitute, on average, a serious limitation on their lending operations and the distribution of these operations among the industrialized economies and the developing countries will continue to depend on the relative profitability of the loans in both. The amount of the loans granted to the developing non-oil-exporting countries, as a proportion of the gross assets of the banks on the exterior, remained at around 17% during the whole of the last decade. The banking debt pending in this group of countries in 1979 (around US\$ 190 billion) amounted to only 4 or 5% of the total assets of the banks, which are giving increasing attention to the appraisal of the advantages and risks of their credit operations in the developing countries while the national financial authorities maintain a permanent dialogue on these subjects within the context of the Bank for International Settlements.

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However, the present system is not exempt from problems. Some banks could be reaching certain technical limits in their relations with specific countries. The amount of the credit could exceed the debt servicing capacity of some developing countries. Doubts also usually arise and should be taken into account as regards the more or less efficient use and the final destination of the credits and their possible contribution to the promotion of excessive consumption.

In order to face up to these problems a co-ordinated group of macroeconomic policies will be required internally and financing facilities externally in line with the magnitude and scope of the problems which the developing countries must deal with. In this regard it should be noted that cutting down on commercial financing is not the most adequate means of solving the above problems, either from the standpoint of the lending countries - whose development programmes may be seriously affected by these measures - or from the standpoint of the industrialized economies - which would find the dynamism of the markets in the developing countries reduced. Hence the urgent need to seek a more stable framework for these transactions and above all to strengthen the role of the international public financial institutions and particularly the International Monetary Fund, the World Bank and the regional banks.

The aim is to give these institutions a more active role in the recycling of funds, complementing the function which the commercial banks have been carrying out. In fact, the magnitude of the financial requirements of the countries with deficits means that in order to propose effective readjustment policies, the international financial bodies would have to be in a position to contribute a volume of resources considerably greater than what they have channelled in the past. They will also have to bring the deadline of their financing into line with the extension of the readjustment periods required by the countries with deficits. These adjustments, moreover, cannot have an exclusively monetary basis but should be aimed at increasing the supply of resources and expanding the productive base of the countries with deficits and should form part of a longer-term strategy aimed at encouraging domestic saving, investment and growth.

/Naturally, in

Naturally, in order for these bodies to increase their resources to any considerable extent not only will they have to obtain a larger volume of loans from the governments of the countries with surpluses or in the international financial markets, but they will have also to invent new institutional machinery which will facilitate their participation in the recycling process.

#### IV. Conclusions

This address consisted of two main parts. In the first we gave some preliminary estimates, based on the limited information available at this point in the year, on some main trends of the Latin American economy in 1980. In the second part, we formulated some reflections on a problem - that of the new dimensions of the international financial challenge - which in our opinion will be of special significance for the economic development of Latin America in this decade.

As regards the first aspect, our tentative estimates indicate that during 1980:

1. There was a drop in the economic growth rate of Latin America, from 6.3% in 1979 to 5.3% in 1980.
2. The average economic growth rate of the region was exceeded in five countries - Brazil, Chile, Mexico, Nicaragua and Paraguay - which together contain 60% of the population of Latin America. However, in Argentina, Bolivia, Honduras and Venezuela the rate of growth of global economic activity was apparently less than that of the population increase, and their per capita product thus decreased. El Salvador was the only country where the total gross domestic product dropped in absolute terms.
3. Average inflation in Latin America was around 54%, thus maintaining the very high rate registered in 1979. The average increase in consumer prices in the region was strongly influenced by the inflation rates of around 90% recorded in Argentina and Brazil and the smaller, but still considerable, increases (between 50 and 60%) which occurred in Bolivia, Peru and Uruguay. Of the other countries of the region, only two - Guatemala and Haiti - had rates of inflation of under 10% in 1980.

4. The evolution of the external sector was less favourable than in previous years. The deficit on current account for the region as a whole increased by over 30% and amounted to the unprecedented sum of US\$ 25 billion. Since at the same time net capital earnings decreased from US\$ 26 billion in 1979 to US\$ 22.5 billion in 1980, the balance of payments experienced a substantial downturn, from a surplus of US\$ 7.1 billion in 1979 to a deficit of US\$ 2.55 billion in 1980.

