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(SUMMARY) */

Corrigendum

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read "converting national currency earnings into foreign exchange,"

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name bearing the reference number LAC.1488(SER.22/3) Rev.1 and Corr.1.

1. The document entitled Restrictions on sustained development in Latin America and the Caribbean and the requisites for overcoming them reflects the views of the ECLAC secretariat on one of the key issues with which it has been concerned in recent years: the options for overcoming or easing the grave restrictions that have thwarted sustained development in the vast majority of the countries of Latin America and the Caribbean during the present decade. This summary focuses on the repercussions of the phenomenon of resource transfers, whereby since 1982 the region as a whole has transferred vast amounts of financial resources abroad, contrary to the historical pattern (see figure 1).

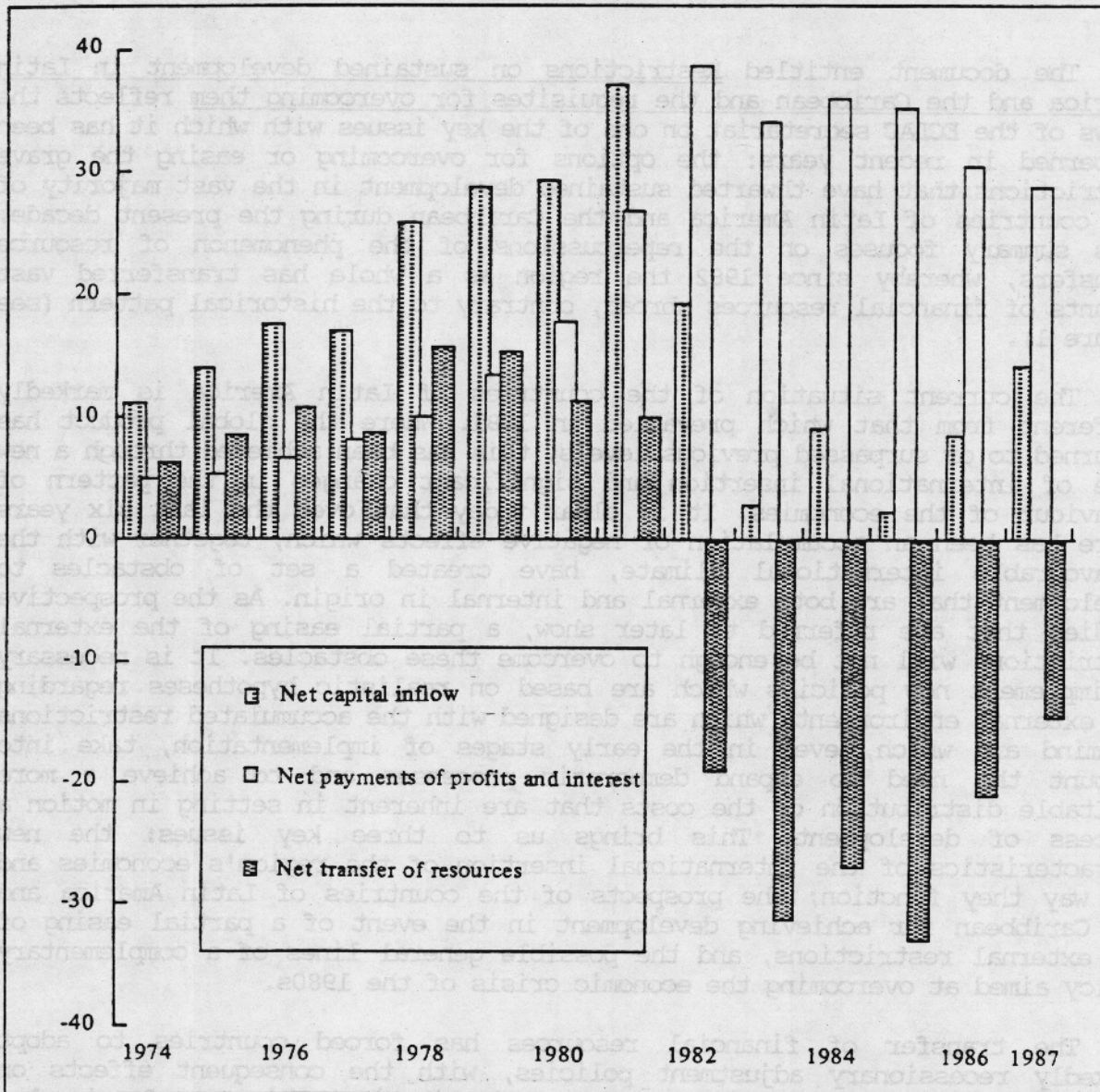
2. The current situation of the countries of Latin America is markedly different from that which prevailed in 1981. Where the global product has returned to or surpassed previous levels, this has been achieved through a new type of international insertion and significant changes in the pattern of behaviour of the economies. It is clear today that over the last six years there has been an accumulation of negative effects which, together with the unfavourable international climate, have created a set of obstacles to development that are both external and internal in origin. As the prospective studies that are referred to later show, a partial easing of the external restrictions will not be enough to overcome these obstacles. It is necessary to implement new policies which are based on realistic hypotheses regarding the external environment, which are designed with the accumulated restrictions in mind and which, even in the early stages of implementation, take into account the need to expand democratic processes and to achieve a more equitable distribution of the costs that are inherent in setting in motion a process of development. This brings us to three key issues: the new characteristics of the international insertion of the region's economies and the way they function; the prospects of the countries of Latin America and the Caribbean for achieving development in the event of a partial easing of the external restrictions, and the possible general lines of a complementary policy aimed at overcoming the economic crisis of the 1980s.

