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Review

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CEPAL REVIEW
April 1983

Reflections on the Latin American economy in 1982

*Enrique V. Iglesias**

A review of what happened in the Latin American economies during 1982 is a particularly useful step towards understanding the nature and causes of the serious economic crisis affecting the region, knowledge of which in its turn is indispensable for proposing measures whereby to cope successfully with the situation.

In the first part of the study, the author analyses the main features of the crisis in the light of certain key phenomena such as economic growth, unemployment, inflation and external sector disequilibria, in particular the deterioration of the terms of trade, the increase in payments abroad under the head of interest and profit and the drastic reduction of the inflow of external capital.

Both the gravity of the crisis and its causes vary according to the different national situations, but among those causes emphasis is laid in the second part of the article on the incidence of external factors, especially the contraction of the developed countries' demand for imports and the rise in interest rates. The problems of external indebtedness are analysed in the third part, in which the author describes the situation towards the close of 1982 and expounds its root causes, in particular the prolonged international recession, the high cost of credit, the negative effects of development strategies based on external borrowing and the weaknesses of the international financial system.

Lastly, the fourth part maps out the path that Latin America should follow in order to cope with the crisis, stressing the point that the solution will not be found through the application of the traditional austere stabilization policies, but must spring from the impulse given by steadfast economic reactivation. This reactivation will not only necessitate a favourable policy on the part of the centres to promote international trade and facilitate payment of the Latin American countries' external debt, but will also have to be supported and spurred by renewed efforts at the level of co-operation among the countries of the region and with developing countries in other parts of the world.

* Executive Secretary of ECLA.

I
Economic trends in Latin America during 1982

In 1982 Latin America found itself in the throes of the worst economic crisis that had befallen it since the Second World War and, probably, the gravest since the dark years of the Great Depression.

Caused by a complex set of external and internal factors, the crisis made itself felt in virtually all the main macroeconomic variables and affected, in different degrees, the great majority of the countries of the region. Thus, on the basis of the provisional data at ECLA's disposal, which are summarized in table 1, it is estimated that:

(i) Latin America's total gross domestic product fell by almost 1%, something that had not once occurred in the four preceding decades;

(ii) As a result of this decrease and of population growth, the per capita product, which had already slightly declined in 1981, dropped by more than 3% in the region as a whole and underwent a contraction in each and all of the 19 countries for which comparable data are available;

(iii) In consequence of the further deterioration suffered by the terms of trade in 1982, the downward trend of total income was even steeper than that of the product, and the terms-of-trade index for the non-petroleum-exporting countries sank to its lowest level in more than half a century;

(iv) In addition, the loss of economic dynamism was accompanied by a rise in urban unemployment rates in the great majority of the countries on which reliable data are to hand;

(v) Notwithstanding all this, and above all as a result of the high exchange rates introduced in many countries, there was a notable quickening of the pace of inflation. The simple average rate of increase of consumer prices exceeded 45% and the average weighted by the population was almost 80%. Thus, both far outstripped all those registered in the past;

(vi) In the external sector, the balance of payments, which had already displayed signs of weakness in the two preceding years, closed with an uprecedented deficit of about US$ 14 billion, with the consequent drain on international reserves;

(vii) This negative balance occurred despite the *volte-face* performed by the merchandise trade balance, which, after showing a deficit of over US$ 600 million in 1981, in 1982 generated a surplus of US$ 8.8 billion;

(viii) But the impact of this change in the trade balance on the balance-of-payments current account was largely neu-

Table 1

LATIN AMERICA: MAIN ECONOMIC INDICATORS[a]

	1973	1975	1977	1978	1979	1980	1981	1982[b]
Basic economic indicators								
Gross domestic product at market prices (billions of 1970 dollars)	237	264	292	307	327	346	351	348
Population (millions of inhabitants)	288	303	319	327	335	343	352	361
Per capita gross domestic product (1970 dollars)	825	871	915	939	975	1 008	998	965
	Growth rates							
Short-term economic indicators								
Gross domestic product	8.4	3.8	4.8	5.1	6.5	5.9	1.5	-0.9
Per capita gross domestic product	5.6	1.2	2.2	2.5	3.9	3.3	-1.0	-3.3
Consumer prices[c]	36.3	57.6	40.4	38.6	53.8	56.0	57.9	79.7
Terms of commodity trade	12.3	-11.9	6.0	-10.4	3.9	4.2	-7.1	-6.0
Current value of exports of goods	42.3	-6.7	18.8	7.8	33.6	29.9	6.5	-10.0
Current value of imports of goods	31.0	7.4	14.3	13.7	25.6	32.0	6.6	-19.0
	Billions of dollars							
External sector								
Exports of goods	24.6	36.1	49.3	53.1	70.9	92.1	98.1	87.3
Imports of goods	22.8	41.6	49.3	56.1	70.4	93.0	99.1	78.4
Commodity trade balance	1.8	-5.5	0.0	-3.0	0.5	-0.9	-1.0	8.9
Net payments of profits and interest	4.4	5.7	8.4	10.7	14.3	18.4	27.4	34.4
Balance on current account	-3.6	-14.1	-11.6	-18.4	-19.8	-28.1	-38.6	-33.0
Balance-of-payments position	4.6	0.6	4.7	7.3	6.4	-1.5	0.5	-13.8
Total gross external debt[d]	42.3[b]	69.1	107.3	136.1	169.2	207.1	255.2	274.0

Source: ECLA, on the basis of official statistics.

[a] Product and population figures relate to the group formed by the 19 countries included in table 2. Price data relate to the group formed by those 19 countries plus Barbados, Guyana, Jamaica and Trinidad and Tobago. The figures for the external sector relate to those 23 countries plus Suriname, except for the year 1982, in which Jamaica and Suriname are excluded.

[b] Provisional estimates subject to revision.

[c] Variation from December to December.

[d] Public external debt disbursed plus non-guaranteed debt to financial institutions which provide information to the Bank for International Settlements.

tralized by the sharp new upswing in net payments of profits and interest, which totalled more than US$ 34 billion, thus almost doubling in the course of only the last two years;

(ix) In strong contrast with the increase in financial remittances abroad, the net inflow of capital into the region plummeted from US$ 42 billion in 1981 to US$ 19 200 million in 1982;

(x) As a result of this downward plunge, in 1982 there was a significant slackening of the growth rate of the total external debt, which, after increasing at an average rate of 24% during the four preceding years, did so by only a little over 7% in 1982, and thus came to stand at approximately US$ 274 billion by the end of the year;

(xi) As at the same time, however, the value of exports of goods and services decreased, the relation between the amount of the debt and the value in question rose steeply, reaching a coefficient of 2.5, which easily surpassed the average of a little under 2 recorded during the five preceding years.

1. *Economic growth*

The year 1982 witnessed a pronounced intensification of the loss of dynamism which the Latin American economy had already shown in the previous year. After increasing by barely 1.5% in 1981 –its lowest growth rate since 1940– the region's gross domestic product decreased by almost 1% in 1982 (see figure 1).

Moreover, this decline in overall economic activity –the first to take place in the past 43 years– was very widespread. As can be seen in table 2, the gross domestic product shrank in 11 of the 19 countries considered, remained stagnant in two others and rose very slightly in the remaining six. But even in these last, the growth rate of the economy failed to keep pace with that of the population. Consequently, in 1982 something almost unheard-of happened: the per capita product decreased in all the countries of the region (see table 3).

Economic activity contracted to a very marked extent in Argentina, Bolivia, Costa Rica and Uruguay, countries in which it had already declined in 1981. The worst slump, however, occurred in Chile, where the recession that had begun in 1981 was severely aggravated in 1982 and resulted in the reduction of the gross domestic product by about 13%. Economic activity also slackened, although in a much more moderate degree, in all the Central American countries, except Panama, where it showed a marginal increase. The domestic product likewise decreased in Paraguay, the country which between 1975 and 1981 had attained the highest economic growth rate in Latin America. The boom in the Mexican economy which had started in 1978 also came to an abrupt halt in the course of 1982, while in Venezuela, the region's other leading petroleum exporter, economic activity remained almost completely static for the fourth year in succession. In contrast, total production in Brazil recovered a little during the year –although its expansion was not enough to offset its contraction in 1981– and the gross domestic product very slowly increased in Colombia, Peru and the Dominican Republic. In these countries too, however, the growth rate of the economy was lower than that of the population, and in all of them, therefore, the per capita product slightly decreased.

In Brazil –the largest economy in Latin America, which alone generates about one-third of the region's total domestic product– economic activity increased by approximately 0.5%, after having declined in 1981 –for the first time in the last 40 years– by 2%. The main tonic influence behind this modest recovery was an expansion of about 2% in manufacturing industry, a sector which from February onwards reversed the downward trend that it had followed throughout the whole of the year 1981, with the result that the industrial product in that year had undergone a contraction of nearly 10%. Thanks in part to this recovery in industrial activity, during the first nine months of the year unemployment rates were reduced in the country's six biggest cities (see table 4 and figure 2).

As mentioned above, in 1982 there was a notable deterioration in the situation of the Mexican economy, which had been

Figure 1

LATIN AMERICA: ANNUAL GROWTH RATES OF GROSS DOMESTIC PRODUCT

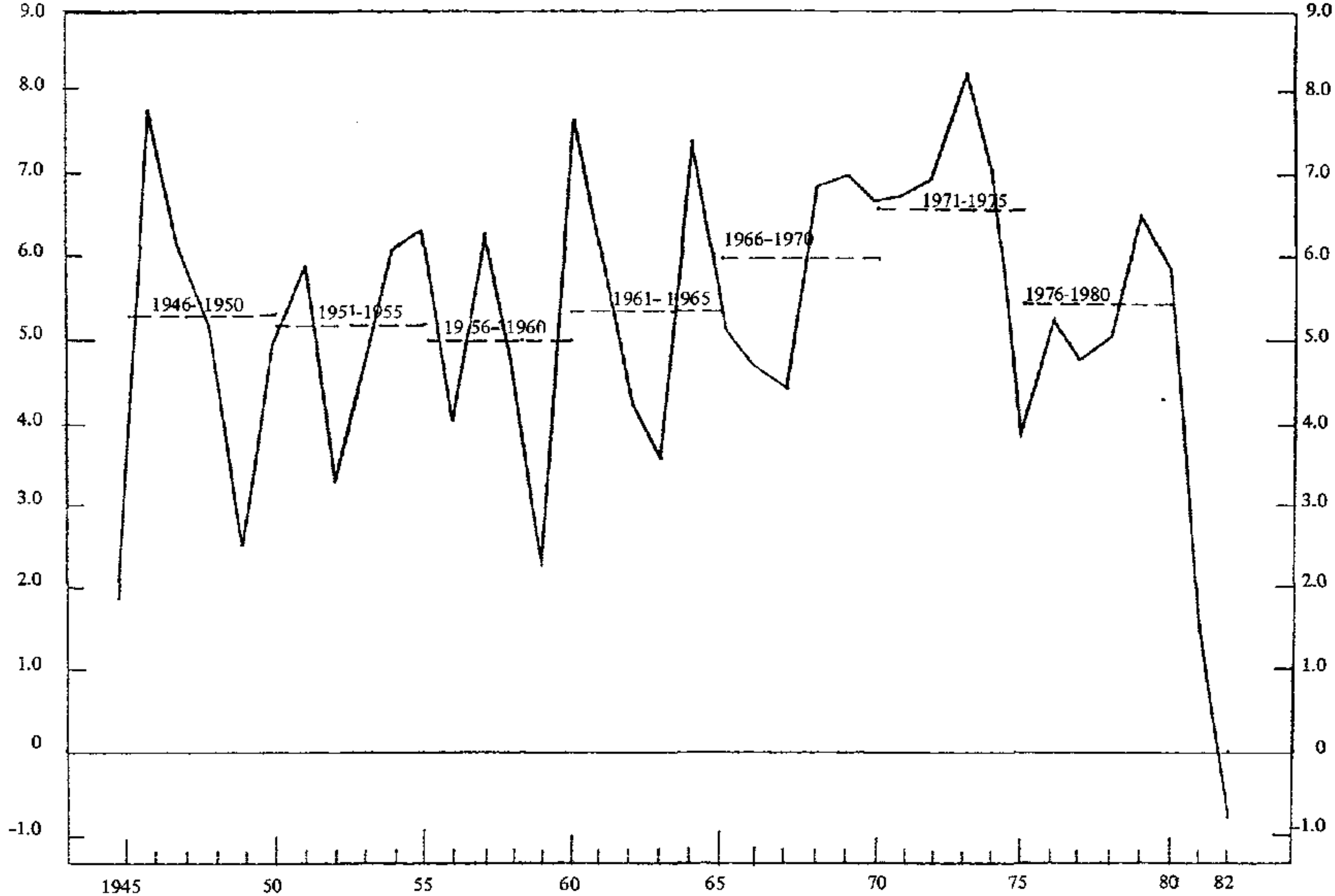


Table 2

LATIN AMERICA: EVOLUTION OF TOTAL GROSS DOMESTIC PRODUCT

(Annual growth rates)

Country	1970-1974	1975-1978	1979	1980	1981	1982[a]
Argentina	4.1	0.4	7.1	1.4	-6.1	-5.0
Bolivia	5.6	5.1	1.8	0.6	-0.6	-7.5
Brazil	11.5	6.3	6.4	8.0	-1.9	0.5
Colombia	6.7	5.5	5.1	4.0	2.5	1.5
Costa Rica	7.1	5.7	4.9	0.6	-3.6	-6.0
Chile	0.9	1.7	8.3	7.5	5.3	-13.0
Ecuador	11.4	7.0	5.1	4.8	4.3	2.0
El Salvador	4.9	5.4	-1.5	-9.6	-9.5	-4.5
Guatemala	6.4	5.5	4.7	3.5	1.0	-3.5
Haiti	4.7	3.3	4.7	5.7	-3.0	-2.0
Honduras	3.7	5.4	6.6	2.5	-0.4	-1.5
Mexico	6.8	5.3	9.2	8.3	8.1	–
Nicaragua	5.4	1.5	-25.5	10.0	8.9	-1.0
Panama	6.2	2.8	7.0	4.9	3.6	0.5
Paraguay	6.4	9.2	10.7	11.4	8.5	-2.5
Peru	4.8	1.5	4.1	3.8	4.0	1.0
Dominican Republic	10.1	4.8	4.8	5.6	3.4	1.5
Uruguay	1.3	4.5	9.6	3.7	-0.7	-9.5
Venezuela	5.4	6.1	0.9	-1.2	0.6	0.0
Latin America (19 countries)	*7.2*	*4.8*	*6.5*	*5.9*	*1.5*	*-0.9*

Source: ECLA, on the basis of official statistics.

