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Review

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The challenges facing Latin America in the world today

Guillermo
Maldonado Lince*

In this article the author analyses various long- and medium-term developments in the world economy and in the sphere of international economics and politics and explores their impact on Latin America. He then goes on to consider the regional scenario and, in particular, the current economic crisis, with special attention being devoted to the efforts made by Latin America to improve its present position.

The inventory of constraints and achievements which emerges from these observations suggests that there are a number of challenges to be met by the region, including those represented by the need for the consolidation of democracy, the preservation of peace, the restoration of the countries' manoeuvring room in their efforts to carry forward the process of development, the achievement of increased autonomy in the formulation and application of policies, and the furtherance of integration processes.

Latin America must adopt a variety of approaches in order to respond to these challenges. There is a need, for example, to design an alternative development strategy, to increase regional co-operation, to effect a qualitative change in the international insertion of the countries of Latin America and to establish a zone of peace in the region. The international community bears some responsibility in this respect, since the realization of such objectives depends on the stability of the international economy as well as on the reduction of the debt burden and of protectionism. The conclusion reached in the article is that development, integration and democracy are the pillars of any political programme designed by and for Latin America.

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I

The international scenario and its impact on Latin America

1. *Relations between the superpowers*

The relationship between the two superpowers has always had a decisive political influence in the area of international relations since, in essence, their behaviour reflects the world power structure. This relationship is marked by periods of tremendous tension and by others of apparent calm, but the ideological confrontation between the two countries is an ongoing one and is reflected in various parts of the world. The economic effects of this struggle may be seen in an astonishing increase in the amount expended on weapons, which diverts funds from their normal productive ends and from international co-operation for development. This mounting expenditure has, moreover, resulted in the creation of a nuclear arsenal powerful enough to obliterate all signs of life from the face of the globe. Two fundamental objectives of the United Nations are thus in jeopardy: peace and development.

However, in the midst of ideological confrontations and localized conflicts in the Middle East, the Persian Gulf, Afghanistan and Central America, some appreciable progress has recently been made in the disarmament negotiations between the two superpowers, and this may result in a needful and constructive period of worldwide détente.

The extraordinary increase in the defence spending lies at the root of the fiscal deficit of the United States and causes this country, whose impact on the Latin American economies is very considerable, to compete with the region for the financial resources which Latin America needs so urgently in order to carry forward its economic and social development.

The coming months will be of key importance in terms of the outcome of the disarmament negotiations; in future summit meetings, it would be desirable if the two superpowers would not only provide for the elimination of nuclear arsenals but would also give priority to the con-

solidation of peace, the promotion of economic and social development and the full re-establishment of multilateralism and international co-operation.

2. Relations among the developed countries

The leading industrialized market-economy countries are experiencing a period of substantial structural change, and this is altering their traditional relationships. In spite of the unity they have maintained so far at the political level in their stand against the socialist countries, as manifested primarily in the support they give to the United States in its confrontation with the Soviet Union through various military and strategic alliances, signs of friction have emerged during the present decade at the economic level.

In international trade, for example, the world's main trading partners are engaged in an unrelenting struggle which has given rise to an increasingly pervasive, persistent and complex form of protectionism and are showing extraordinary belligerence in their use of reprisals reflecting the relative bargaining power of each party. This confrontation has led them to bypass the rules of the General Agreement on Tariffs and Trade by applying new concepts and rules which have not been agreed to at the international level. At bottom, these trade conflicts are a sign of the varying degrees of speed and effectiveness with which each of the industrialized countries is able to absorb the technological change now sweeping the world.

This constant friction in the commercial and financial spheres is aired in direct negotiations among the leading developed countries which are held within the framework of the form of macroeconomic co-ordination agreed to by them at their summit meetings. By these means the developed countries have invested themselves with powers which are virtually absolute and are not recognized by the international community. They thus use intergovernmental negotiations to set exchange rates and interest rates in a manner which bears little resemblance to the orthodox approach they preach but do not practice. The conflicts among these countries are not, however, indicative of any long-term divergence at the economic and political levels. Rather, they are indications of a realignment that is being

forged at the level of production in an attempt to arrive at a different relationship and a different order of specialization, which will undoubtedly alter the present International Division of Labour. Not only will the division between the centre and the periphery change, but there will also be more than one centre, from an economic standpoint, and different peripheries in varying stages of deterioration.

One of the ways in which this realignment is felt is in severe macroeconomic imbalances among the main developed countries of the West. These nations have been incapable of redressing such disequilibria within the framework of their joint scheme of co-ordination in spite of the fact that a substantial devaluation of the United States dollar against the currencies of Europe and Japan has been negotiated and interest rates have been set at levels designed to allow financial resources to flow easily out of the surplus countries in order to cover the persistent fiscal and trade deficits of the United States. Needless to say, this macroeconomic scheme of co-ordination and the attendant negotiations taken no account of the interests of Latin America, whose commercial and financial flows are being profoundly altered.

In spite of everything, the United States' deficits remain, and it is demanding that its main partners raise the level of their economic activity—a demand which they are resisting not only for fear of reactivating inflationary pressures but also because, in some cases, cultural factors take the form of habits that favour saving rather than consumption. In any case, the conclusion seems to be gaining ground that the developed countries will not be able to reconcile the objectives of full employment and price stability by means of orthodox policies.