5. These global changes stemmed from the very different trends observed in the external sectors of the six oil-exporting countries - Venezuela, Mexico, Ecuador, Trinidad and Tobago, Peru and Bolivia - and in the other economies of the region. As a consequence of the big new increases in the price of petroleum, the evolution of external trade and the balance of payments in the former was, generally speaking, far more favourable than in the latter. While the oil-exporting countries reduced their current account deficit achieved a surplus in their balance of payments and improved their terms of trade by nearly 30%, in the non-oil-exporting economies, the deficit on current account rose from US\$ 13.9 billion in 1979 to US\$ 23 billion in 1980, the surplus on the balance of payments of US\$ 4 billion achieved in 1979 became a deficit of US\$ 4 billion in 1980, and the terms of trade dropped by 8%.

The following conclusions may briefly be drawn from what was said in the second part of the address on international financial problems:

1. Like other regions of the world, Latin America has been obliged in recent years to face up to the impacts of the readjustment of the international price of oil, the increase in external inflation, and the decline in the growth rate of the world economy and world trade. As is natural, these changes have had very different effects on the development process in the different Latin American countries.

2. In general terms, the region has given a vigorous and flexible response to the challenges brought to the fore by the international crisis and has shown that it possesses a much greater capacity of self-defence than in the past. The sustained growth of the volume of exports and their diversification in the framework of a world economy characterized by a very weak rate of growth and the re-emergence of protectionism in the industrialized countries and the achievement of economic growth rates higher than those of the latter are two significant elements in this new and improved capacity of self-defence.

3. In the majority of the countries of the region, the absorption of the effects of the international crisis and particularly of the increase in the price of energy products has required readjustments combining to a greater or lesser extent reductions in the growth rate, increases in the rates of inflation, and increases both in the deficit on the current account of the balance of payments and in external indebtedness.

4. This process of readjustment has been facilitated by the recycling of the financial surpluses accumulated by the main oil-exporting countries. To date, the mass of this recycling has been brought about by the private commercial banks, although this does not mean that the role played by the public financial institutions should be ignored.

5. The region as a whole will during the 1980s require new and substantial transfers of resources so as to be able to space out the process of readjustment required by the trends in the world economy and the increase in the international price of fuels and also to finance the huge investments needed to boost economic and social development and particularly the growth of the energy sector. These adjustments and investments are so large that they require new forms of international co-operation in order to be able to bring them about gradually and thus avoid the high economic, social and political costs which would otherwise have to be paid.

6. A policy of international co-operation to absorb gradually the impact of the international conjuncture and in turn facilitate the energy transition of the region would not only benefit Latin America but would permit it to continue with its dynamic and active role in the progress of the world economy. In this regard it should be recalled that the purchasing power of the region at the present time constitutes an element which may significantly influence the international economic cycle, while its continued growth would contribute to offsetting the regressive trends in the world economy and trade.

7. In order to promote this co-operation, Latin America will need the participation of both public and private financing institutions. The decade now beginning will, however, require new efforts if the problem stemming from the substantial financing requirements of the balance of payments is to be tackled with imagination and realism. These efforts will basically require:

(a) A large increase in transfers of resources through public institutions. These should recognize the particular dimension and nature of the problems of payments in the decade now beginning, by adapting their policies to new circumstances which in many cases cannot be fitted into traditional and in some cases earlier forms of relationships between the countries and international financing bodies;

(b) Free access to the international financial markets and particularly the incorporation into them of new banking sources and institutions;

(c) New and imaginative forms of co-operation between international public and private financing institutions in order to facilitate the channelling of resources from countries with surpluses towards the Latin American economies, and

(d) New forms of direct financial co-operation between the oil-producing countries and the Latin American economies.

8. Naturally, all the foregoing should complement the internal efforts which our countries must make in order to bring about the readjustments required by the international conjuncture and make the changes required for satisfactory economic and social development.

9. The new efforts required from international co-operation, particularly of a financial nature, should be accompanied by our own effort of imagination as regards regional co-operation, which is more than ever in need of revitalization and dynamism. In this field, the creation of ALADI opens the door to renewed expectations, unfortunately not accompanied by similar progress in other integration schemes. On the other hand, the examples which Latin America has been giving the world in the field of energy co-operation is highly laudable and instructive. Mexico's and Venezuela's initiatives in contributing to the solution of problems facing the countries of Central America and the Caribbean in this field, the policies adopted by Trinidad and Tobago, and the efforts which the Latin American Energy Organization (OLADE) are making to design an ambitious programme for energy co-operation constitute in our opinion concrete and encouraging expressions of the role which regional co-operation can and should perform in the future.