[a] Provisional estimates subject to revision.

expanding with exceptional vigour since 1978. In consequence of the acute external disequilibrium and of a considerable fall in international reserves, the economic authorities first decided upon a severe devaluation of the Mexican peso and then imposed a strict exchange control. These measures helped to precipitate an exceptional acceleration of the inflationary process and a drastic contraction of the volume of imports. In such circumstances, and also as a result of the cuts introduced in the public investment programme and of the uncertainty prevailing in the private sector, by half way through the year economic activity had begun to decline, and it is estimated that in the last few months unemployment and underemployment significantly increased in the main urban centres.

In Argentina —the third largest of the Latin American economies— the gross domestic product decreased by about 5%, after having fallen by 6% in 1981. This further reduction was caused mainly by the slump in the construction sector and by the contraction which, for the third consecutive year, affected manufacturing industry. Owing to the decline in these activities —particularly marked during the first two quarters of the year— and the downward trend shown by the sectors producing services, the rate of unemployment continued to rise both in Buenos Aires and in the primate cities of the interior.

There was an even more notable drop in the gross domestic product and unemployment soared yet more sharply in Chile and Uruguay, the other two economies

Table 3

LATIN AMERICA: EVOLUTION OF PER CAPITA GROSS DOMESTIC PRODUCT[a]

Country	Dollars at 1970 prices				Annual growth rates			
	1970	1975	1980	1982[b]	1979	1980	1981	1982[b]
Argentina	1 256	1 353	1 412	1 229	5.8	0.2	-7.2	-6.1
Bolivia	317	372	382	334	-0.8	-2.0	-3.2	-9.8
Brazil	528	777	956	900	3.9	5.5	-4.2	-1.8
Colombia	587	708	831	827	2.9	1.8	0.3	-0.8
Costa Rica	740	875	1 001	867	2.5	-1.7	-5.9	-8.0
Chile	967	794	1 045	927	6.5	5.7	3.5	-14.3
Ecuador	420	622	730	729	1.9	1.6	1.1	-1.1
El Salvador	422	476	428	349	-4.3	-12.2	-12.1	-7.2
Guatemala	439	494	560	514	1.6	0.4	-1.9	-6.3
Haiti	123	135	147	133	2.2	2.7	-5.4	-2.0
Honduras	313	296	340	311	2.9	-1.0	-3.8	-4.7
Mexico	977	1 143	1 358	1 385	6.0	5.2	5.0	-2.9
Nicaragua	431	480	345	348	-27.9	6.4	5.4	-4.4
Panama	940	1 043	1 150	1 144	4.5	2.5	1.2	-1.7
Paraguay	383	452	633	629	7.1	7.9	5.2	-5.4
Peru	646	707	677	671	1.3	1.0	1.1	-2.0
Dominican Republic	378	503	560	560	2.2	3.0	0.9	-0.9
Uruguay	1 097	1 164	1 462	1 299	8.9	3.0	-1.3	-10.0
Venezuela	1 205	1 278	1 278	1 202	-2.5	-4.5	-2.7	-3.3
Latin America (19 countries)	*720*	*871*	*1 008*	*965*	*3.9*	*3.3*	*-1.0*	*-3.3*

Source: ECLA, on the basis of official statistics.

[a] At market prices.

[b] Provisional estimates subject to revision.

in the Southern Cone which, like Argentina, had in recent years pursued economic policies of a monetarist type. The decrease in economic activity was particularly marked in Chile, where it is estimated that the gross domestic product fell by about 13%, mainly in consequence of the steep downward trend followed by industrial production and the virtual collapse of the construction sector. This drastic contraction in economic activity caused, in its turn, a dramatic upswing in the rate of overt unemployment, which towards the end of the year hovered around 25% in Greater Santiago (see table 4 and figure 2).

The evolution of the economy was similar, although less unfavourable, in Uruguay, a country in which the gross domestic product, after decreasing slightly in 1981, shrank by approximately 9.5% in 1982. As in Chile, its contraction was accompanied by an even more marked decline in industrial activity, by a severe depression in the construction sector and by an aggravation of the unemployment situation. The rate of unemployment in Montevideo, which between 1977 and the beginning of 1981 had steadily fallen but which had begun to climb rapidly in the second quarter of that year, continued to increase in 1982 and exceeded 13% in October.

Economic activity also declined at a

Table 4

LATIN AMERICA: EVOLUTION OF URBAN UNEMPLOYMENT

(Average annual rates)

Country	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Argentina[a]	5.4	3.3	2.6	4.5	2.8	2.8	2.0	2.3	4.5	5.7
Brazil[b]	...	...	...	...	...	6.8	6.4	6.2	7.9	6.9
Colombia[c]	...	12.7	10.6	10.2	9.3	8.8	8.9	9.7	8.2	9.3
Costa Rica[d]	...	...	...	5.4	5.1	5.8	4.9	6.0	9.1	10.4
Chile[e]	4.8	8.3	15.0	17.1	13.9	13.8	13.4	11.7	9.0	20.3
Mexico[f]	7.5	7.4	7.2	6.8	8.0	6.9	5.7	4.5	4.2	...
Paraguay[g]	...	...	...	...	5.4	4.1	5.9	3.9	2.2	...
Peru[h]	5.0	4.1	7.5	6.9	8.7	8.0	6.5	7.1	6.8	...
Uruguay[i]	8.9	8.1	...	12.8	11.8	10.1	8.3	7.4	6.7	11.4
Venezuela[j]	...	7.6	8.3	6.8	5.4	5.1	5.8	6.6	6.8	8.2

Source: ECLA and PREALC, on the basis of official statistics.

[a] Federal Capital and Greater Buenos Aires. Average from April to October. 1982: April.
[b] Metropolitan areas of Rio de Janeiro, Sao Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. Average for 12 months. 1980: average for June to December. 1982: average for January to September.
[c] Bogotá, Barranquilla, Medellín and Cali. Average for March, June, September and December. 1974: June. 1982: average for March, June and September.
[d] Urban. Average for March, July and November. 1976: Average for July and November. 1982: March.
[e] Greater Santiago. Average for four quarters. 1982: Average from January to November.
[f] Metropolitan area of Mexico City, Guadalajara and Monterrey. Average for four quarters.
[g] Asunción, Fernando de la Mora, Lambaré and urban areas of Luque and San Lorenzo. 1981: first semester.
[h] Metropolitan Lima. Averages calculated according to the data available for each year.
[i] Montevideo. Average for two semesters. 1973: first semester. 1974: second semester. 1982: average for January to October.
[j] Urban. Average for two semesters. 1982: first semester.

very high rate (-7.5%) in Bolivia, where it had stagnated completely in the two preceding years. Although largely linked to the profound external crisis undergone by the country in 1982, and also to the explosive growth of inflation, this contraction of the gross domestic product likewise reflected the incidence of extra-economic factors.

These latter also decisively influenced trends in economic activity in most of the Central American countries, in all of which, except Panama, the gross domestic product diminished in 1982. The most marked decreases took place in Costa Rica (-6%) –a country in which economic activity had already declined the year before, and which in 1982 began to adopt measures to control galloping inflation– and in El Salvador (–4.5%), where there was no respite from the bitter socio-political conflicts that had been partly responsible for a drop of about 20% in the gross domestic product during the two preceding years.

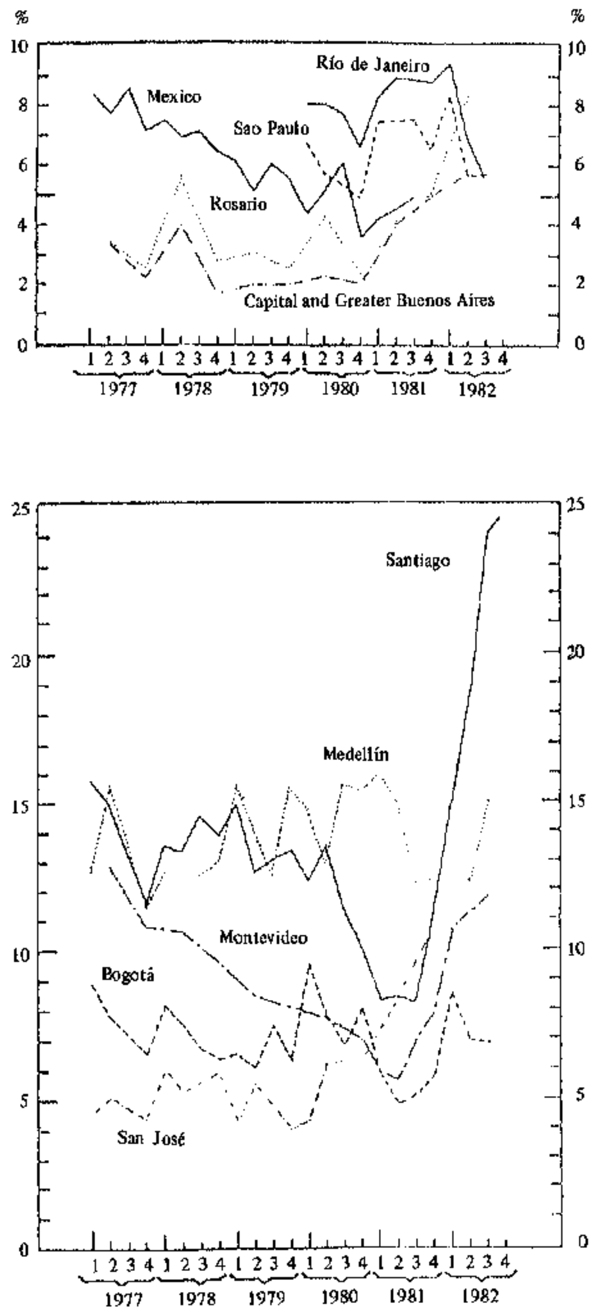
In the course of 1982 economic activity also contracted –by approximately 2.5%– in Paraguay, and thus a break occurred in the phase of exceptional dynamism which had stretched from 1973 to 1980, and during which the gross domestic product had grown at an average annual rate of something over 9%.

On the other hand, economic activity increased, although at unsatisfactory rates, in Colombia, Ecuador, Peru and the Dominican Republic. In the first of these countries, the year 1982 saw an accentuation of the systematic loss of dynamism that the economy had been showing since 1979. While the gross domestic product increased by barely 1.5% –the lowest growth rate recorded in the last 40 years–, the rise in the rate of overt unemployment averaged rather

Figure 2

LATIN AMERICA: UNEMPLOYMENT TRENDS IN PRIMATE CITIES

(Unemployment rates)



Source: ECLA, on the basis of official statistics.

more than 9% in the country's four primate cities.

The economy evolved on similar lines in Ecuador, where the increment of approximately 2% registered in the gross domestic product in 1982 represented, firstly, a continuation of the downward trend followed by the rate of economic growth since 1979, and constituted, secondly, the lowest increase in economic activity measured since 1951. In 1982 the rate of economic expansion also declined in Peru. After climbing at an average annual rate of 4% in the three preceding years, the gross domestic product rose by barely 1% in 1982.

Lastly, in 1982 the Cuban economy too made much slower headway, although, just as in 1981, its growth rate was the highest in the region. It is estimated that the material product (equivalent to the gross output of the agricultural, mining, manufacturing industry, construction and electric energy sectors) increased by 2.5%, after doing so by about 12% the year before.

2. *Inflation*

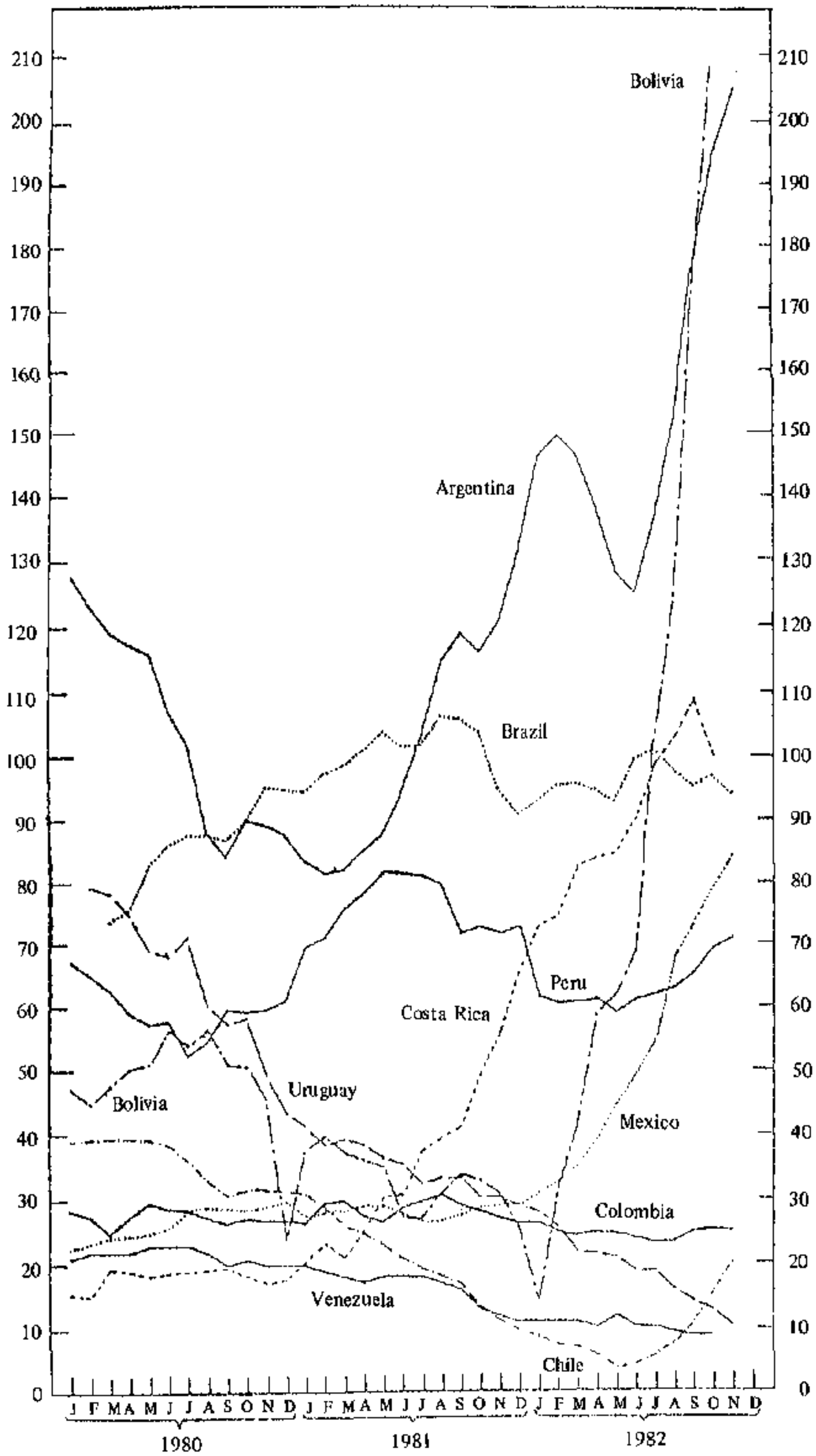
Although, as has been shown, in 1982 the rate of economic growth slackened and unemployment rose, inflation soared to an unprecedented height. The weighted average rate of increase of consumer prices in the region as a whole was almost 80%, and thus far exceeded the corresponding figure for any preceding year. While inflation increased in 13 of the 21 countries for which data are available, its acceleration was especially rapid in Argentina, Bolivia, Costa Rica and Mexico (see table 5).