All this, together with the failure to redress the macroeconomic imbalances of the leading developed countries and the lack of international control over such disequilibria, points to the need for a proper reform of the international financial and monetary system, as has been repeatedly proposed by the Group of 24 and even by some developed countries.

In short, in spite of the growing internationalization of national policies and economic affairs, the world economy has ceased to transmit dynamic impulses to Latin America. On the

contrary, it is transmitting instability, recession and costs which are out of line with the need to adapt to new circumstances.

3. *The crisis of multilateralism*

Following the Second World War the system governing international economic relations was organized in accordance with the way the world was viewed from the perspective of the North. This view was based on the concept of multilateralism, just as multilateralism was based on the world power structure and on the international division of labour which had been established.

The Latin American countries and the other developing countries could not participate in this system unless they were accorded special and differentiated treatment because the rules of the game had been designed to facilitate North-North relations more than North-South relations. The result was the well-known and lengthy list of measures for which the third world countries fought so hard in international forums: Part IV of the General Agreement on Tariffs and Trade, the creation of UNCTAD, the Generalized System of Preferences, and the establishment of codes of conduct and international commodity agreements, to mention only a few examples.

The only viable alternative for the developing countries was to accommodate themselves to the multilateral system created by the North, and in doing so they in some way modified and eroded it. There can be no doubt that a major role in this phenomenon was played by the presence, in force, of the developing world in the United Nations and other multilateral forums and its importance either as a market for the centres' exports of manufactures or as a source of supply of raw materials. These are the factors which have given rise to the so oft-discussed interdependence of these countries, but it is a basically asymmetrical type of interdependence between parties that are on an unequal footing.

The experience of recent years shows that multilateralism is clearly in decline and is giving way to direct dealings based more on the real and specific "power" of each country which have little to do with the rules and forms of conduct befitting a relationship of "co-operation" among sovereign States.

Multilateralism as practised in the postwar period no longer corresponds to the new world view which now clearly prevails in the developed North. The structural changes taking place in the more advanced countries, as manifested in the technological revolution (which some people call "the third industrial revolution"), in the boom in services and in the internationalization of economic activities, are the marks of what might be characterized as a period of transition towards new forms of production, power and relations between States. This period is also one of instability, of change and of new developments in the international trade, financial and monetary systems.

In short, as the North sees it, multilateralism is no longer appropriate either to the new world power structure or to the emerging international division of labour. In contrast, for the countries of Latin America, multilateralism is both valid and necessary in that it provides the best means of attenuating the imbalances in economic political power which exist between States. If this were not the case, why would the North itself choose a multilateral forum to establish the rules for a new system of international trade in goods and services? The answer, quite simply, is because this still confers legitimacy. In the eyes of Latin America, a number of major challenges remain to be met through multilateralism: keeping the peace, promoting development, halting the deterioration of the international system of trade, re-establishing stability and financial equity and reforming the international monetary system, finding a political solution to the problem of the external debt, and effectively meeting the needs of the developing countries in such a way as to make their participation in the international economy more equitable, symmetrical and dynamic.

4. *The technological revolution*

There is no doubt whatsoever that today Latin America is confronting a world which is changing and moving forward very rapidly, sometimes in surprising directions. The development of microelectronics, information sciences and telecommunications, together with other advances derived from space research, has brought services to the international market which previously

did not exist, or if they did, were not internationally tradeable.

The parallel progress made in information sciences and telecommunications has given rise to the field known as telematics, which, at an international level, gives continuity to and interlinks the services made possible by these two activities: the transmission of commercial, financial, tourist and scientific information, designs, quality control standards, the long-distance signing of contracts, etc. This allows services to be provided internationally without any need for the movement of personnel or the clearance of customs controls at national borders and permits such advances to be applied in the fields of health, education and other social services. The developed countries, which have already mastered these new technologies, have rapidly become net exporters of this type of services to the rest of the world.

If these services are to be further developed in the future, there will be a need for the capital goods and other generally "high-technology" equipment which make up the infrastructure that channels the flows of information traded in the form of services. Consequently, it is worth bearing in mind that international trade in services depends on the possibility of investing in infrastructure either beforehand or concurrently and on the availability of the necessary equipment. At this point we can clearly see the close links which exist among "trade in services", "trade in goods" and "service-related investments".

These considerations underscore the fact that the economic determinants of international trade in services are not merely an extension of those of international merchandise trade and that there is no reason why they should be governed by the same rules.

It is becoming increasingly clear that transactions which are directly or indirectly linked to the international provision of these types of services will have a decisive influence on the future development of the third world countries. Not only is the whole concept of comparative advantages changing, but a host of strategic, geopolitical, cultural and even national security considerations are introduced by participation in worldwide information networks which are

created, processed and distributed by the leading industrialized countries of the West.

Like other developing countries, the Latin American countries are net importers of services and are only beginning to form industries in the majority of these new and revolutionary fields. In contrast, the industrialized countries are exporters of such services, possess efficient industries in these sectors, and invest large amounts of money in basic and applied research and development, and all of these elements are closely linked to their external trade. This accounts for the developed countries' determined effort to include these subjects on the agenda of the Uruguay Round and points up the consequent need for Latin America to prepare itself for a much more comprehensive round of negotiations than the multilateral rounds which have taken place within the framework of GATT in the past.