3. The transfer of financial resources has forced countries to adopt markedly recessionary adjustment policies, with the consequent effects on employment levels and on the structure of distribution. This transfer is also a factor in the drop in investment coefficients, since up to a third of domestic saving has had to be allocated to the financing of such transfers. Lastly, the impact of the servicing of the external debt on public expenditure makes it very difficult to manage the public budget, and in many countries this hampers the implementation of policies designed to control inflation. The complex network of mutually reinforcing elements between external and internal restrictions presents major difficulties to countries seeking to achieve sustained growth and, at the same time, to correct their principal macroeconomic imbalances.

Figure 1

LATIN AMERICA: NET CAPITAL INFLOW AND NET TRANSFER OF RESOURCES

(Billions of dollars)



Source: ECLAC, on the basis of figures supplied by the International Monetary Fund.

4. The Secretariat has attempted to quantify the impact of this transfer phenomenon by using a series of alternative scenarios for the period 1988-1992. These scenarios are based on a number of hypotheses regarding the possible behaviour of the main variables that influence the performance of the region's economies. An examination of the results of the exercise shows how difficult it will be for those economies to achieve even moderate growth rates in the medium term. It should be noted, however, that the restrictions mentioned above affect the individual countries in very different ways.

5. The exercise has been undertaken using three basic scenarios, and its results are summarized in table 1.1/ In the first of these (scenario A), the assumption is made that current relative debt margins will be maintained, which means that the region as a whole will continue to transfer financial resources abroad, although principally through the three countries with the largest economies and through a few countries with medium-sized economies. The second (scenario B) assumes equilibrium in the trade balance. Lastly, scenario C is based on the assumption of a partial easing of the external restrictions (reflected in less serious external obstacles to growth) in the context of more favourable agreements secured by countries in their negotiations with the outside world and of progress in the transformation of their structures of production.

6. As may be observed, even using the most optimistic hypotheses (those on which scenario C is based), the prospects for the vast majority of the countries of the region are quite bleak: the increase in the gross domestic product will be only between 2.8% (in the medium-sized countries) and 4.4% (in the large countries), and in more than half of the cases it will not exceed the growth in population. Consequently, even using the least restrictive of the hypotheses considered, real per capita income in 1992 will be lower on average than the 1980 level in all the groups of countries in the region, except the largest ones.

7. Scenario C also illustrates the effects of certain variations in the basic assumptions regarding the external environment. Thus, it was assumed that there would be: i) a reduction in the external debt service burden equivalent to a drop of two points in the rate of interest, and ii) a recovery of the unit prices of the region's export commodities to the average levels recorded in 1981. The effects of such variations are summarized in table 2.

8. This table shows that the reduction in the interest rate would have very significant effects, particularly on the large countries, whose debts contracted at commercial rates of interest represent a sizeable proportion of their total debt. For the region as a whole, this relief would translate into an increase of almost 1% in the annual growth rate; in the case of the countries with the largest economies, this percentage would be 1.5%. The countries with the smallest economies, on the other hand, would obtain relatively greater benefits from improvements in the trade sector, reflected in improved unit prices for their export products. At all events, as might be expected, the situation of all the groups of countries would be improved if

1/ For the macroeconomic assumptions underlying these basic scenarios, see pp. 11-13 of document LC/G.1488(SES.22/3)/Rev.1.

favourable changes took place in the various components of the transfer phenomenon in the financial and trade sectors.