As can be seen in figure 3, the rate of increase of consumer prices shot up in Argentina, reaching over 200% per annum in November. This phenomenon, mainly linked to the fiscal deficit and to the sharp devaluations of the peso, meant that for the seventh time in the last 8 years inflation in Argentina rose to a three-digit figure.

The speed at which inflation advanced was even greater in Bolivia, where consumer prices, after mounting at a rate of about 25% in the two preceding years, soared by over 200% in 1982. This vertical upward trend in the rate of inflation —which can be seen particularly clearly in figure 3— was triggered by the rise of approximately 75% in the official rate of exchange decreed at

Figure 3

SELECTED LATIN AMERICAN COUNTRIES: VARIATIONS IN CONSUMER PRICE INDEX OVER TWELVE MONTHS



Source: ECLA, on the basis of official statistics.

Table 5

EVOLUTION OF CONSUMER PRICES

(Variations from December to December)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Latin America[a]	*12.2*	*13.5*	*20.9*	*36.3*	*40.0*	*57.6*	*61.5*	*40.4*	*38.6*	*53.8*	*56.0*	*57.9*	*79.7*
Countries with traditionally high inflation	*114.4*	*15.6*	*24.1*	*41.5*	*44.9*	*69.3*	*74.8*	*48.4*	*45.9*	*61.9*	*66.3*	*68.3*	*90.7*
Argentina	21.6	39.1	64.2	43.9	40.1	334.9	347.5	150.4	169.8	139.7	87.6	131.2	204.6[b]
Brazil[c]	17.7	18.1	14.0	13.7	33.8	31.2	44.8	43.1	38.1	76.0	95.6	91.5	94.4[b]
Colombia	3.5	14.1	14.0	25.0	26.9	17.9	25.9	29.3	17.8	29.8	26.5	27.5[e]	24.8[b]
Chile	34.9	22.1	163.4	508.1	375.9	340.7	174.3	63.5	30.3	38.9	31.2	9.5	20.0[b]
Mexico	7.8	-0.8	5.6	21.3	20.6	11.3	27.2	20.7	16.2	20.0	29.8	28.6	84.6[b]
Peru	5.7	7.7	4.3	13.8	19.2	24.0	44.7	32.4	73.7	66.7	59.7	72.7	71.0[b]
Uruguay	19.3	35.6	94.7	77.5	107.2	66.8	39.9	57.3	46.0	83.1	42.8	29.3	10.8[b]
Countries with traditionally moderate inflation	*2.8*	*4.6*	*7.2*	*15.0*	*19.8*	*10.2*	*7.8*	*8.3*	*10.0*	22.1	*16.0*	*15.0*	*31.2*
Barbados	9.2	10.1	10.4	26.0	36.6	12.3	3.9	9.9	11.3	16.8	16.1	12.3	12.5[f]
Bolivia	3.8	3.3	23.6	34.8	39.0	6.6	5.5	10.5	13.5	45.5	23.9	25.2	207.4[d]
Costa Rica	4.3	1.9	6.9	15.9	30.6	20.5	4.4	5.3	8.1	13.2	17.8	65.1	100.6[d]
Ecuador	8.0	6.8	6.9	20.6	21.2	13.2	13.1	9.8	11.8	9.0	14.5	17.9	20.2[d]
El Salvador	1.0	-0.6	5.2	7.9	21.0	15.1	5.2	14.9	14.6	14.8	18.6	11.6	12.6[g]
Guatemala	1.0	0.3	1.1	17.5	27.5	0.8	18.9	7.4	9.1	13.7	9.1	8.7	-0.6[f]
Guyana	2.4	1.4	7.1	15.2	11.6	5.5	9.2	9.0	20.0	19.4	8.5	29.1	14.6[h]
Haiti	-0.7	13.3	7.3	20.8	19.5	-0.1	-1.4	5.5	5.5	15.4	15.3	16.4	14.7[g]
Honduras	1.4	1.5	6.8	5.1	13.0	7.8	5.6	7.7	5.4	18.9	15.0	4.9	9.1[f]
Jamaica	7.5	5.2	9.3	9.6	20.6	15.7	8.3	14.1	49.4	19.8	28.6	4.8	6.0[i]
Nicaragua	...	...	...	...	...	1.9	6.2	10.2	4.3	70.3	24.8	23.2	26.0[i]
Panama	2.5	1.0	6.7	9.7	16.7	1.4	4.8	4.8	5.0	10.0	14.4	4.8	3.9[d]
Paraguay	2.3	6.3	9.5	14.1	22.0	8.7	3.4	9.4	16.8	35.7	8.9	15.0	5.2[b]
Dominican Republic	-1.3	10.6	8.0	17.2	10.5	16.5	7.0	8.5	1.8	26.2	4.2	7.4	7.6[g]
Trinidad and Tobago	3.3	5.0	8.0	24.4	18.6	13.4	12.0	11.4	8.8	19.5	16.6	11.6	10.3[d]
Venezuela	3.4	3.0	3.5	5.1	11.6	8.0	6.9	8.1	7.1	20.5	19.6	10.8	8.5[h]

Source: International Monetary Fund, *International Financial Statistics*, November 1982, and official data provided by the countries concerned.

[a] Totals for Latin America and partial figures for groups of countries represent average variations by countries, weighted by the population in each year.
[b] Variation between November 1982 and November 1981.
[c] Up to 1979, figures correspond to the variation in the Rio de Janeiro Consumer Price Index and from 1980 onwards to the variations in the total national CPI.
[d] Variation between October 1982 and October 1981.
[e] Up to 1980, figures represent the variation in the Consumer Price Index for manual workers; 1981 and 1982, figures represent the variation in the total national CPI, for both manual workers and employees.
[f] Variation between August 1982 and August 1981.
[g] Variation between September 1982 and September 1981.
[h] Variation between June 1982 and June 1981.
[i] Variation between July 1982 and July 1981.

the beginning of February, and constituted, together with the brusque fall in the gross domestic product and external payments difficulties, an outward and visible sign of the deep-seated crisis suffered by the Bolivian economy in 1982.

In Mexico, too, the acceleration of inflation was very marked. In this country, which up to 1972 had kept its price levels remarkably stable, the rate of inflation had subsequently hovered between 15% and 30%, and then rocketed after the devaluation of the Mexican peso in February. Thus, by the end of November the annual rate of increase of consumer prices approached 85%, and in view of the big increases in the prices of a number of goods and services decreed at the beginning of December, it was probably even higher at the end of the year.

In Costa Rica —another country which has traditionally maintained an appreciable degree of stability, but in which the rate of inflation went up by leaps and bounds at the beginning of 1981 in consequence of the successive devaluations of the colon—, the rate of inflation continued to accelerate up to September, when it reached the unprecedented level of almost 110%. Despite the fact that this rising trend in inflation was interrupted in October, at the end of that month the level of consumer prices was exactly twice as high as it had been a year before.

In Brazil, the rate of inflation continued to fluctuate slightly below 100% for the second year in succession. This result was decisively influenced by the complex system of indexation of the exchange rate, salaries and wages, financial assets, and other key economic variables, which bred a marked tendency towards perpetuation of the inflationary process. Inflation followed a similar course, although at a lower level, in Peru, where again a system had been consolidated in recent years which was characterized by frequent readjustment of the exchange parity and of salaries and wages, and where consumer prices rose in 1982 by more than 70%, just as in the preceding year.

Furthermore, in mid-1982 the downward trend which had been almost continuously followed by Chilean inflation since 1974 was reversed. After a fall in price levels in absolute terms during the first half of the year, there was a vigorous recrudescence of inflation as a result of the alteration of the exchange rate, which had been pegged during the three preceding years. In consequence of this devaluation and of the subsequent successive increases in the exchange parity, notwithstanding the freezing of salaries and wages and the contraction of the money supply, the annual rate of increase of consumer prices rose steadily from June onwards and reached 20% by the end of November, while that of wholesale prices exceeded 36%.

In contrast with the experience of the foregoing countries, the rate of inflation declined a little –from 27.5% in 1981 to 25% in 1982– in Colombia, a country in which annual price variations have shown a notable degree of stability during the last 10 years, fluctuating almost permanently between 25% and 30%.

Inflation also continued to slow down in Uruguay. The annual rate of increase of consumer prices, which had dropped from 83% in 1979 to 43% in 1980 and to 30% in 1981, fell to less than 11% in November 1982. It is highly likely, however, that this downward trend may have been reversed in December in consequence of the abrupt rise in the exchange rate decreed at the end of November.

Again, among countries in which the rate of inflation has traditionally been moderate and for some of which no data are available on the more recent months, the rate of increase of consumer prices rose slightly from 23% to 26% in Nicaragua and from 18% to 20% in Ecuador; declined for the third consecutive year in Trinidad and Tobago and Venezuela; remained relatively stable in Barbados, El Salvador, Jamaica, Haiti, Panama and the Dominican Republic; went up sharply, although from a very low level, in Honduras; and was markedly reduced in Guyana, Paraguay, and, above all, Guatemala (see table 5).

3. *The external sector*

Under the severe constraints imposed by the adverse evolution of the world economy (which will be discussed later) and by the adjustment policies applied in many countries of the region, in 1982 Latin America's external sector underwent a radical upheaval, of which the following were the most significant manifestations:

(i) The value of exports of goods decreased by 10% after six years of very rapid expansion;

(ii) The decline was much steeper still –19%– in the case of the value of imports, which had also been increasing at a high rate since 1975;

(iii) These changes made a very considerable difference to the merchandise trade balance, which switched from a deficit of somewhat over US$ 600 million in 1981 to a surplus of more than US$ 8.8 billion in 1982;

(iv) This *volte-face* in merchandise trade was achieved despite a 7% deterioration in the terms of trade;

(v) During the year 1982 net payments of profits and interest continued to rise at a dizzy speed, and reached over US$ 34 billion, an amount equivalent to almost

40% of the value of exports of goods and nearly double that of the net financial remittances transferred only two years before;

(vi) As a result of the merchandise trade surplus, and notwithstanding the considerable increase in net payments of profits and interest, the deficit on current account, which had been growing steadily larger since 1976, was reduced from US$ 38 billion in 1981 to US$ 33 billion in 1982;

(vii) This decline was accompanied, however, by a much more drastic decrease in the net movement of capital, which fell by 55%, dropping from US$ 44 billion in 1981 to only a little over US$ 19 billion in 1982 – the lowest figure in the last five years;

(viii) In consequence of this contraction, despite the reduction of the imbalance on current account, the balance-of-payments position underwent a radical change, a surplus of nearly US$ 4 billion in 1981 giving place to a deficit of about US$ 14 billion in 1982 (see table 6).

(a) *Foreign trade and terms of trade*

In 1981 there was a break in the prolonged and rapid expansion of Latin America's exports which had been going on since the beginning of the previous decade. After increasing at an average annual rate of 19% between 1970 and 1981, the value of external sales of goods dropped by 10% in 1982.

This diminution, however was caused exclusively by the reduction in the unit value of exports, which not only decreased by 10% in the region as a whole but declined in all the Latin American countries (see table 7).

So generalized a downward movement reflected, in its turn, the impact of the fall in world market prices for the great majority of the primary commodities exported by the region, which were adversely affected not only by the contraction of demand due to the recession in the industrialized economies and the rise in interest rates, but also by the appreciation of the dollar on international exchange markets.

Although during 1982 reductions occurred in the world market prices of virtually all the principal primary commodities exported by Latin America, they were particularly heavy in the prices of sugar (which dropped by over 40% for a second consecutive year), in those of fish meal, lead and maize (which decreased by between 20% and 25%) and in those of copper, cocoa, soya and zinc (which fell by between 10% and 15%). In fact, bananas, coffee and iron ore were the only products whose prices rose in 1982, but these increases were minimal, and both in the case of coffee and in that of iron were far from offsetting the sharp decline in the preceding years (see table 8 and figure 4).

The sluggishness of international trade also exerted an unfavourable influence on the volume of Latin American exports. The latter had steadily kept up an exceptionally high average annual rate of expansion –8.7%– between 1976 and 1981, but in 1982 remained completely static. However, in contrast with the decline in unit value which, as has been seen, reflected to a greater or lesser degree the decreases in all countries' export prices, stability in the quantum of exports was the net result of the opposing trends it showed in the various economies of the region. Thus, while the volume of exports shrank by about 10% in Brazil, Panama, Trinidad and Tobago and Uruguay, and contracted even more notably in Venezuela (–17%) and Guyana (–24%), it expanded by approximately 14% in Peru, Barbados and Chile, by over 20% in Mexico and by about 30% in Paraguay.

The change in relation to the trends prevailing in previous years was yet more marked in the case of imports, whose value dropped by 19%, after a spell of vigorous and uninterrupted growth between 1980 and 1981. As can be seen in table 9, this downward movement affected alike both the group formed by the petroleum-exporting countries and that constituted by the other economies of the region.