All these changes clearly show that an international division of labour is emerging which, as under the present arrangement, would relegate Latin America to a raw materials-producing periphery, but this time that periphery would be facing one or more centres whose rapid technological progress would make them much more remote. Latin America must face up to this challenge. It is the key to the twenty-first century. This emerging division of labour will reflect not only the new structure of production in the world but also a new balance in world power, and it will no doubt require a new institutional order at the international level to support it. The region must prepare itself for all this. And not much time remains for it to do so.

5. The orthodoxy which is preached but not practiced

The phenomena to which the international scenario and its impact on the countries of Latin America have given rise lie in the realm of ideas as well as in that of facts. For example, the response to the Great Depression of 1930 in the leading industrialized societies of the West (and it was a response which had a great impact on development-related thinking in Latin America in the postwar period) was the Keynesian paradigm. This is characterized by the free operation of markets in combination with a welfare State which concerns itself not only with attenuating

the recurrent cycles of prosperity and depression but also with providing employment and a minimum level of well-being to the entire population. The excesses committed in the name of this paradigm over the years gave rise to a new orthodoxy in many industrialized societies in which the unrestricted operation of market forces tended to be favoured as the pre-eminent instrument for allocating resources. Accordingly, the role of individuals and private enterprises as agents of change was stressed and that of the State was therefore reduced to one of establishing a minimum of rules and keeping order.

Furthermore this paradigm is set forth as being valid both for central and for peripheral societies. With regard to the latter, the proponents of this paradigm advocate a development path which is patterned after the thinking of the industrialized countries and based on the technical solutions provided by them. This approach is transmitted through, *inter alia*, the coercive components of the rules of conditionality to which the countries of the region must submit when they seek external financial support. Some of the main features of this approach include the dismantling of barriers to external trade in order to ensure that international prices will be the prices which contribute to an optimal allocation of resources; the adoption of "correct" macro-economic policies in order to avoid internal and external imbalances; and the scaling down of the role of the State as compared with that of private sector agents, since the latter are allegedly the actors which will react more dynamically and creatively to market signals. It is also argued that the optimization of growth rates is compatible with the population's general well-being, i.e., with considerations of equity.

Three types of observations may be made which reflect a view that is definitely gaining ground in Latin America. In the first place, there is no reason whatsoever to think that approaches which may be valid for one society will necessarily be so for another, much less that the theoretical models applicable to a contemporary industrialized economy can be validly applied to Latin American systems of production. Such thinking reflects a gross simplification of a process in which no one theory is universally valid. Secondly, this orthodox approach is preached but not practiced in the very societies which formulated it. Examples of this which affect Latin America very directly may be found in the macroeconomic imbalances characterizing the world's leading developed economy (and in their manifold repercussions on international economic growth); in the production and export subsidies for agricultural commodities provided by the majority of the industrialized economies of the West; and in the growth of protectionism in international trade. Finally, the main tenets of this approach do not take account of various constraints and realities, including the extent of its political support and its applicability in a complex and changing international context. As emphasized below, even those countries of the region which have moved in the direction of greater openness in their economies have encountered external resistance to their efforts to achieve a different sort of insertion in the international economy. Thus, in the case of many Latin American countries, instead of facilitating the recovery of their own economies, liberalization policies have helped to maintain only the industrialized economies' level of activity by lessening the decrease in their exports to the region.

II

The regional scenario

1. General features

It cannot be denied that present-day Latin America has undergone tremendous and significant changes. Its productive apparatus has been diversified. Infrastructure works have been built

which have called not only for large investments and the use of modern technologies but also for bold new designs in order to overcome natural obstacles that have challenged the national capacity to carry out such projects. At the same

time, the development models which have been applied have not been successful in eliminating distributive inequities within national societies. Many social evils still persist, such as those of extreme poverty, hunger, malnutrition, infant mortality, inequality in terms of the opportunities offered by life in society, the constant illegal interruption of the democratic process, etc. All these problems are facing the renewed democratic effort being made in the region as its champions take up the heavy responsibility of guiding national destinies at this critical point in history.

The present decade has been one of paradoxes. One of the most significant achievements of the people of Latin America has undoubtedly been the restoration of democracy as a system of government and as a life style. The international community has unreservedly applauded this process, but the economic realities confronting it have come to pose a serious threat not only to the possibilities of re-embarking upon the road to development but also to social tranquility and to the very survival of democracy. At the same time, however, the reconstruction of democratic systems and the re-establishment of civil liberties have become the main bulwark against the economic crisis in that they make the sacrifices in terms of well-being more tolerable. This is because even though the measures adopted by democratic governments may be a subject of debate and disagreement domestically, they nonetheless contain a new ingredient which is of fundamental importance, i.e., their legitimacy.

This bulwark of democracy is, however, being subjected to pressures which are undermining it. The idea that domestic savings can continue to be drained off in order to service the external debt is unthinkable. The proposition that the quality of life and income levels should be allowed to continue to deteriorate for the sake of the recessive adjustment which has been imposed on the region without anything having been done in the international economy to compensate for the sacrifices made by Latin America as an idea that does not stand up to analysis. To force matters further would be to run the risk that the region's economic lags and shortfalls would in the end eat up the political advances it has made, plunging it once again into a dark age of authoritarianism and social unrest.