Table 1

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF THE
GROSS DOMESTIC PRODUCT USING ALTERNATIVE
SCENARIOS, 1988-1992

	Latin America and the Caribbean	Large countries	Medium sized countries	Small South American countries	Small Central American and Caribbean countries
Scenario A					
Annual growth rate of GDP	2.9	3.7	0.2	0.9	0.8
Annual growth rate of per capita GDP	0.6	1.3	-1.3	-1.7	-1.2
Index of per capita GDP in 1992 (1980=100)	99	105	84	79	81
Scenario B					
Annual growth rate of GDP	4.2	4.9	1.8	2.1	1.5
Annual growth rate of per capita GDP	1.6	2.1	-0.2	-0.8	-0.6
Index of per capita GDP in 1982 (1980=100)	106	111	91	84	86
Scenario C					
Annual growth rate of GDP	4.1	4.4	2.8	2.9	3.1
Annual growth rate of per capita GDP	1.4	1.8	0.6	-0.2	0.3
Index of per capita GDP in 1982 (1980=100)	105	109	96	88	90

Source: ECLAC projections, based on official data.

Table 2

LATIN AMERICA AND THE CARIBBEAN: ANNUAL GROWTH RATES
OF THE GROSS DOMESTIC PRODUCT, 1988-1992

	Scenario "C"	Assuming a two point reduction in interest rates	Assuming that in 1988 com- modity prices recover their 1981 level
Latin America and the Caribbean	4.1	5.0	5.0
Large countries	4.4	5.4	5.5
Medium-sized countries	2.8	3.7	3.1
Small South American countries	2.9	3.8	4.3
Small Central American and Caribbean countries	3.1	3.9	4.3

Source: ECLAC projections based on official data.

9. This exercise also leads to the conclusion that although it is essential in the short term to reduce the debt service burden in order to eliminate restrictions that affect economic development, such a reduction in itself is not enough to put the countries back on the path of development in the medium and long term. A series of changes in the way the region's economies function at present is also needed in order to promote dynamic and equitable growth. This is precisely the root of one of the many dilemmas of Latin American and Caribbean development during the 1980s: within a context of dynamic and equitable growth, the countries of the region would be able to service their external debt on the originally agreed conditions. However, such growth would only be possible if the current debt servicing demands are reduced.

10. Against this background, the document explores a set of options which are available to the debtor countries and which could help to modify the current situation with a view to subordinating the servicing of the debt to development objectives. With respect to those options the following measures are considered:

a) Direct reduction of the interest rates charged on the existing debt both by the commercial banks and by the rest of the institutional creditors.

b) Provision of additional external financing by the commercial banks, at least sufficient to compensate for the international inflation rate applied to the principal of the debt owed to such banks.

c) Revision of the rules governing the compulsory establishment of reserves and the writing-off of debts by the commercial creditor banks, to facilitate the recognition of the market value of the debt in their portfolios and to spread over a longer period the effects of such recognition on the banks' profits or capital.

d) Within the context of such revision and of the establishment of reserves, complete or partial condonation of the debt of some countries, where appropriate.

e) Application by the governments of the creditor banks' home countries, of accounting and banking supervision rules which facilitate sales of their portfolios by the commercial banks.

f) Explicit measures by the creditor governments to lighten the burden of the debt from official sources, which is not traded on the market.

g) Issue by the debtor countries of bonds for the repurchase of their debt at market prices in line with those of the secondary market. Such bonds may or may not be guaranteed by the creditor countries or by multilateral agencies.

h) The establishment (or strengthening, as appropriate) in multilateral financing agencies of mechanisms to soften the negative impact of some of the policies of creditor countries, particularly increases in interest rates or measures leading to the deterioration of the terms of trade.

i) The creation in the same agencies of special funds for the purchase of bank portfolios at prices negotiated in line with their value on the secondary market. For this purpose, the agencies could issue bonds backed by the debt thus acquired, by their own guarantee, or by securities issued by the developed countries.

j) The strengthening of the capital resources of the multilateral and regional financing agencies, and a revision of the conditions applied by them, in order to facilitate the provision of anticyclical financial support to the debtor countries.

The relative importance of the various elements within a set of solutions would naturally vary from one country to another, depending on the particular circumstances of its economy, its debt structure and its relationship with its creditors. In the absence of agreed formulas, some of the debtor countries might have no alternative but to take unilateral action.