Moreover, contrary to what happened in the case of exports, the decline in the value of external purchases was caused mainly by the reduction of their quantum. This shrank by 16% in the region as a whole

Table 6

LATIN AMERICA: BALANCE OF PAYMENTS[a]

(Millions of dollars)

Country	Exports of goods FOB		Imports of goods FOB		Balance of trade (goods)		Net service payments[b]		Net payments of profits and interest		Balance on current account[c]		Net movement of capital[d]		Total balance[e]	
	1981	1982	1981	1982	1981	1982	1981	1982	1981	1982	1981	1982	1981	1982	1981	1982
Latin America	*96 603*	*87 255*	*97 242*	*78 440*	*-639*	*8 815*	*10 993*	*7 860*	*26 903*	*34 395*	*-38 122*	*-33 045*	*42 092*	*19 200*	*3 970*	*-13 845*
Petroleum-exporting countries	*48 878*	*45 410*	*43 966*	*35 455*	*4 912*	*9 955*	*5 829*	*3 220*	*10 135*	*14 675*	*-11 336*	*-8 255*	*16 222*	*1 660*	*4 886*	*-6 595*
Bolivia	909	820	680	440	229	380	215	180	341	425	-314	-210	141	100	-173	-110
Ecuador	2 544	2 400	2 362	2 310	182	90	487	490	722	810	-1 027	-1 210	731	890	-296	-320
Mèxico	19 837	20 800	23 166	13 900	-3 329	6 900	1 093	-2 000	8 700	12 000	-12 997	-3 000	14 755	-500	1 758	-3 500
Peru	3 256	3 200	3 803	3 635	-547	-435	247	270	885	970	-1 680	-1 675	1 176	1 760	-504	85
Trinidad and Tobago	2 473	2 190	1 577	1 770	896	420	-84	-20	304	370	637	40	182	210	819	250
Venezuela	19 859	16 000	12 378	13 400	7 481	2 600	3 871	4 300	-817	100	4 045	-2 200	-763	-800	3 282	-3 000
Non-petroleum-exporting countries	*47 725*	*41 845*	*53 276*	*42 985*	*-5 551*	*-1 140*	*5 164*	*4 640*	*16 768*	*19 720*	*-26 786*	*-24 790*	*25 870*	*17 540*	*-916*	*-7 250*
Argentina	9 145	7 700	8 232	4 600	913	3 100	1 667	200	3 302	4 800	-4 057	-1 900	1 025	1 900	-3 032	–
Barbados	175	170	520	560	-345	-390	-250	-250	10	15	-84	-130	108	110	24	-20
Brazil	23 276	20 000	22 080	19 500	1 196	500	2 839	3 800	10 290	10 700	-11 739	-14 000	12 982	10 000	1 243	-4 000
Colombia	3 127	3 200	4 789	5 100	-1 662	-1 900	63	100	333	490	-1 969	-2 400	2 594	1 600	625	-800
Costa Rica	1 030	1 010	1 092	820	-62	190	38	5	300	395	-371	-180	309	80	-62	-100
Chile	3 960	3 800	6 558	3 650	-2 598	150	888	600	1 428	2 140	-4 869	-2 540	5 300	1 400	431	-1 140
El Salvador	792	735	858	875	-66	-140	103	105	86	85	-239	-190	203	230	-36	40
Guatemala	1 299	1 200	1 540	1 290	-241	-90	311	320	103	90	-567	-350	304	325	-263	-25
Guyana	346	250	400	290	-54	-40	76	60	54	50	-179	-150	163	145	-16	-5
Haití	150	150	356	330	-206	-180	69	50	13	15	-215	-165	185	170	-30	5
Honduras	784	710	899	830	-115	-120	62	35	153	190	-321	-330	263	230	-58	-100
Nicaragua	500	430	897	675	-397	-245	82	50	93	100	-571	-395	686	220	115	-175
Panama	339	280	1 374	1 455	-1 035	-1 175	-857	-755	181	150	-422	-630	363	540	-59	-90
Paraguay	399	440	772	810	-373	-370	-22	-30	29	30	-378	-370	514	290	136	-80
Dominican Republic	1 188	770	1 439	1 200	-251	-430	21	50	295	200	-378	-490	409	320	31	-170
Uruguay	1 215	1 000	1 470	1 000	-255	--	74	300	98	270	-427	-570	462	-20	35	-590

Source: 1981: International Monetary Fund; the figures for Barbados, El Salvador, Nicaragua, Dominican Republic and Uruguay are ECLA estimates. 1982: ECLA, provisional estimates subject to revision.

[a] Additions and subtractions do not exactly fit the totals owing to rounding of the original figures.
[b] Excluding net payments of profits and interest.
[c] Including net unilateral private transfers.
[d] Including long-and short-term capital, unilateral official transfers, counterpart entries and errors and omissions.
[e] Corresponds to the variation in international reserves.

Table 7

LATIN AMERICA: EXPORTS OF GOODS

(Indexes: 1970=100, and growth rates)

Country	Value			Unit value			Quantum		
	1981	1982	1982/1981	1981	1982	1982/1981	1981	1982	1982/1981
Latin America	*672*	*607*	*-10*	*370*	*332*	*-10*	*182*	*183*	—
Petroleum-exporting countries	*867*	*806*	*-8*	*646*	*544*	*-15*	*134*	*148*	*10*
Bolivia	478	430	-10	400	340	-15	120	126	5
Ecuador	1 083	1 022	-6	546	524	-4	198	195	-2
Mexico	1 472	1 543	5	466	406	-13	316	380	21
Peru	315	309	-2	313	266	-15	101	116	15
Trinidad and Tobago	1 098	972	-11	1 621	1 571	-3	68	62	-9
Venezuela	763	615	-19	1 396	1 354	-3	55	45	-17
Non-petroleum-exporting countries	*570*	*500*	*-12*	*257*	*233*	*-9*	*222*	*215*	*-3*
Argentina	516	434	-16	299	266	-11	173	163	-6
Barbados	489	475	-3	285	242	-15	172	196	14
Brazil	850	730	-14	257	239	-7	331	306	-8
Colombia	397	406	2	298	295	-1	133	138	4
Costa Rica	446	437	-2	260	249	-4	172	176	2
Chile	356	341	-4	162	138	-15	219	247	13
El Salvador	336	312	-7	279	276	-1	120	113	-6
Guatemala	437	404	-8	233	221	-5	188	183	-3
Guyana	269	194	-28	410	386	-6	66	50	-24
Haiti	385	384	—	245	240	-2	157	160	2
Honduras	440	398	-10	292	284	-3	151	141	-7
Nicaragua	280	240	-14	270	245	-9	104	98	-6
Panama	260	215	-17	258	240	-7	101	90	-11
Paraguay	610	674	10	320	279	-13	191	242	27
Dominican Republic	555	360	-35	339	237	-30	164	152	-7
Uruguay	542	446	-18	271	246	-9	201	181	-10

Source: ECLA. Provisional estimates.

and decreased in 12 of the 22 countries for which data are available. The slump in the volume of imports was exceptionally pronounced in Argentina (−50%), Chile (−39%), Mexico (−38%) and Bolivia (−31%), all of them countries which heavily devalued their currencies in the course of 1982 and in which economic activity underwent a marked decline or lapsed almost completely into stagnation. The quantum of imports likewise fell by more than 20% in Uruguay, Costa Rica, Guyana and Nicaragua, owing to the measures adopted to reduce the external imbalance and to the contraction of the domestic product. On the other hand, in Trinidad and Tobago, Venezuela, Barbados and Colombia imports of goods increased rapidly in real terms.

As in the case of exports, in 1982 the unit value of imports decreased; nevertheless, this downturn was much more moderate than that of the average price of exports.

Table 8

LATIN AMERICA: PRICES OF STAPLE EXPORT PRODUCTS

(Dollars at current prices)

	Annual averages						Growth rates					
	1977	1978	1979	1980	1981	1982[a]	1977	1978	1979	1980	1981	1982[a]
Unrefined sugar[b]	8.1	7.8	9.7	28.7	16.9	9.1	-30.2	-3.7	24.4	195.9	-41.1	-46.2
Coffee (mild)[b]	240.2	185.2	183.4	178.8	145.3	148.8	52.3	-22.9	-1.0	-2.5	-18.7	2.4
Cocoa[b]	172.0	154.4	149.4	118.1	94.2	81.0	85.3	-10.2	-3.2	-21.0	-20.2	-14.0
Bananas[b]	14.0	13.7	15.6	18.9	19.2	19.3	12.9	-2.1	13.9	21.2	1.6	0.5
Wheat[c]	105.6	131.9	164.4	177.4	178.5	164.4	-22.1	24.9	24.6	7.9	0.6	-7.9
Maize[c]	114.4	132.5	154.8	210.3	181.0	144.4	-17.6	15.8	16.8	35.9	-13.9	-20.2
Beef[b]	68.4	97.1	130.9	125.9	112.2	107.0	-4.6	42.0	34.8	-3.8	-10.9	-4.6
Fish meal[c]	454.0	410.0	395.0	504.0	468.0	351.0	20.7	-9.7	-3.7	27.6	-7.1	-25.0
Soya[c]	280.0	268.0	298.0	296.0	288.0	251.0	21.2	-4.3	11.2	-0.7	-2.7	-12.8
Cotton[b]	73.9	72.9	77.4	94.2	85.8	74.4	-6.8	-1.4	6.2	21.7	-8.9	-13.3
Wool[b]	153.6	157.4	190.5	194.5	178.2	158.7	5.7	2.5	21.0	2.1	-8.4	-10.9
Copper[b]	59.3	61.9	90.0	98.6	79.0	67.5	-6.6	4.4	45.4	9.6	-19.9	-14.6
Tin[d]	4.9	5.8	7.0	7.6	6.4	5.9	44.1	18.4	20.7	8.6	-15.8	-7.8
Iron ore[c]	20.2	19.7	24.0	28.9	25.9	27.2	...	-2.5	21.8	20.4	-10.4	5.0
Lead[b]	28.0	29.9	54.6	41.1	33.0	25.9	37.9	6.8	82.6	-24.7	-19.7	-21.5
Zinc[b]	26.7	26.9	33.6	34.6	38.4	34.3	17.3	0.7	24.9	3.0	11.0	-10.7
Bauxite[c]	134.8	138.4	152.6	212.5	216.3	213.8	14.9	2.7	10.3	39.3	1.8	-1.2

Source: UNCTAD, Monthly Commodity Price Bulletin, Supplements 1960-1980 and November 1982; International Monetary Fund, *International Financial Statistics*, Yearbooks 1981 and November 1982.

[a] January to September.
[b] U.S. cents.
[c] Dollars per ton.
[d] Dollars per pound.

Accordingly, the terms of trade, which had already deteriorated by 7% in 1981, underwent a further decline of 6% in 1982.

This reduction, moreover, was widespread. In 1982 the terms of trade deteriorated in all the countries of the region with the exception only of Colombia, El Salvador, Haiti, Honduras, Panama, Trinidad and Tobago and Venezuela, where they slightly improved (see table 10).

In striking contrast with what had occurred in previous years, in 1982 the decline in the terms of trade was more marked (−12%) in the petroleum-exporting countries than in the other economies of the region (−4%) (see table 10 and figure 5). Even so, the negative effects of the deterioration were worse in the latter, since in these countries the terms of trade had already been continuously following a steep downward trend during the four preceding years. Accordingly, the terms-of-trade index for the non-petroleum-exporting countries sank in 1982 to its lowest level in more than half a century and its average value over the three-year period 1980-1982 was considerably less than it had been in the years 1931-1933, i.e., during the most critical phase of the Great Depression.

(b) *The balance of payments*

Since a much greater reduction took place in the value of imports than in that of exports, the merchandise trade balance underwent a radical change in 1982. In the region as a whole a surplus of US$ 8.8 billion replaced the deficit of over US$ 600 million shown in the preceding year.

This right-about turn was particularly

Figure 4

LATIN AMERICA: VARIATIONS OVER 12 MONTHS IN INTERNATIONAL PRICES OF MAIN COMMODITIES EXPORTED, 1980 – 1982

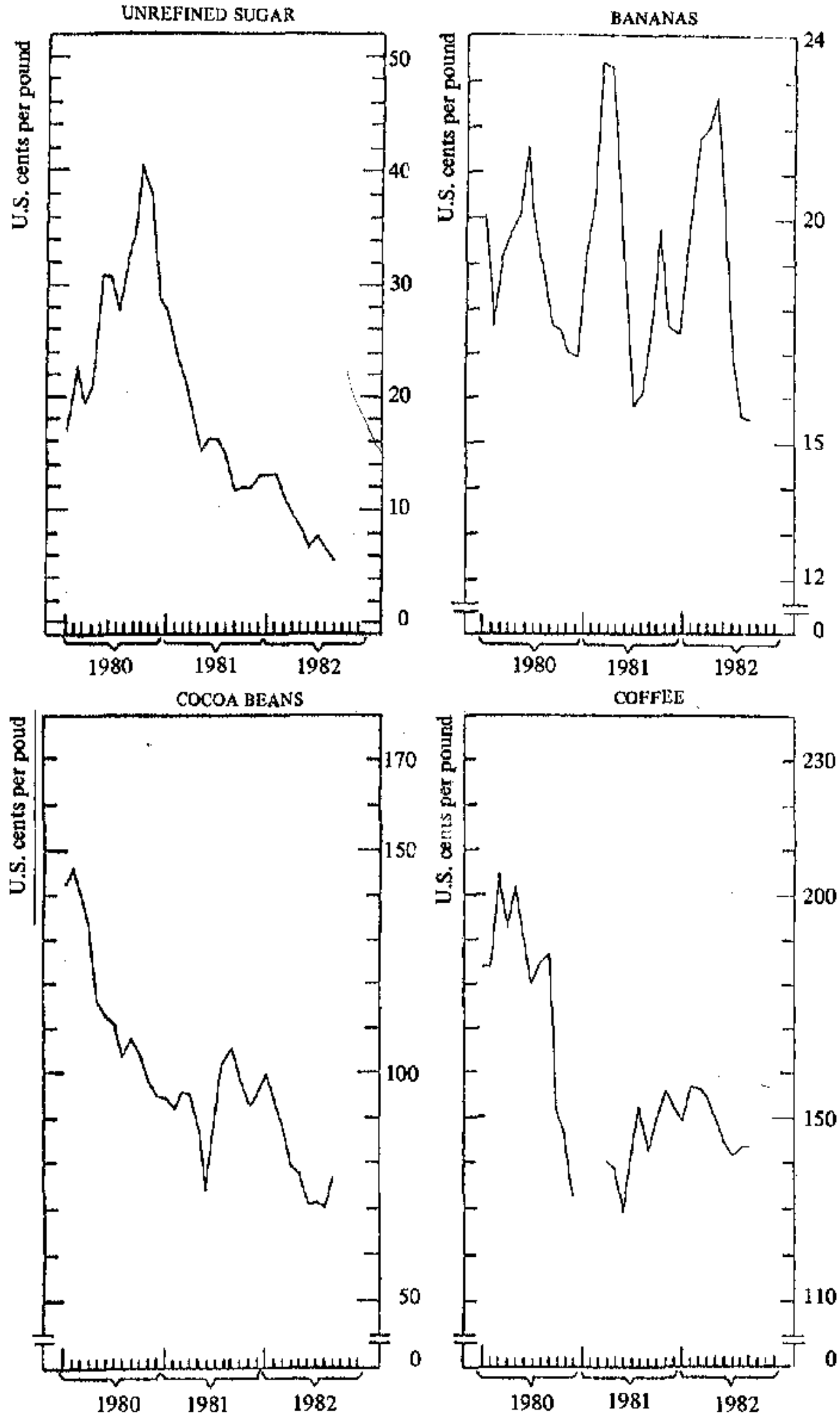
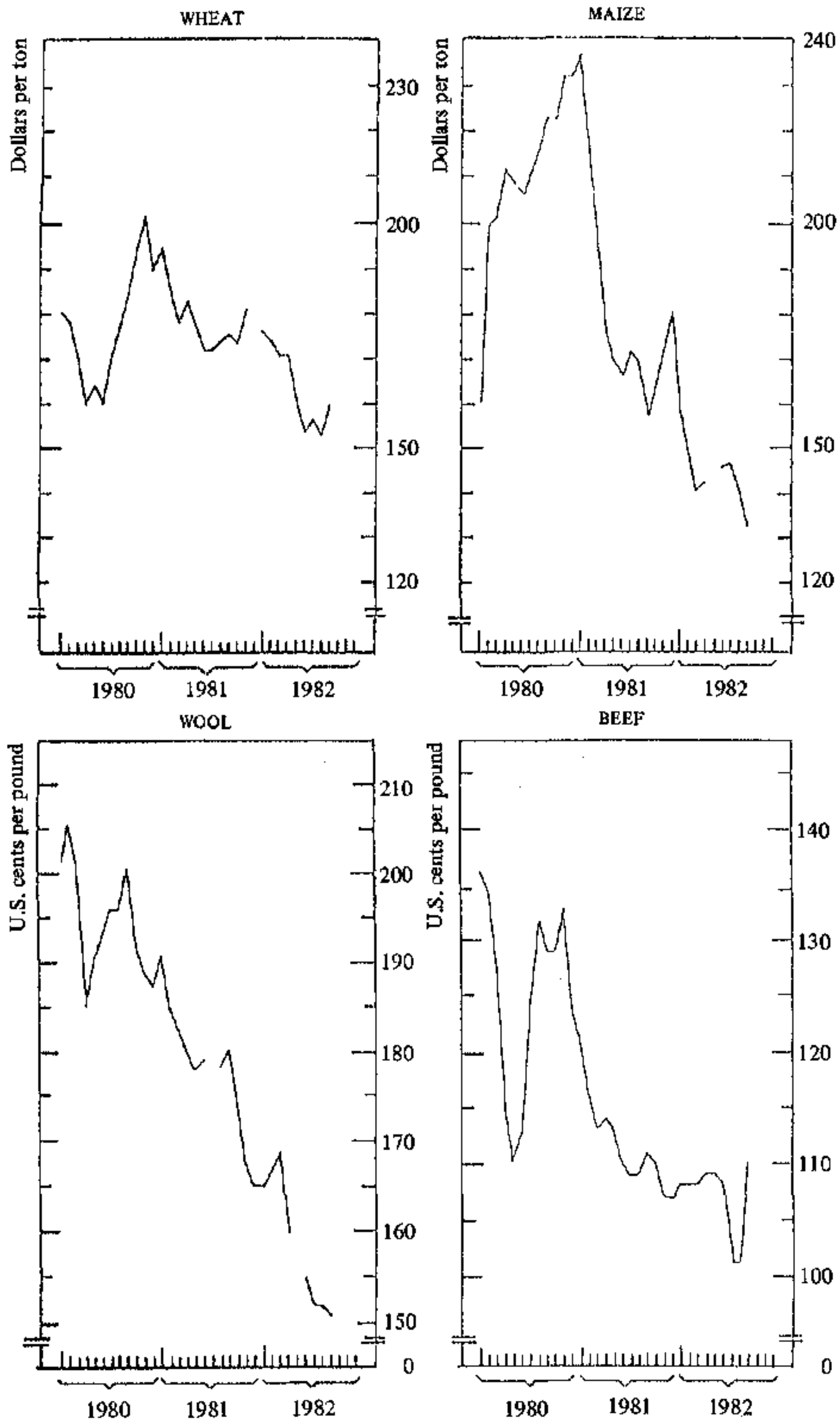