A meaningful lesson to be drawn from these harrowing years is that economic phenomena neither come into being nor are applied, in a theoretical vacuum. They occur within a living social body in which ideas and interests sometimes clash. Now more than ever it is difficult to draw a neat dividing line between the political and the economic spheres. It may be more correct to think of the economic management of countries as constituting a substantial part of their political management, with all that may imply.

2. The economic crisis

The crisis of the 1980s in Latin America is without historical parallel in that not only has it caused the development of the region to regress by 10, and in some countries by nearly 25 years, but that also it is taking place in an international context which differs from that of the past.

The region has had to deal with serious external imbalances and to take steps to adjust to the new circumstances it faces. The adjustment has been taken very seriously and has been made at great sacrifice in terms of the legitimate and frequently-postponed aspirations of the people of the region, on the understanding that the international economy would live up to its own part of the bargain, i.e., that growth would be reactivated, that interest rates would be lowered, that protectionism would be eliminated and that the flow of capital into the region would be re-established. None of this has happened. Instead, the signals transmitted by the external sector have been ones of confusion, instability and uncertainty. There can be no doubt that there has been tremendous asymmetry as regards the cost of the adjustment. Too high a percentage of the region's capacity for growth and savings has been transferred to the exterior in a trend which must be halted and reversed, not only through Latin America's own efforts but also with the staunch support of the international community.

The most overwhelming feature of the crisis in terms of its magnitude and implications is the external debt. It undoubtedly constitutes the most difficult barrier to overcome in order to resume the region's economic and social development process. Between 1977 and 1986, the external debt of Latin America rose from

US\$120 billion to US\$390 billion. The factors most responsible for this striking increase were the flight of capital and the capitalization of the unduly high interest charged. The trade deficit for the region as a whole has in itself been responsible for only 17% of the increase in the debt during this 10-year period.

If the growth of Latin American exports is estimated at 6% up to the end of the century (which is quite close to the historical average) and 20% of export earnings are allocated to servicing the debt (interest payments only), then the debt will stand at approximately US\$675 billion by the beginning of the twenty-first century.

Seen from this perspective, the debt problem can be solved only if it is understood to be the joint responsibility of debtors and creditors, one which must be the object of a dialogue involving governments and private sectors, and if it is acknowledged that the nominal debt figures do not accurately represent its real value. In other words, in order to resolve the problem of the debt, it must be scaled down to an equitable and manageable size in keeping with Latin America's legitimate right to development.

Interest and exchange rates are two features of the world economy which have a decisive impact on the economic behaviour of the Latin American countries. It has almost invariably been argued that interest rates, in particular, are the result of the free interplay of market forces. Something similar happens in the case of exchange rates, especially since the adoption of floating rates in 1971. The current disorganization of the international financial and monetary system demonstrates, however, that these rates are not actually set by the market but are instead decided upon in the course of painstaking negotiations among a small group of industrialized countries within the context of what has come to be known as "macroeconomic co-ordination". For Latin America, high interest rates have been the principal means by which financial resources have been extracted from it and the magnitude of its external debt has multiplied.

The problems of Latin America have been aggravated by the structural crisis affecting the commodities exported by the region, which account for three-fourths of its annual foreign exchange earnings. The unprecedented collapse of international commodity prices, which puts

the majority of them at levels far lower than the production costs of these goods, is compounded by the surplus supply generated by the need to export in order to meet the requirements of the adjustment programmes and to service the debt. In addition, there are some very worrying short- as well as medium- and long-term trends. At the moment, there is a marked contraction in demand on the world market as a result of the prevailing financial conditions (and, in particular, of the high interest rates) and of the protectionist policies and practices of the developed countries. This trend is reinforced by the defective structure of international marketing, whereby producers receive only a tiny fraction of the final price obtained for products on the market where they are sold. An even more serious situation is looming ahead, however. Investment programmes in the sector are showing a decline because nobody risks making investments without being absolutely certain whether or not the corresponding products can be sold on the international market. An inadequate degree of processing goes into the primary products which Latin America exports, and this robs them of value added and dynamism. The impact which the technological changes occurring in the centres will have on the production and consumption of commodities is severe and irreversible. Steel is a case in point: the decline in the demand for it cannot be reversed since it is noted even in periods of economic growth in the developed countries of the West. Technological changes are encouraging the increasing use of substitutes, of synthetics and other artificial products and of new materials such as optical fibres and the superconductors whose advent has been announced.

As if all this were not enough, the steady deterioration in the purchasing power of commodity exports is becoming another instrument for the extraction of Latin American resources. The greatest challenge, however, is that if Latin America is to cease being an exporter of raw materials, it will have to achieve a high degree of production and marketing efficiency, since such exports are the main source of wealth at its disposal and, consequently, offer the best opportunity for saving in order to invest in and diversify the productive apparatus. This process may take many years, but it must be set into motion at once.

In addition to the drop in the earnings brought in by commodity exports, external lending, not only by international private banks but also by bodies such as the International Monetary Fund, the World Bank and IDB, has been sharply reduced. In the case of the international lending agencies, the situation is now bordering on that experienced in relation to private banks —negative financial flows. It is a situation which verges on the ridiculous.