11. As already noted, subordinating the servicing of the external debt to the development objectives of the countries of the region is not sufficient in itself. It is necessary at the same time to achieve a better insertion of their economies within the international trading system, and this calls for negotiations at both the bilateral and multilateral levels (the latter especially within the framework of the Uruguay Round of GATT), as well as the transformation of their structures of production. There is an evident need to articulate the external and domestic markets, in both sectoral and temporal terms, in such a way as to promote their mutual reinforcement. In this regard,

the management of macroeconomic policies should not constitute the sole focus of attention; there is also need for a systematic effort in areas as diverse as entrepreneurial and institutional development, technological progress, improvements in the quality and type of physical infrastructure, the preservation of the natural resource base, and proper articulation among sectors and within each sector.

12. The restructuring of the productive system involves both the rationalization of installed capacity and the expansion of production in specific sectors. Items of special interest as regards the creation of new productive capacity in the industrial sector are products for final consumption which make intensive use of resources available in the region; the selective promotion of productive activities that bring technical progress; and the incorporation in a realistic manner of the so-called "spearhead technologies". Moreover, it is important to create and strengthen links between the entrepreneurial agents (both private and public) and other social and political agents by promoting mutual knowledge and contact between entrepreneurs and the trade union, academic, cultural and government circles, as well as relations between entrepreneurs of different countries. In the area of financing, the restructuring of the productive system requires long-term credits, so that it is essential to establish the appropriate institutional mechanisms. Finally, the educational and technological research and development infrastructures constitute key elements in this restructuring process.

13. The transformations that need to be made in the economies of Latin America are not limited to the area of productive structures. The concentrative nature of the style of development that prevailed in the region during the three post-war decades was accentuated in many countries as a result of the recessionary trends of the 1980s. In view of the processes of increasing participation which are taking place in the region, the need to reverse this trend is inescapable; in other words, equity has become one of the principal objectives of development. This raises old and new dilemmas on how to reconcile the objectives of equity and growth, and how to incorporate the objective of equity in the formulation of economic policy. The concern with equity cannot remain limited to the provision of social services, but must be present in all aspects of economic and social policy; social problems and the solutions to them must take their rightful place on the agenda of development instead of remaining isolated and subordinated to the objective of economic growth.

14. The concern for equity should also be reflected in an effort to return to the level of per capita social expenditure that existed prior to the crisis of the 1980s, and to redirect such expenditure to specific target groups. In this regard, a selective approach is required in the implementation of policies aimed at improving the distribution of income and the situation of people living in extreme poverty. It is also essential to promote the widespread participation of users in the planning and supply of services, combining democratized planning with new forms of deconcentration and decentralization. Indeed, strengthening the management and organizational capacity of local authorities seems to offer the most suitable institutional framework for achieving greater efficiency in the implementation of social policies.

15. The document also refers to the impact of the servicing of the external debt on public finances. In recent years, this impact has been increasingly felt in the majority of countries, particularly in connection with adjustment policies, one of whose instruments is a high real exchange rate. This partially explains the persistence of fiscal deficits, which have contributed to the maintenance of high rates of inflation. Consequently, a reduction in the servicing of the external debt would not only give countries a greater margin for growth and investment, but would also facilitate the application of programmes to control inflation.

16. The implementation of various anti-inflation programmes in recent years has taught us a number of valuable lessons. For example, it has been demonstrated that such programmes must combine elements that deal with at least three aspects of the problem: exerting greater control over budgetary imbalances, as an important component of aggregate demand; converting foreign exchange earnings into national currency, and controlling and guiding inflationary expectations. The limitations of economic policy in controlling the repercussions of the costs of such programmes on the various strata of society have also become clear. For these reasons there is a need to combine policies that tackle simultaneously both the basic factors --budgetary and structural-- that give rise to inflation, and the factors responsible for its spread or inertia.

17. Finally, attention should be drawn to a paradox. On account of the restrictions that hamper its sustained development, the region has not fully exploited one of its greatest potentials: economic integration and intra-regional co-operation. As a concept or objective, integration has admittedly received political support. However, and notwithstanding the significant agreements recently concluded between Argentina, Brazil and Uruguay, such support has frequently been more in the nature of declarations; generally speaking, the process does not yet constitute a political project of the countries of Latin America and the Caribbean.

18. A political vision of the integration process would be reflected in the final objective of establishing permanent economic and political ties among the countries of the region, creating a network of convergent interests and expanding the participation of all the social actors in the decisions that affect the process of integration. Viewed from this angle, integration and co-operation are seen to have a virtually symbiotic and complementary relationship which involves, on the one hand, the strengthening of this type of links among the countries of the region and, on the other, the need to organize a capacity for negotiation and dialogue which could be assumed and exercised by Latin America and the Caribbean at the international level.