Figure 4 (continued)



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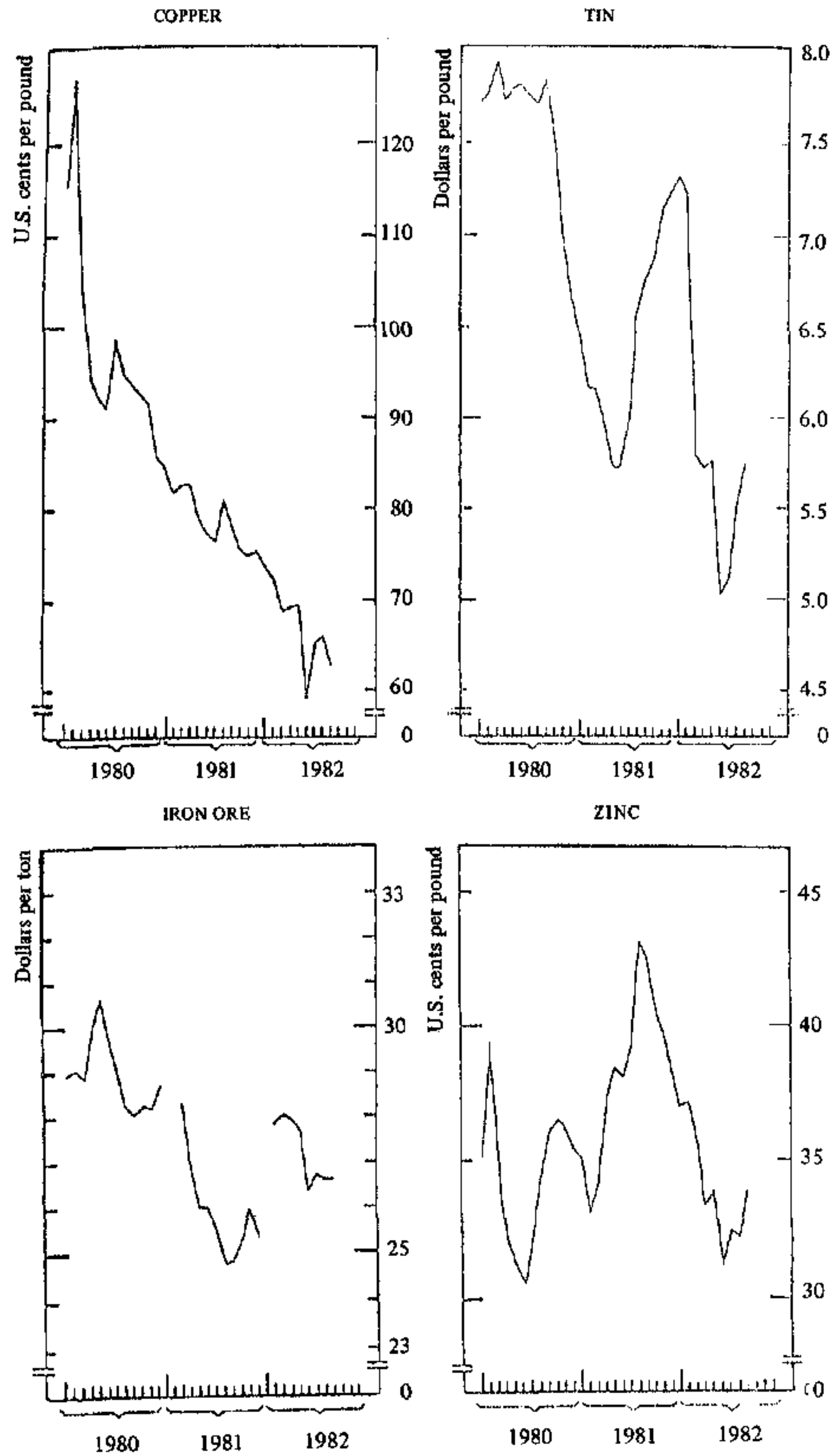
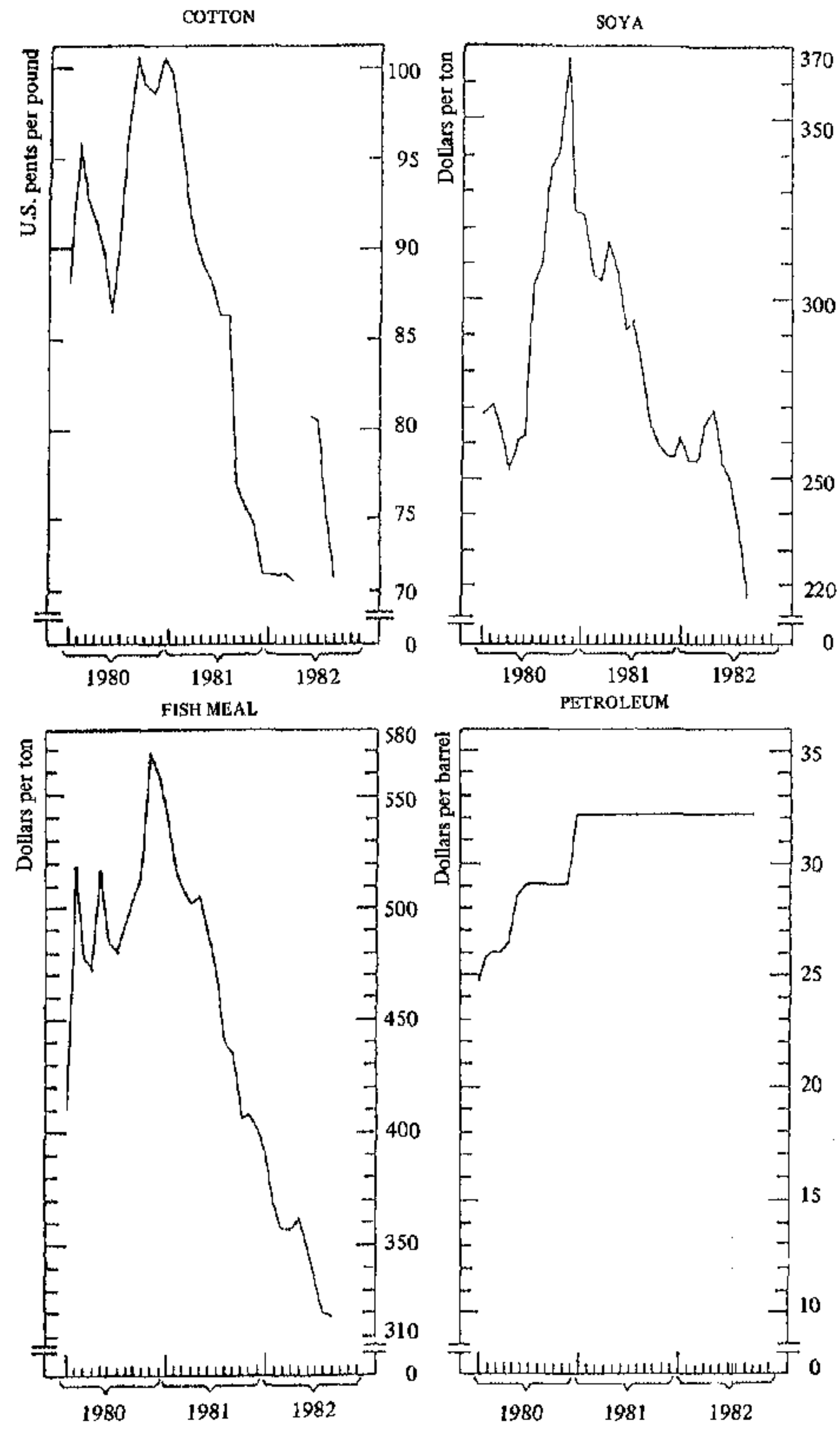


Figure 4 (concluded)



Source: UNCTAD, *Monthly Commodity Price Bulletin*, November 1982. Petroleum: IMF, *International Financial Statistics*, December 1982.

Table 9

LATIN AMERICA: IMPORTS OF GOODS

(Indexes: 1970 = 100, and growth rates)

Country	Value			Unit Value			Quantum		
	1981	1982	1982/1981	1981	1982	1982/1981	1981	1982	1982/1981
Latin America	*732*	*591*	*-19*	*320*	*306*	*-4*	*229*	*193*	*-16*
Petroleum-exporting countries	*828*	*668*	*-19*	*268*	*258*	*-4*	*308*	*259*	*-16*
Bolivia	503	325	-35	309	296	-4	159	110	-31
Ecuador	946	926	-2	249	242	-3	383	383	—
Mexico	1 036	622	-40	268	257	-4	387	242	-38
Peru	544	520	-4	273	257	-6	199	203	2
Trinidad and Tobago	571	641	12	272	261	-4	211	246	17
Venezuela	723	782	8	272	261	-4	266	300	13
Non petroleum-exporting countries	*662*	*534*	*-19*	*381*	*361*	*-5*	*176*	*150*	-15
Argentina	549	307	-44	335	322	-4	162	81	-50
Barbados	486	524	8	294	282	-4	165	186	13
Brazil	881	778	-12	457	443	-3	190	175	-8
Colombia	597	637	7	279	268	-4	213	237	11
Costa Rica	381	286	-25	316	306	-3	119	93	-22
Chile	757	421	-44	398	374	-6	185	113	-39
El Salvador	441	449	2	307	298	-3	142	151	6
Guatemala	578	484	-16	313	303	-3	183	160	-13
Guyana	333	242	-27	347	333	-4	93	73	-22
Haití	745	690	-7	299	281	-6	246	246	—
Honduras	442	407	-8	309	296	-4	142	137	-3
Nicaragua	502	377	-25	322	309	-4	155	122	-21
Panamá	415	440	6	387	371	-4	101	117	16
Paraguay	1 008	1 057	5	317	317	—	313	334	7
Dominican Republic	518	432	-17	313	301	-4	163	142	-13
Uruguay	724	493	-32	373	347	-7	190	142	-25

Source: ECLA. Provisional estimates.

influenced by the considerable changes occurring in the merchandise trade balances of Mexico (which after having a deficit of US$ 3.3 billion in 1981 obtained a surplus of US$ 6.9 billion in 1982), Chile (where a small surplus of US$ 150 million replaced the negative balance of US$ 2.6 billion recorded the year before), and Argentina (which increased the positive balance it had achieved in 1981 by US$ 2.2 billion). In contrast, in 1982 the trade balance surplus that Venezuela had secured in 1981 was reduced by US$ 4.9 billion and that of Brazil decreased by US$ 700 million (see table 6).