In recent years international trade has been subject to intense pressure which has undermined the validity and credibility of the rules agreed to internationally. Floating exchange rates have introduced elements of uncertainty, since the direction and stability of trade flows are difficult to improve upon and change by artificial means. Countries which follow protectionist policies and engage in protectionist practices draw upon an arsenal of tariff and non-tariff barriers as a means not only of reserving their local market for national production activities but also of keeping efficiently-produced goods from Latin American countries out of their and other countries' markets. To this end, the industrialized countries resort to production and export subsidies while at the same time condemning such subsidies when they are used by other countries as constituting unfair practices and countering them with trade reprisals. In some developed countries, the protectionist trend is reflected in legislation which totally alters the concepts of international trade (concepts such as reciprocity, for example). They even go so far as to use their voting power in international financial bodies to deny resources to development projects in sectors in competition with their own production sectors. A multilateral means must be found of resolving this inconsistency whereby the region is, on the one hand, asked to form closer links with the world economy by increasing its exports while, on the other hand, markets are closed not only to its basic commodities but also to its manufactures.

Protectionism is not only detrimental to the exports of the developing countries. It also affects the relationships among the member countries of OECD, whose secretariat has issued all kinds of warnings concerning the adverse effects of protectionist policies and practices on the international economy and on the efficiency and competitiveness of the various production

sectors. In recent months the subject of agricultural commodities has attracted special attention in that a proposal for the elimination within one decade of all production and export subsidies has been submitted for consideration at the Uruguay Round of negotiations. Some Latin American countries, together with other developed and developing nations, working in conjunction with each other in the Cairns Group, have played an active part in ensuring that priority is given in the GATT negotiations to the dismantling of agricultural protectionism. This is an example of what might be accomplished in other sectors which are the object of international economic negotiations.

3. The consequences

In addition to its severity and length, the economic crisis in Latin America has been notable for its widespread and multifaceted character. Although its consequences have been more serious and long-lasting in some countries than in others, it has affected the large economies of the region as well as the medium-sized and small economies, the oil-exporting countries as well as those which are totally dependent on imports for their fuel supply and those economies which had advanced further along the road to development as well as the poor countries and those with less diversified structures of production.

The exceptional nature of the crisis has also been reflected in the simultaneous and persistent deterioration of the principal economic indicators. In many countries not only has production fallen or its growth rate declined, but the employment situation has grown worse and real wages and salaries have dropped. At the same time, inflationary processes have gathered force and are being felt more widely, and the problems encountered by the external sector have grown more severe.

Thus, although the gross domestic product showed a partial recovery in 1986, for the region as a whole it was still 7% lower in that year than in 1980 and barely higher than it had been in 1977. Moreover, since during the same period the terms of trade showed a severe and persistent deterioration and net remittances of interest and profits to the exterior increased significantly, the drop in per capita national income, which is the best measure of average standards

of living, was much more pronounced (-13%) than the decrease in the per capita product.

This latter drop is also indicative of the very considerable extent to which the domestic savings and production efforts made by the countries have been undermined by the unfavourable nature of the external environment. This has been due, in the first place, to the fact that in order to finance the abundant net transfer of resources being made to the exterior in recent years, the economies of Latin America have had to export much more than they import, with a consequent reduction in the amount of goods and services which is actually available for consumption or investment. This disparity between the countries' domestic production and saving efforts and the benefits they reap in the form of consumption and investment has, in the second place, been exacerbated by the constant and severe deterioration of the terms of trade, which has made it necessary for them to export an increasingly larger volume of goods and services in order to obtain the same quantity of imports.

Another particularly serious aspect of the crisis has been the drop in investment. In the region as a whole, investment has fallen by 30% over the past six years, and in many countries the decrease has been even more greater; indeed, in some of them the decline has been so large that investment has not even covered the depreciation in capital holdings. Thus, in addition to adversely affecting present living conditions, the crisis has also seriously jeopardized the possibilities of bringing about a rapid rise in living standards in the future.

Furthermore, given the high rate of growth of the labour force, the decline in economic activity and the drop in investment have gone hand in hand with a sharp rise in the rate of open unemployment and with an increase in various kinds of underemployment. In spite of the decrease in unemployment observed in the majority of the principal cities of the region since the end of 1985, the levels of open unemployment in general were higher in 1986 than in 1980.

The negative social effects of the deterioration in the employment situation have, moreover, been aggravated in many cases by substantial drops in real salaries and wages and by the contraction in many countries of public expenditure on education, health and housing as

a result of the application of policies aimed at reducing fiscal imbalances. Thus, in spite of the efforts made by governments to continue with those programmes or services that most directly benefit the most underprivileged groups, in many of the countries of the region extreme poverty has increased while the distribution of income and opportunities, which was already very unequal, has become even more so.