The effects on the balance on current account of this reversal in merchandise trade and of the US$ 3 billion decrease in net service payments in 1982 were neutralized, however, to a considerable extent, by the new and substantial increase in net remittances of profits and interest. Although the

Table 10

LATIN AMERICA: TERMS OF TRADE AND PURCHASING POWER OF EXPORTS OF GOODS

(Indexes: 1970 = 100, and growth rates)

Country	Terms of trade in goods			Purchasing power of exports of goods		
	1981	1982	1982/1981	1981	1982	1982/1981
Latin America	*116*	*109*	*-6*	*212*	*199*	*-6*
Petroleum-exporting countries	*241*	*211*	*-12*	*323*	*312*	*-3*
Bolivia	129	115	-11	155	145	-6
Ecuador	219	217	-1	434	423	-3
Mexico	174	158	-9	550	600	9
Peru	115	104	-10	116	121	4
Trinidad and Tobago	598	603	1	407	373	-8
Venezuela	514	519	1	283	236	-17
Non-petroleum-exporting countries	*68*	*65*	*-4*	*152*	*139*	*-8*
Argentina	89	83	-7	154	135	-12
Barbados	96	86	-11	165	168	2
Brazil	56	54	-4	185	165	-11
Colombia	107	110	3	142	151	6
Costa Rica	82	81	-1	141	143	1
Chile	41	37	-10	90	91	1
El Salvador	91	93	2	109	105	-4
Guatemala	74	73	-2	139	133	-4
Guyana	118	116	-2	78	58	-26
Haiti	82	85	4	129	137	6
Honduras	95	96	1	143	134	-6
Nicaragua	83	79	-4	86	78	-9
Panama	63	65	3	64	58	-9
Paraguay	101	88	-13	193	213	10
Dominican Republic	107	79	-26	175	120	-31
Uruguay	73	71	-2	147	129	-12

Source: ECLA. Provisional estimates.

contraction in domestic economic activity helped to limit remittances of profits, and notwithstanding the decline in nominal interest rates on the international financial markets, payments of profits and interest rose from a little less than US$ 27 billion in 1981 to over US$ 34 billion in 1982. As these remittances had already been increasing exceptionally fast since 1977, the amount they represented in 1982 more than quadrupled the corresponding figure shown barely five years before.

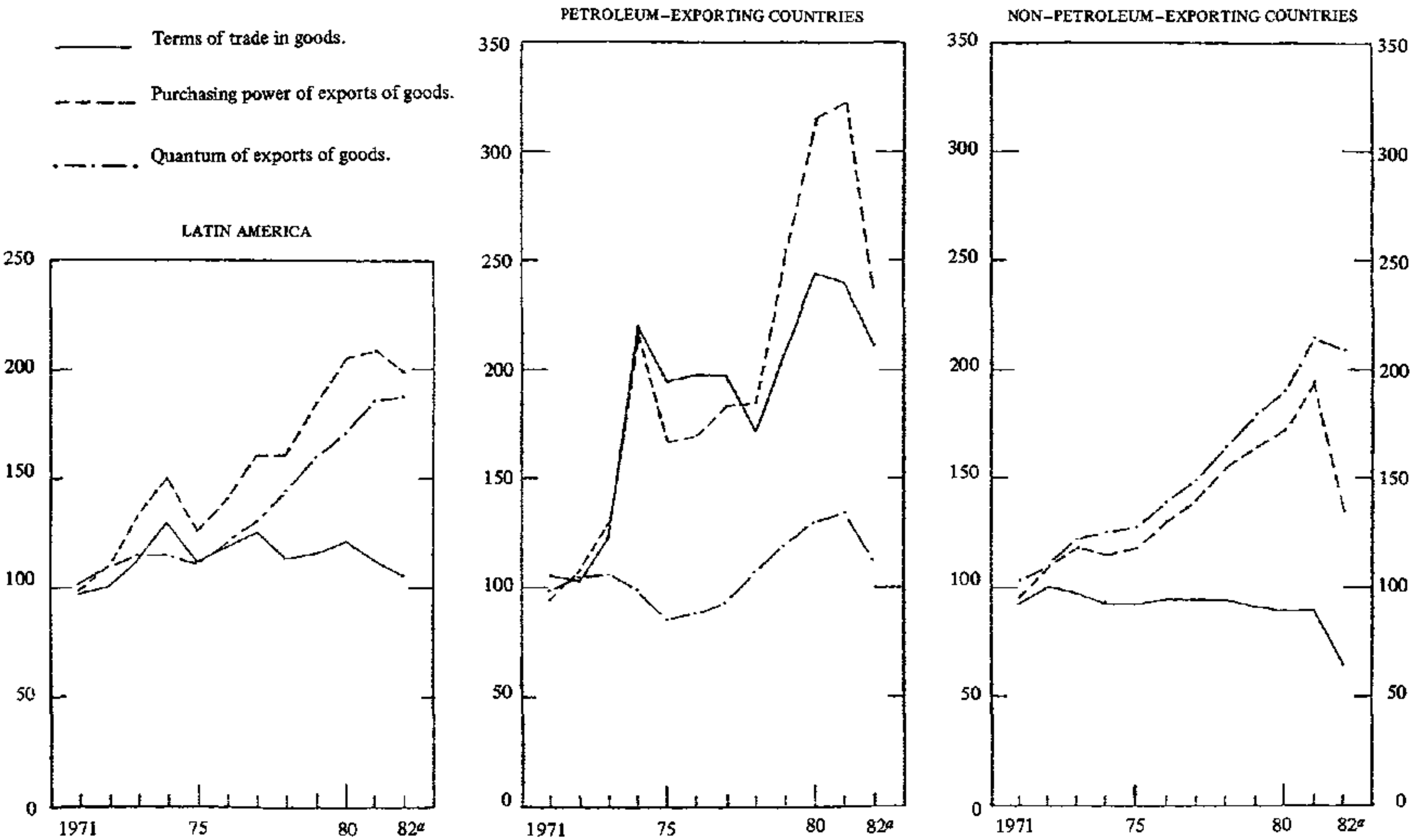
The net result of these changes was a reduction of US$ 5 billion in Latin America's deficit on current account. Although this decrease was the first that had occurred since 1976, the negative balance on current account in 1982 easily exceeded all those recorded up to 1980.

In consonance with the changes in mer-

Figure 5

LATIN AMERICA: TRENDS OF SOME FOREIGN TRADE INDICATORS

(Indexes: 1970 = 100)



Source: ECLA, on the basis of official data.

[a] Provisional estimates.

chandise trade and in the net inflow of capital, the large negative balances with which the current account had closed the preceding year in Mexico, Chile and Argentina were drastically reduced in 1982, while there was a marked increase in the deficits shown by Brazil and Colombia and a radical reversal took place in Venezuela's current account, which, after generating a surplus of US$ 4 billion in 1981, recorded a deficit of US$ 2.2 billion in 1982.

Furthermore, as a result of the unfavourable economic trends observable in the great majority of the countries of the region, of the very high level of external indebtedness reached by many of them, and of the changes in the world economy,[1] in 1982 there was a brusque contraction in net movements of capital into Latin America. Net receipts of external resources decreased, in fact, by 55%, falling from US$ 42 billion in 1981 to only a little over US$ 19 billion in 1982.

This decline in net movements of loans and investment was, moreover, much more pronounced than the decrease in the deficit on current account. Consequently, during 1982 a sweeping change occurred in the final balance-of-payments position. In 1981 the balance of payments had generated a surplus of nearly US$ 4 billion; in 1982 it showed a deficit of about US$ 14 billion. Although this result was especially due to the very substantial deficits which Brazil, Mexico and Venezuela recorded in 1982, and to the smaller, but still appreciable, negative balances shown by Chile, Colombia and Uruguay, all the countries of the region also contributed to it, the only exceptions being Trinidad and Tobago, Peru and El Salvador, which obtained small surpluses.

II
The incidence of external factors

More than at any other time since the Second World War, the growth of the periphery in general and of Latin America in particular was heavily conditioned in 1982 by constraints deriving from the poor economic evolution of the centre. It is true that, as already shown, causes of internal origin —such as those linked to the unsatisfactory management of fiscal and exchange policies and to problems of an extra-economic character— account for most of the big decreases in the product in the countries of the Southern Cone, for its decline in several Central American economies or for the stagnation of economic activity in countries such as Mexico. Nevertheless, the major external constraints stemming from the recession in the industrialized economies constituted a brake which had a generalized handicapping effect on the economic growth of the entire region.

Although the anti-inflation campaign waged in many of the member countries of the Organization for Economic Co-operation and Development (OECD) succeeded in significantly lowering the rate of inflation in 1982, it did so only at the cost of a new rise in the rate of unemployment and an almost total stagnation of economic activity. According to provisional estimates, the gross domestic product of the OECD economies as a whole would seem to have shown an increase of barely 0.1%, whereby they completed three successive years of extremely low growth rates (see table 11). This had a negative effect on the centre's demand for imports, the value of which decreased by nearly 4% in 1982. Moreover, although in that same year the nominal interest rate fell by three percentage points, inflation in the OECD countries was reduced on a similar scale, so that the real rate of interest con-

[1] These last two factors are discussed in greater detail in the next two sections.

Table 11

SOME BASIC INTERNATIONAL INDICATORS

	1976-1979 / (1970-1973)	1980-1981 / (1974-1975)	1982[a] / (1976)
OECD countries			
Annual growth rate of GDP	4.2 (5.0)	1.3 (-0.5)	0.1 (4.9)
Annual inflation[b]	8.3 (5.8)	11.0 (12.2)	8.0 (8.3)
Average rate of unemployment	5.2 (3.5)	6.1 (4.6)	8.5 (5.2)
Rate of interest (LIBOR)[c]			
Nominal	8.2 (7.5)	14.7 (9.4)	14.3 (6.1)
Real[d]	-0.1 (1.6)	3.3 (-2.5)	6.0 (-2.0)
Developing countries			
Annual growth rate of GDP			
All developing countries	5.1 (6.2)	1.7 (4.7)	-0.1 (6.0)
Latin America	5.5 (7.2)	4.6 (5.4)	-0.9 (5.4)

Source: United Nations Department of International Economic and Social Affairs; IMF, *International Financial Statistics* (several issues); OECD, *Main Economic Indicators*, September 1982; and ECLA estimates, on the basis of official statistics.

[a] Provisional estimates.
[b] Consumer price index.
[c] LIBOR at 6 months.
[d] LIBOR at 6 months deflated by the rate of inflation of the OECD countries.

tinued to stand at approximately 6%, its highest level since the Great Depression.[2] This, of course, played a contributory part in limiting the expansion of demand and deferring the first steps towards a recovery of the central economies.

The most serious feature of the year 1982, however, was not so much the recession in the centre, nor the decline in world trade, nor the high real rates of interest —for in the past there had been periods of similar or even worse contractions— but the coincidence of all these negative phenomena in a single year and, above all, their prolonged duration.

While the recession in the industrialized economies in 1974-1975 was more critical than its counterpart today —the gross domestic product of the OECD countries fell by 1% in that period— it lasted only two years. Thus, as can be seen in table 11, in 1976 there was already a vigorous recovery of production (4.9%), so that in the three-year period 1974-1976 the cumulative growth rate of the central economies was almost 4%. On the other hand, while in the course of the period 1980-1982 production never decreased in the OECD countries as a

[2] As will be seen later, the real rate of interest on the Latin American countries' external debt was much higher still, since in 1982 the unit value of Latin America's exports sharply declined.

Table 12

SOME BASIC EXTERNAL SECTOR INDICATORS

(Percentage variations during the period)

	1976-1979 (1970-1973)	1980-1981 (1974-1975)	1982 (1976)
Value of OECD imports	94.4 (110.0)	13.5 (42.0)	-3.8 (15.5)
Volume of OECD imports	34.1 (42.2)	-4.5 (-7.7)	1.5 (14.5)
Value of the dollar (+: appreciation; –: depreciation)	6.3 (-17.0)	12.8 (1.2)	11.0 (5.2)
Commodity prices[a]	51.7 (71.1)	-6.5 (4.7)	-15.0 (13.2)
Terms of trade of non-petroleum-exporting developing countries	6.5 (-1.0)	-15.0 (2.0)	-7.0 (4.0)

Source: IMF, *International Financial Statistics* (several issues); and ECLA estimates, on the basis of official statistics.

[a] Excluding petroleum.

whole, its total increase was only 2.7%, that is, less than in the period 1974-1976.

In short, 1982 was the third consecutive year of meagre growth in the centre; the second year in which real interest rates fluctuated around 6%; and the third successive year in which OECD's volume of imports decreased or only marginally expanded. Consequently, 1982 was also a year in which the prices of the primary commodities produced by the periphery fell, and the fifth consecutive year in which the terms of trade deteriorated for the non-petroleum-exporting developing countries (see table 12).

To this set of unfavourable circumstances was added yet another of particular significance, i.e., the marked reduction in absolute terms of the net flow of capital into the periphery. This decline was especially severe in the case of the non-petroleum-exporting countries of Latin America, whose net receipts of capital dropped by 35% in 1982 (see table 13).

This contraction in net capital inflows was crucial, since it is the capital account, of course, which can be used as a buffer against abrupt deteriorations of the trade balance without bringing down the product and income. In fact, it was thanks to these capital inflows, which in 1974-1975 acted as a countercyclical factor, that Latin America was able to maintain a by no means negligible economic growth rate throughout that period, despite the severe recession which was affecting the central economies at the time. But in lively contrast with what occurred during the 1974-1975 crisis, in 1982 the capital movements in question played a procyclical role.

This situation was linked, in turn, to the unexpected duration of the recession in the centre. Its prolongation, and the repeated postponement of the first signs of recovery beyond the looked-for date, brought about a liquidity crisis in the industrialized economies which made itself felt in an upsurge of demand for credit, which was no longer due to the prevalence of inflationary expectations –since, as already shown, the rate of inflation had decreased– but stemmed from the need to supplement the low cash

Table 13

FLOWS OF CAPITAL AND VOLUME OF EXPORTS OF NON–PETROLEUM–EXPORTING DEVELOPING COUNTRIES

	Indexes (1973 = 100)							Growth rates	
	1974	1975	1976	1979	1980	1981	1982	1974-1975	1980-1982
1. Net real capital flows[a] to:									
All NPEDC[b]	151	158	153	184	203	208	177	58	-4
Latin America	130	128	172	201	206	224	145	28	-28
2. Volume of exports of									
All NPEDC[b]	100	99	111	139	140	141	144	-1	4
Latin America	101	101	111	146	154	174	169	1	16
3. Ratio between flows of capital and volume of exports (1:2)									
All NPEDC[b]	151	160	138	132	145	148	123	60	-7
Latin America	129	127	155	138	134	129	86	27	-38

Source: IMF, *International Financial Statistics* (several issues), and *Annual Report 1982*; and ECLA estimates.

[a] Net flow of capital in current dollars deflated by the United States CPI.
[b] Non-petroleum-exporting developing countries.

flows caused by the continuous and unexpected reduction of sales. As this heavy demand for credit coincided with stabilization policies centering on monetary restrictions, it generated unprecedented real interest rates and led to declines in production, particularly in the sectors most sensitive to the rate of interest (such as those producing capital goods and durable consumer goods), and to reductions in inventories.