These developments constitute some of the more notable and painful effects of the crisis, but they have also been accompanied by others which, while less visible, are no less serious. These include the reduction in the authorities' manoeuvring room as regards their handling of economic policy and, in particular, fiscal policy. While public-sector revenues have been constricted by the decline or slow growth of economic activity and by the sharp decrease in the prices of the countries' main export products, government expenditure has been under pressure from the rapid and relentless increase in the interest payments due on the public debt. In these circumstances, governments have often been faced by the dilemma of whether to reduce other expenditures which are vital in order to meet pressing and legitimate needs of the poorest groups of the population or in order to augment the dynamism and autonomy of the development process, or, alternatively, to try to maintain these expenditures, financing them through mechanisms which have increased inflationary pressures. Thus, the transfer of resources to the exterior caused by the increase in interest payments and the steep decline in external financing has not only curbed development by sharply diminishing the countries' import capacity and by absorbing a substantial amount of domestic savings, but has also limited the governments in the performance of their role in redistributing income and promoting development and has helped to speed up inflation.

4. Progress in the face of adversity

The people of Latin America have shown signs of a vitality far surpassing the most optimistic expectations. Not only have they weathered the most severe crisis in their history, but they have also found ways of achieving growth and of sav-

ing even though some of the fruits of their efforts may have been siphoned off by external forces. They have recovered their freedom and reinstituted democracy in a process whose viability had been questioned from both within and without. Today régimes governed by the rule of law whose leaders are responsible for their acts to parliaments legitimately elected by the people are in the majority, and this has made it possible for these governments, within a context of respect for human rights and civil liberties, to adopt painful economic austerity measures which have postponed the satisfaction of many of the people's most pressing needs. In some cases, people's views concerning the directions taken by their government have been expressed through elections, introducing democratic dialogue, relations and pluralism and reaffirming or altering the course plotted for the nation.

At the same time, it has been possible to maintain peace among the countries of the region and, except for one lamentable border incident at the beginning of this decade, there have been no armed conflicts between Latin American countries, even though there are some long-standing disputes which call for peaceful settlement. The prolonged and complex conflict in Central America seems to be on the way to a genuinely subregional solution in the signing of the Esquipulas II presidential agreements, which constitute an extraordinarily significant act of Latin American sovereignty in Central America. The ongoing and tireless activity of the countries that make up the Contadora Group and its support group have provided the regional framework which is indispensable to the viability of the Esquipulas agreements. Peace and the strengthening of democratic processes in the countries of Central America will bring to the fore that spirit of unity which has historically prevailed among them.

During the past few months tremendous efforts have been made to arrive at formulas for integration which will have a real impact on the development of the countries of the region and on their relations with each other. The agreements reached by Argentina and Brazil and between them and Uruguay constitute a telling example of the application of political will to the creation of solid regional interdependence. The conduct of trade is viewed as a healthy sign as

regards the creation of real and lasting interdependence among the countries taking part in such integration initiatives, but the pivotal element is interdependence and co-operation in a broader sense, as a source of the instruments needed to make headway in the field of technological change, which is the key to the twenty-first century.

On another front, the signing of the Protocol to Amend the Cartagena Agreement and the adoption of a transition programme aimed at the reinstatement of the levels of reciprocal trade formerly achieved by the Andean countries are indications that the Andean Group, following a marked deterioration in its overall operation and an increasing lack of co-ordination among its member countries, has once again embarked on a course which will enable it to participate actively in regional integration and co-operation forums.

After many months of study, the efforts being made within the framework of the ALADI Regional Round of Negotiations are being focused on an ambitious programme for the expansion and recovery of trade. Preferential tariff arrangements have entered into force which, while modest in scope, open the way to the utilization by the region of a multilateral instrument for safeguarding and stimulating trade.

These fresh winds of change that have sprung up within the new atmosphere of Latin American democracy must be directed towards promoting the unity of the region, inasmuch as this represents the only feasible way out of the crushing and dangerously persistent crisis affecting it.

Overcoming old barriers and prejudices, a new diplomacy has taken root in Latin America as contact between Presidents and Foreign Ministers becomes customary and joint efforts to achieve peace in Central America are redoubled. One outcome of this was the founding of the Rio Group on the basis of its members' shared values and ideals concerning democracy and Latin American unity. All this made it possible to schedule the first exclusively Latin American presidential summit conference with a view to the institutionalization of a forum for concerted political action at the highest level aimed at the promotion of development and Latin American integration and democracy.

III

The challenges

It may be seen from the brief overview of achievements and obstacles presented in the preceding paragraphs that Latin America is now confronting a great many complex challenges. In addition to the need to overcome the effects of the economic crisis of the 1980s, these challenges include the defence and strengthening of the process of democratization which is inherent to development; the consolidation of the economic and social progress achieved over the preceding three decades; and, at the same time, the resolution of the region's long-standing structural problems and its preparation for life in the radically different conditions which will prevail in the twenty-first century.

In more concrete terms, the governments and societies of the region will have to organize themselves in such a way as to achieve the following objectives:

In the first place, democracy must be consolidated. Only wholly legitimate governments can provide a setting in which it becomes possible to mobilize whole societies for the realization of national goals and such higher values as equality, civil liberty and justice. And only through broad-based participatory processes is it possible to choose, with the consent of the population, the combination and extent of the efforts to be made to achieve various objectives and to rank them by order of priority within a given time frame with a view both to ensuring better living conditions for the population and to conserving democracy.