Unfortunately, primary commodities —which constitute the periphery's staple exports— are among the goods in whose case adjustment to a contraction in demand is made mainly through a fall in prices, or else they constitute inputs for industries that are particularly hard hit by a recession in the centre (for example, metal products for the motor vehicle and construction industries), or again their inventories are liable to be drastically reduced when the rate of interest rises. It is not surprising, therefore, that in the last two years they have suffered a price decline of 30%.

Viewed from this angle, the persistence of deflationary policies in the centre has especially affected the periphery's export prices but only partly hit domestic prices in the centre itself. Consequently, downward price rigidity as regards the goods produced in the industrialized countries has aggravated the deterioration of the periphery's terms of trade.

Of course, there is nothing new about the fact that stabilization policies applied in the central economies are more prone to bring down the periphery's terms of trade than to reduce inflation in the centre. What is new is that because of the unexpected prolongation of the recession a liquidity crisis occurred which kept real interest rates exceptionally high —in contrast with what happened in 1974-1975, when the real interest rate was negative— and which also made for restriction of the net flow of capital into the periphery, a circumstance that likewise implied a significant difference from what had occurred during the 1974-1978 crisis and again in 1980.

Indeed, in the latter year the flow of capital into the non-petroleum-exporting countries of the periphery increased by over 10% and helped to neutralize the impact of the deterioration in the terms of trade deriving from the second petroleum crisis and the recession in the centre. With the persistence of this situation in 1981, the net flow of capital again increased, although by barely more than 2%. In 1982, on the other hand, the net flow of capital to the non-petroleum-exporting countries of the periphery not only failed to rise but decreased in absolute terms (see table 13).

This decline was partly due to the high levels of indebtedness reached by the developing countries and to the slower expansion of bank capital, and partly too to the reluctance of the international banking system to increase its loans to the periphery at a time when the value of the latter's exports was diminishing.

The perverse irony of this change lies in the fact that the reduction in the value of the periphery's exports was due not to a contraction in their volume —which in fact expanded— but to the very marked fall in export prices. Thus, since the banking system took as the index of the periphery's capacity of payment the current value of its exports —and not their future value, which would incorporate more normal terms of trade—, capital movements tended to aggravate rather than to alleviate the external crisis.

Consequently, in the period 1980-1982 the net inflow of capital into Latin America seriously decreased (—28%), while the volume of the region's exports expanded by 16% (see table 13).

Thus, in contrast to what happened in the two-year period 1974-1975 —when the inflow of capital increased much more than the volume of exports, thus allowing the periphery time to weather the petroleum shock and the international recession without suffering a contraction of its own—, after 1979 the flow of capital remained static in relation to exports or abruptly declined, compelling the non-petroleum-exporting peripheral countries to reduce the balance-of-payments deficit through the current account rather than through the capital account.

As has already been shown, a large number of the countries of the region tried to improve their trade balance in 1982 through severe devaluations of their currencies, which helped to boost the volume of their exports; but much of this effort came to nothing on account of the fall in prices. And this was so because the capacity to absorb new imports both on the part of the centre and on that of non-traditional purchasers such as the petroleum-exporting countries and the socialist countries, decreased or grew far more slowly during that same year.

Consequently, given, in the first place, the limited capacity of the rest of the world to absorb the bigger volume of exports of the periphery as a whole without its implying a fall in the export prices concerned; given, in the second place, the increase in debt services; and given, lastly, the procyclical character of the net flow of capital in 1982, the necessary adjustment on current account had to be effected by a reduction of the peripheral countries' imports, which, in turn, entailed a decline or a pronounced deceleration in the growth rate of their production.

Thus the vicious circle of the liquidity crisis was completed. The year 1982 saw a deterioration of all those mechanisms of adjustment to a recession in the centre which do not oblige the periphery to curtail its production, such as an expansion of the volume of its exports to countries other than those of the centre which might be growing rapidly (as were the OPEC economies in the mid-1970s); a fall in international rates of interest (with the consequent reduction of debt service payments and an increase in commodity export volumes so as to replace and expand inventories); or a larger flow of capital into the periphery.

In these circumstances, there was no way open but the least desired and desirable form of adjustment: a curtailment of production. In face of this situation, which was sometimes aggravated yet further by the neo-protectionist trends in the centre, it is not surprising that in 1982 several developing countries fell into arrears in their external payments and that many of them applied for renegotiation of their external debt. For if the value of their exports decreases because of the recession in the centre and if capital flows are reduced because export values decline, then the whole of the adjustment must be absorbed either by reduction of imports (largely induced by a contraction in domestic economic activity) and/or by the negotiation of new conditions of payment of the external debt.

III
The problems of external indebtedness

1. *The situation in 1982*

As already stated, provisional estimates suggest that the total external indebtedness of Latin America increased by somewhat more than 7% in 1982, thus amounting to US$ 274 billion (see table 14). This expansion represented a marked deceleration by comparison with the previous growth rates, which had been well over 20% a year since 1977.

The reduction in the rate of debt accumulation was much more notable in the region's net petroleum-exporting countries than in the petroleum-importing countries, since in the former the rate fell from 32% in 1981 to 5% in 1982, while the comparable rates in the latter case were 17% and 10% for those two years.

This slowing-down of debt accumulation in 1982 cannot of course be considered to have been brought about on purpose. It was undoubtedly due to the more burdensome loan terms, the uncertainty with regard to the exchange rate in many countries and unfavourable changes in interest rates. However, the decisive factor in the deceleration in 1982 was the same that had helped to create much of the dynamism of external financing in the 1970s —the availability of funds from international private commercial banks.

The share of the banks in the region's external indebtedness has of course increased notably: in the 1960s it was relatively insignificant, while in the 1980s it was over 50%, and in some countries (Argentina, Brazil, Chile, Mexico, Venezuela) it amounted to more than two-thirds of the total debt.

Obviously, debts with private banks reached these proportions because of the willingness of the banks in question to finance most of the region's deficit on current account from 1974 on. In actual fact, bank loans have been available in abundance, except during a short recession in the mid-1970s. Recently, however, the banks have become much more cautious about making new commitments in general and particularly in respect of granting loans to the developing countries.

Many factors are responsible for this tighter attitude on the part of the commercial external credit institutions. In the first place, the cyclical decline in the industrial economies has weakened the bank markets in their countries of origin, causing national clients to meet with payments difficulties or to go bankrupt, while at the same time increasing the demand for credit; moreover, many of the banks' clients in developing countries have experienced payments problems. Other factors accounting for the banks' lack of interest in granting loans to developing countries include a more generalized attitude of circumspection concerning the diversification of their portfolios and disequilibria in the relation between their capital and their assets.

The payments problems of the developing countries with regard to the private banks have been especially apparent in Latin America. In 1982 there were serious payments crises in Mexico and Argentina

Table 14

LATIN AMERICA: GROSS EXTERNAL DEBT DISBURSED[a]

(End-of-year balance, in millions of dollars)

Country	1977	1978	1979	1980	1981	1982[b]
Latin America	*107 280*	*136 060*	*169 186*	*207 102*	*255 188*	*274 000*
Petroleum-exporting countries	*47 716*	*59 373*	*74 804*	*92 496*	*121 721*	*127 780*
Bolivia	1 633	2 097	2 585	2 442	2 851	2 910
Ecuador	2 153	3 268	3 754	4 798	6 823	7 700
Mexico	26 583	30 084	37 746	50 216	73 737	78 000
Peru	6 260	7 135	7 116	7 901	8 502	10 100
Trinidad and Tobago	275	404	525	645	860	970
Venezuela	10 812	16 385	23 078	26 494	28 948	28 100
Non-petroleum-exporting countries	*59 564*	*76 687*	*94 382*	*114 606*	*133 467*	*146 220*
Argentina	8 210	11 193	18 299	24 543	30 794	32 100
Bahamas[c]	48	41	38	38	40	50
Barbados[c]	70	82	89	121	150	250
Brazil	32 758	42 945	48 991	57 262	63 067	71 000
Colombia	3 892	4 454	5 935	7 310	8 229	9 600
Costa Rica	1 030	1 289	1 690	2 124	2 577	2 600
Chile	4 899	6 120	7 491	9 544	12 447	13 600
El Salvador	539	791	798	846	1 010	1 200
Guatemala	603	780	983	1 120	1 159	1 350
Guyana	429	522	527	565	664	800
Haiti	158	191	226	269	321	470
Honduras	726	958	1 130	1 303	1 426	1 650
Jamaica	1 220	1 317	1 320	1 388	1 558	...
Nicaragua	1 300	1 426	1 453	1 660	2 173	2 400
Panama[c]	1 501	2 190	2 378	2 701	3 000	3 500
Paraguay	329	503	727	919	1 152	1 350
Dominican Republic	862	992	1 170	1 548	1 780	2 100
Suriname	17	70	110	34	40	...
Uruguay	973	823	1 027	1 311	1 880	2 200

Source: ECLA, on basis of the following publications: IBRD, *World Debt Tables. External Public Debt of Developing Countries and Territories,* December 1981, provisional figures; IBRD, *Economic Memorandum on Suriname, Report Nº 2851,* 30 May 1980; IDB: *External Public Debt of the Latin American Countries,* July 1981; BIS, *The Maturity Distribution of International Bank Lending,* July 1978, July 1979, July 1980, July 1981 and July 1982; IMF, *International Financial Statistics,* vol. XXXIV, August 1981; OECD: *Development Co-operation, 1977 Review, 1978 Review;* OECD: *Geographical Distribution of Financial Flows to Developing Countries,* Paris, 1980.

[a] Including, in addition to the officially guaranteed public and private external debt, the non-guaranteed long and short-term debt to financial institutions which provide information to the Bank for International Settlements, and credits from the International Monetary Fund. The guaranteed and non-guaranteed debt to other commercial banks is not included, and neither are suppliers' credits not officially guaranteed.
[b] Provisional ECLA estimates, based on the estimated movement of the pertinent balance-of-payments items. For this reason, they may not coincide with the estimates presented respecting the amount of some countries' total external debt.
[c] In the case of financial centre, the non-publicly-guaranteed short-term debt to financial institutions is not included.

—which are among the leading bank debtors— and also in Bolivia, Ecuador, and Costa Rica. In addition, other countries, such as Cuba and Venezuela, have announced that they will try to reschedule their next payments; and although some

Table 15

LATIN AMERICA: EXTERNAL PUBLIC DEBT INDICATORS[a]

	1971	1973	1975	1976	1977	1978	1979	1980	1981[a]	1982[a]
					Thousands of millions of dollars					
Disbursements[b]	3.8	7.9	12.2	17.1	20.8	31.3	34.1	28.2	43.6	...
Debt servicing	2.7	4.3	6.6	8.2	11.4	18.3	25.0	26.8	35.4	...
Amortization	1.8	2.9	3.8	4.8	7.3	12.3	16.0	13.8	16.9	...
Interest	0.9	1.4	2.8	3.4	4.1	6.0	9.0	13.0	18.5	...
					Debt coefficients (percentages)					
$\frac{\text{DS}}{\text{EXP}}$	14	14	15	16	20	28	29	24	30	...
$\frac{\text{DS}}{\text{DIS}}$	71	55	54	48	55	59	73	95	81	...
$\frac{\text{Public DBT}}{\text{EXP}}$	...	...	...	...	124	147	131	113	128	...
$\frac{\text{Total DBT}}{\text{EXP}}$	...	...	...	...	182	210	197	186	210	250

Source: Public debt: World Bank, *World Debt Tables*.
Total debt: table 14.

Note: DS = debt service
EXP = exports of goods and services
DIS = disbursements
DBT = debt

[a] ECLA, provisional estimates.
[b] Medium and long-term or State-guaranteed loans.

countries, including Brazil, Chile and Peru, have declared that they will abide by their present payment schedules, the likelihood is that they can do so only by making a significant sacrifice in terms of their economic growth and relying on contingency agreements with IMF.

The payments difficulties of Latin America are to some extent reflected in table 15, which presents some indicators of the external public debt burden in the region. Of course, these indicators do not accurately reflect the total amount of the debt since, for want of sufficient statistics, the private debt, which is considerable in some countries, has not been included. In any case, the traditional debt servicing coefficient, i.e., the ratio between amortization and interest payments and export earnings, rose from 20% in 1977 to nearly 30% in 1981; in addition, given the decrease in the value of exports shown in 1982, this coefficient is bound to have experienced another increase —and a substantial one— in this latter year.

The debt servicing coefficient may, however, be misleading inasmuch as it suggests that the debt is paid with exports, when in practice it is almost always paid by incurring new debts. Accordingly, the ratio between debt servicing and new loans may be of use in suggesting how likely a country or region is to suffer an indebtedness crisis. This indicator has also deteriorated seriously in recent years in that, as may be seen in table 15, it climbed from 48% in 1976 to over 80% in 1980-1981, and, furthermore, another significant rise is predicted for 1982.

This means that Latin America is obtaining progressively fewer resources for investment and accumulation of reserves per dollar it receives on loan; in other words, the region is trapped in a vicious circle of indebtedness and is forced to plunge deeper and deeper into debt just in order to stay where it is.

The third and fourth indicators of the external debt burden —public debt and global debt as a percentage of exports— have also shown a tendency to increase. Normally these indicators would not be of much use for the analysis, since an increase in the coefficient would not necessarily mean that the situation was any worse if loan repayment periods were also extended. However, the information available suggests that on average repayment periods have tended to be shorter, so that the rise in these coefficients also points to potential external indebtedness problems.

One last indicator of indebtedness difficulties and of the balance-of-payments situation in general is the large number of countries in the region which have managed to obtain financing from IMF (see table 16). This circumstance is attributable to two factors. First, the commercial banks have been unwilling to reschedule debts or to grant new credit to countries with payments difficulties unless they have previously reached a financing agreement with IMF; secondly, IMF may have become more attractive as a source of credit owing to the recent modifications in the terms of its loans and to the expansion of its financing programmes outside the sphere of the terms in question.

2. *The origins of the problem*

(a) *The international recession*

One of the origins of the problem is to be found in the international recession, which, as noted above, has been unusually long drawn-out. In practice, the recession in the industrial countries has reduced the aggregate demand of the central countries and, consequently, has brought down the price of Latin American exports; and to make matters worse, the developing countries have sought to offset the drop in prices by exporting larger volumes, a move which produces an even greater glut on the market and lowers prices in its turn. Here again, the countries as a whole must step up their efforts simply to remain *in statu quo*. In any case, the recession has an eroding effect on what looks like a means of paying off the debt (i.e., exports) and affects the banks' opinion of the solvency of countries, to the detriment of the real source of payment, i.e., loans granted on reasonable terms.

(b) *The high cost of credit*

All the indicators suggest that the terms on which Latin America contracts its debts have reached a point where new loans barely provide minimum relief from the burden of indebtedness.

Thus figure 6 shows that interest rates have become very positive in real terms in the past two years, after having been negative, also in real terms, ever since the mid-1970s. The Bank for International Settlements, for example, has reported that in the period March-June 1982 interest rates in the United States were over 7%, in contrast with the more normal real rates of 2% which prevailed in the 1960s.