In the second place, an objective which is closely linked to the first one is the preservation and consolidation of peace in the region as a reflection of Latin American solidarity and Latin American brotherhood. This would bolster

intra-regional co-operation, make it possible to concentrate entirely on development — political, economic and social —, help to reduce the arms race and strengthen the voice of Latin America in its dialogue with other countries. Seen in this light, the process recently initiated with the aim of ensuring a solid and lasting peace in Central America and the efforts being made to avoid conflicts in the South Atlantic constitute priority objectives which the entire region must pursue.

In the third place, there is the pressing and complex task of recovering the capacity to achieve development. This involves, *inter alia*, transforming the production structure of the region with a view both to meeting domestic and regional demand and to giving the countries of the region a greater role in the international economy; promoting structural reforms designed to improve the distribution of the benefits of economic growth; redressing the macroeconomic imbalances which have impeded efforts to achieve an expansionary adjustment and stabilization in recent years; and ensuring that a rational use is made of the region's natural resources and environment.

In the fourth place, Latin America needs to gain autonomy in the formulation and application of its economic policies. This objective is of importance at the level of the individual countries, within the framework of intra-regional co-operation, and as regards the way in which the region operates in the international context.

Finally, the achievement of all these objectives will undoubtedly call for an increased degree of interdependence among the countries of the region, which in turn makes it necessary to give a fresh impetus to integration processes.

IV

The responses

1. *Alternative Latin American development strategies*

In Latin America it is necessary to close the gap between words and action. It falls to the democratic governments of the region to transform all

the social aspirations which have hitherto been neglected into concrete achievements just at a time when the world economy and the legacy of authoritarianism are severely restricting their manoeuvring room as they strive to design and

apply economic policies in line with the needs and realities of each national society.

It has been amply demonstrated that there is no one theoretical model which is universally applicable to the economic development of all the Latin American countries. A conceptual framework therefore needs to be constructed which will take the actual conditions in the Latin American countries as well as the changing and fluid international environment into account so that the countries may recover their capacity for growth.

The most serious problems are those faced at the external level, over which the Latin American countries have little or no control. There are also domestic problems which, given the increasing heterogeneity found in Latin America, cover a very broad range. These must be solved by means of policies that enjoy full domestic support, and this support must be won in the ways which the democratic systems themselves designate as being the most appropriate.

Consequently, growth is not only a matter of the will of the countries of the region. It calls for external conditions which will make national political programmes viable. If the signals transmitted by the world economy continue to be unfavourable as they have been so far, the Latin American countries will have no alternative but to introduce an inward-oriented style of development, substituting imports not as a matter of principle but by force of circumstance, as has happened in the past. This solution would not be viable unless the countries were to redirect the resources they are now using to service the external debt, and such a step would create unmanageable turmoil in the international financial system.

Latin America's present situation is one of extreme and dangerous vulnerability to the external sector. For this reason it must move towards a position of autonomy in the design and application of growth-directed economic policies, and in order for it to do so, the responsibilities to be borne by the industrialized economies must be clarified. Within the framework of an increasingly and asymmetrically integrated world economy, it is necessary for all the parties to play a well-defined role so that the benefits to be reaped from an expanding international economy can be distributed more equitably.

2. *Assuming our own responsibilities*

It is necessary to grasp the fact that no favourable result for Latin America will come about spontaneously. Positive achievements are always the result of carefully thought-out political decisions. Democratic governments must stand ready to face up resolutely to the challenges involved in achieving growth. There are things which depend on the countries themselves; measures can be devised and directed by the countries themselves whose effectiveness will depend primarily on the degree of political determination with which they confront today's realities and tomorrow's challenges.

It is clear that in circumstances such as those which now prevail, re-embarking upon the path to development is a task beyond the scope of any one Latin American country acting on its own. It is necessary, on the one hand, to strengthen regional co-operation and integration and, on the other, to organize and wield bargaining power at the international level. The need for the simultaneous management of these two lines of policy does away with a dangerous old dilemma —that of whether to direct action "towards" or "away from" the region. What is suggested is that it be directed "from within" the region in order to bring about a qualitative change in the region's position in the contemporary world. Real bargaining power for the region can be achieved only if the stances it takes *vis-à-vis* the exterior are backed up by serious, definite and united efforts to achieve co-operation and integration at the regional level. Bargaining power forged in this manner will have two necessary and fundamental characteristics: credibility and effectiveness. Experience in international negotiations shows, with striking clarity, that positions which are merely declarative and demand-oriented have no future at international bargaining tables.

On this basis, it will be possible to put the national economies back onto the road to sure and stable growth. By working together, the Latin American countries can arrive at viable formulas for ensuring their future industrial development, for casting off their role as raw-material exporters, for freeing resources now earmarked for the servicing of their heavy external debt and for generating and adapting the

technological know-how they need in order to diversify their production apparatus.

The Latin American countries have a commitment to spare no effort in striving to adjust to the new regional and international circumstances in a way that will permit their continued growth and to bring about a qualitative change in the insertion of Latin America in the world of today and tomorrow. The democratic governments should direct the whole of their political will to achieving these ends.

3. *The co-responsibility of the international community*

The scenario constructed for the future has to take into account the interdependence of the countries, the right of Latin America to development and the need for the region to participate actively in economic growth, the generation and dissemination of technical progress, the international division of labour, the taking of decisions which affect it and the organization of institutions. For this reason it is vital for Latin America to take initiatives which safeguard its interests and for the international community to assume its own responsibilities, at least in so far as the following matters are concerned:

a) The creation of a more stable development-oriented international environment, starting with the reactivation of the economies of the industrialized countries.

b) The urgent need for a comprehensive solution to the problem of the external debt of Latin America. Creditors and debtors must undertake a political dialogue and effect a reduction in the size of the debt, as this is the only way in which it can be serviced without interfering with growth. It is no longer possible for the region to continue transferring foreign exchange to the industrialized world.

c) An effort to ensure the consistency and viability in both economic and political terms of the programmes which IMF and the World Bank "recommend" to Latin American debtors. Emphasis is placed on export-led development, but the protectionism practised by the industrialized countries is ignored. The structural adjustment of the countries of the region is not matched by a dismantling of tariff and non-tariff

barriers in non-competitive sectors of the developed countries. The creation of an international system of trade which would be more favourable to the developing countries would increase their capacity to grow and to meet their external obligations.

d) A reform of the international financial and monetary system that would make possible, *inter alia*, an effective form of international monitoring of the leading developed economies, with particular attention to trends in exchange rates, interest rates, trade and capital flows and fiscal equilibria, in conformity with the growth objectives set forth in article I of the IMF Articles of Agreement.

e) The structuring of a stable, predictable, transparent, non-discriminatory, universal and lasting system of trade which could serve to promote growth and the coherent resolution of issues relating to the external debt, of financial and monetary problems and, of course, of those difficulties now encountered within the sphere of international trade.

The foregoing should not be viewed as part of the long list of demands which the developing countries have been making on the developed North without letup for over two decades. Rather, it should be viewed as a reiteration of the clear-sighted diagnosis made by Raúl Prebisch at the first session of UNCTAD in 1964. Since then, the problems affecting the region have grown worse, and new ones have emerged in a different context. The international community and the developed countries in particular need to understand that in striving to solve these problems they would find ample opportunity for a meeting of common interests, which would allow international co-operation to serve once again as the most effective instrument for the reactivation of the world economy and the progress of the developing countries.

4. *Regional co-operation and integration*

As Latin American integration has advanced and retreated in step with the economic cycles, it has repeatedly been asserted that integration is a process which enjoys the political support of the governments; nonetheless, both public and private entrepreneurial circles view it with reserva-

tions. This is because the process suffers from a lack of credibility due to past failures to live up to commitments assumed under law.

What integration has not been is a political project engineered by Latin Americans. The political dimension of integration has always been relegated to a place of even less than secondary importance or, indeed, has been bypassed altogether. A more mercantile view has prevailed, as if integration were merely a matter of amassing the greatest possible number of commercial transactions. Integration is considered and decisions are taken with regard to it only within national bureaucratic circles or select entrepreneurial groups. In cases where these sectors have opposed integration, it has become apparent that it exists within a political vacuum and that no other actors stand ready to carry it forward. This includes the political community of the region, which is the only group that can ensure that integration becomes an integral part of national political programmes and that can bring about an articulate, rational and harmonious reconciliation between the objectives of the individual nations and those of the region as a whole.

Thus, regional integration and co-operation could contribute to the fulfillment of the domestic responsibilities assumed by each country and could help augment the region's capacity for action *vis-à-vis* other countries through the use of its bargaining power at the international level.

The qualitatively different nature of the region's insertion in the world of today is reflected not only in economic terms but also, and perhaps primarily, in political terms. In the light of this fact, a new type of regional diplomacy is required whereby Latin America could be presented as a unified whole rather than merely as a group of countries and whereby the developed countries, including those in the socialist camp, could be persuaded to negotiate on concrete matters relating to the economic and political contours of the international environment. Only the concerted action of the region at the international level, firmly grounded on domestic co-operation and integration efforts, can guarantee the success of such an undertaking.

The growth of democracy, regional integration and political co-operation calls for a new concept of Latin American security which would make possible the gradual establishment of a zone of peace in Central America, South America and the Caribbean. Latin America must identify its common security interests in order to overcome the alleged bases for conflict among fellow countries of the region and to work together in dealing with the external threats, drug trafficking and terrorism affecting them. There is an urgent need to organize a regional security system which will strengthen democratic régimes and promote Latin American co-operation and integration.

The establishment of a zone of peace in Latin America is a gradual process requiring a recognition of the special traits of Central America, South America and the Caribbean and of the mechanisms best suited to each. Some of the initiatives which might be considered within national, subregional and regional frameworks are the following: policies for promoting border co-operation; commitments to renounce the use of force as a means of resolving pending conflicts among countries of the region; a balanced limitation of arms expenditures; the maintenance of the military denuclearization of Latin America; measures for preventing the regionalization and internationalization of internal conflicts; joint measures to reduce the global arms race; the encouragement of détente among the superpowers; and information and education policies which promote the ideal of permanent peace in the region. The promotion of policies for the elimination of extreme poverty would allow political solutions to be applied more effectively to violence in its various forms and to the internationalization of domestic tensions whose continuation jeopardizes the security and peace of Latin America.

Development, integration and democracy are therefore the pillars of any Latin American political programme. The most cherished ideals of the member governments of the Rio Group would find expression in such an initiative, whose implementation would involve a gradual process which would be the responsibility of all the countries and all social actors.