However, from the point of view of the debtor countries, the high interest rates must primarily be considered in relation to the prices of the region's exports. It can then be seen that the real cost of credit for Latin America increased spectacularly between 1981 and 1982, since the LIBOR rate rose unusually high while, at the same time, there was a sharp drop in export prices (see figure 6). This clearly shows the extent of the deterioration in the region's external debt-servicing capacity due to exogenous factors.

The available data also show that the effect of the high basic interest rates in 1982 has been even further aggravated by the rise in the variable component of interest on loans in Eurocurrencies to developing countries, which, in turn, reflects the greater risk run by the banks in lending money to the countries in question.

The negative effect of the high basic

Table 16

LATIN AMERICA: MAIN FINANCIAL RESOURCES PROVIDED BY THE INTERNATIONAL MONETARY FUND DURING 1982

(Millions of dollars)[a]

Country	Compensatory Financing Facility during 1982		Stand-by arrangements approved during 1982			Extended Fund Facility (3 years) in force in November 1982		Total
	Month	Amount	Month	Duration (Nº of months)	Amount	Month of approval	Amount	
				A. Credits approved				
Barbados	Oct.	14	Oct.	20	35			49
Costa Rica		-			-	June 1981	304	304
Dominica		-			-	Feb. 1981	9	9
El Salvador	July	36	July	12	47		-	83
Guatemala		-	Nov.[b]	12	21		-	21
Guyana	Nov.	7			-		-	7
Haiti			Aug.	14	38		-	38
Honduras	Nov.	26	Nov.	12	84		-	110
Jamaica	Aug.	21				June 1981	525	546
Panama		-	April	12	33		-	33
Peru	June	220			-	June 1982	715	935
Dominican Republic	may	20			-		-	52[c]
Uruguay	Aug.	61			-		-	61
				B. Credits applied for[d]				
Argentina								2 100[e]
Bolivia								...
Brazil								5 500[e]
Chile								850[e]
Ecuador								60
Mexico								3 840–4 450[e]
Uruguay								400

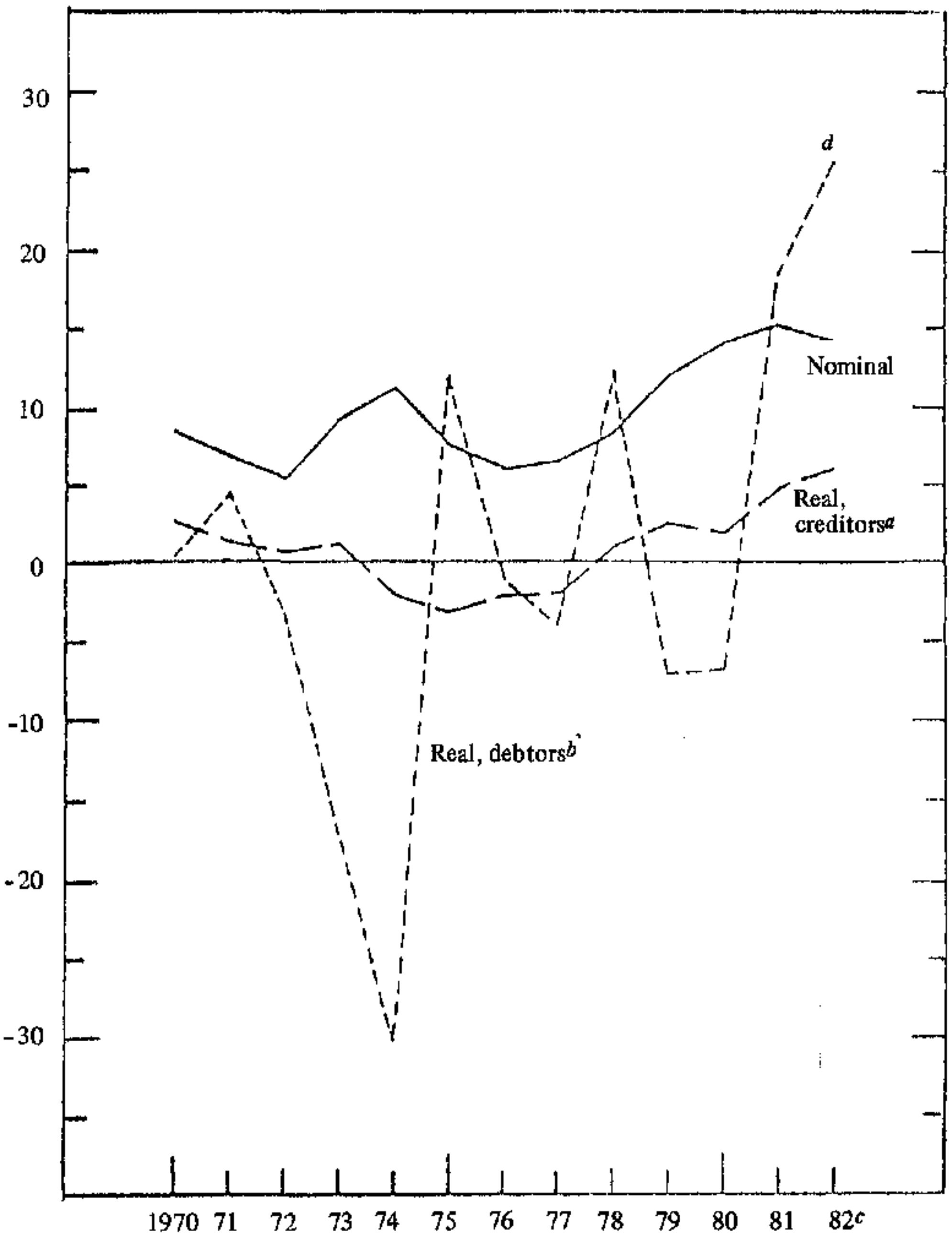
Source: Part A: International Monetary Fund, *IMF Bulletin*, several issues.
Part B: ECLA, on the basis of data provided by its Information Service.

Note: *Compensatory Financing Facility:* by means of this facility, IMF provides immediate financing to countries whose balance of payments has deteriorated as a result of declines in the prices of their staple export products.
Stand-by arrangements: under these arrangements, IMF supports government economic adjustment programmes during a period of 1 to 2 years.
Extended Fund Facility: this is an agreement under which IMF provides assistance to member countries which have to make structural adjustments in their economies in order to attain a viable balance-of-payments position over the medium term. This agreement is implemented over a period of three years.

[a] IMF grants financing in Special Drawing Rights (SDR). In this table SDR are expressed in terms of United States dollars (1 SDR = 1.1 dollars).
[b] November 1981.
[c] Including financing granted by IMF under the Buffer Stock Financing Facility.
[d] Provisional information.
[e] In the final stage of approval.

Figure 6

EVOLUTION OF LONDON INTERBANK OFFER RATES (LIBOR), NOMINAL AND REAL



Source: LIBOR, Morgan Guaranty Trust Co., *World Financial Markets* (several issues); Consumer Prices: IMF, *International Financial Statistics*, Yearbook, 1981 and December 1982.
Unit value of exports: ECLA, on the basis of official data.

[a] Nominal LIBOR for 6 months, deflated by industrialized countries' consumer prices.
[b] Nominal LIBOR for 6 months, deflated by the unit value of Latin America's exports.
[c] Up to September.
[d] Provisional estimates.

interest rates is, moreover, two-fold in that they increase not only the cost of new loans but also that of loans previously contracted at variable interest, which have increased notably in Latin America since the beginning of the 1970s.

The recent interest-rate trends have thus given rise to a new phenomenon —that of interest rates being a debt burden in themselves. Thus, it is estimated that in 1982 interest payments amounted to the equivalent of about 50% of export earnings in Argentina, Brazil and Chile, while the corresponding figure for Mexico was 44%.

The second cause of the increase in the cost of indebtedness has to do with the evolution of the average time in which the loans mature. Even in the absence of complete data on debt repayment periods for 1982, it seems likely, to judge by trends in the preceding year, that they were shorter, thus accelerating debt servicing payments and putting pressure on the countries' capacity to pay.

It is interesting to observe that Brazil has opted for longer payment periods at the cost of accepting much bigger margins of interest. Because of this, its interest payments have increased to such an extent that they have given rise to balance-of-payments problems. Mexico, on the other hand, has accepted shorter payment periods but smaller margins of interest in recent years; consequently, the main feature of its indebtedness crisis has been the maturing of a large number of loans within very short spaces of time. Thus, both Brazil and Mexico have experienced severe debt-servicing difficulties, although the pressure point has been different in each case.

The fact of having contracted short-term debts is usually symptomatic of payments difficulties: debtors need new loans in order to serve their debt, while the entities granting the credits, in consideration of the greater risks involved, are unwilling to grant long-term loans. This increases short-term lending and means that there is a greater accumulation of debts which have fallen due.

Even though it is still difficult to obtain accurate data concerning short-term indebtedness, provisional estimates suggest that it amounted to 30% of Latin America's total debt in 1981, a figure which probably rose in 1982.

The increase in short-term indebtedness, combined with the shorter maturities of medium-term instruments, means that it is necessary to refinance progressively larger proportions of the debt each year. Thus, it was estimated that in 1982 Mexico, Argentina and Colombia would amortize close to 50% of their indebtedness with commercial banks, while the comparable figure for Peru and Venezuela was 60%. As for Brazil, its explicit policy of extending the payment periods meant that in 1982 it had to amortize only 35% of its bank debt. However, as has already been stated, the burden in terms of interest payments has already reached serious proportions. In addition, the traditional rescheduling of amortization payments would scarcely relieve the country in these circumstances. Moreover, the greater the share of the debt to be paid to the banks, the greater their risk, which makes it even more difficult to obtain new loans on reasonable terms.

(c) *Development strategy based on indebtedness*

During the 1970s, Latin America opted for a development strategy based on indebtedness.

For a number of years the result was positive. Although from 1974 on the expansion of the world economy was feeble, the economic growth of Latin America was relatively brisk and considerably greater than that of the OECD economies. In addition, this strategy seemed eminently reasonable since indebtedness was 'cheap', with very low or negative real interest rates, lengthy payment periods and servicing payable in dollars, whose real value was being eroded.

However, those who argued in favour of rapid entry into international capital markets and the concomitant strategy of growth based on indebtedness may have underestimated the real cost of credit; during the period nominal costs did not reflect the implicit risks of debt-servicing problems should a conflict arise between the increase in liabilities with commercial banks and the limits set by those institutions in respect of their commitments. These implicit risks obviously became greater owing to the fact that the structural problems of the OECD countries caused their economic growth rates to fall during the 1970s (by comparison with those recorded in the preceding decade), which meant that Latin America had to contract even more debts in order to maintain its high growth rates at a time when general economic conditions were not propitious for creating the capacity to cope with the accumulation of the bank debt.

From another point of view, the inflation unleashed in the mid-1970s was unexpected, so that the low real cost of loans was a temporary and artificial phenomenon; once the creditors' expectations became more realistic, the cost of credit more than recovered.

Another factor related to the strategy of growth based on indebtedness was that some countries obviously obtained more credit than they could use productively, i.e., external loans took the place of domestic saving and facilitated an increase in consumption, speculation and the purchase of weapons.

Although much of this state of affairs may be attributed to erroneous indebtedness strategies, there can be no doubt that the structure of the international banking market also helped to create the problem. In the initial phase of the loan cycle, the banks granted a large number of loans, with the aim of rapidly investing their surplus on account of competition and excess liquidity. However, there was often some asymmetry between what the banks were able to loan and the capacity of the countries to absorb the funds obtained efficiently. Thus, the combination of low interest rates, the prestige gained by attracting international credit and the ease of obtaining bank loans when a large dollar reserve existed persuaded some countries to borrow more than their possibilities for investment warranted and to postpone the making of internal adjustments.

(d) *The weaknesses of the international financial system*

In 1974 the international banking system became, *de facto*, a kind of central bank for the world economy.

However, it was not in a position to perform this function and, at best, was able to assume it only for a very short time. Its operation was relatively satisfactory between 1974 and 1975, when its net initial commitments with the developing countries were still very low; today, on the other hand, in view of the high level of its commitments in the Third World, considerations attaching to loan risks and the need for banks to obtain profits stand in the way of efficient recirculation of liquidity.

Moreover, in practice the banks do much to accentuate the cyclical movements of economic activities at both the national and the international level. In addition, although in the 1970s those cycles were not closely synchronized in the Third World, they are so now, owing not only to the prolonged OECD recession but also, and largely, to the lack of interest shown by the banks in granting new loans, the latter being a factor which, as has been seen, was at one time decisive in stimulating the economic growth of the region.

IV
Summary and conclusions

1. *The disquieting and confused international scene*

As has already been pointed out, in the period 1980-1981 the international economy suffered from the greatest depression since the 1930s. Unlike past recessions, the present one has distinctive traits which differentiate it clearly from anything else in post-war experience. In the first place, it is a widespread crisis which affects all the countries in the world, whether capitalist or socialist, developed or developing. Secondly, it has lasted longer, and has proved recalcitrant to traditional therapy, which for a long time encouraged the supposition that appropriate and definitive remedies had at last been found to avoid, or at least to soften, the downturns in the economic cycle.

The diagnosticians of the causes of the recession differ considerably, ranging from those who base their thinking on theories of long-term cycles and announce the advent of a new trough of long duration, to those who lay the blame on the differences between the large centres in respect of the growth rate of productivity or on the inflationary upheavals in the key economies of the industrial world. In any case the general tone is one of great confusion as to how to interpret the existing problems and of mounting insecurity as to the future.

The dominant traits of this profound recession in the industrialized economies are very familiar. In the OECD countries the product remains stagnant or goes on falling; the extensive unemployment which already affects close to 32 million people persists, and there is not the faintest sign of its decreasing significantly in the medium term; idleness of installed capacity has increased, providing a disincentive for new investment; profits are exceptionally low, while bankruptcies of enterprises are on the rise. As a corollary of all this, international trade declined in the 1981-1982 biennium for the first time since 1958. In addition, the fluctuations in the main currencies have added a new factor of instability and are responsible for abrupt changes in international competitiveness among the various central countries and between them and the developing economies.

In addition, the recession in the centres has spread to the entire periphery, as it was bound to do, in consequence of the action of three factors: the negative terms of trade, the high real interest rates and the sudden decline in the availability of new financial resources. The terms of trade have deteriorated mainly because of the drop in demand for commodities in the industrial centres, while the real interest rates, which are still at their highest level in 50 years, are attributable to the stabilization programmes which have promoted restrictive monetary policies at a time of substantial and persistent fiscal deficits and abrupt maladjustments in the exchange rates of the currencies of the leading industrial countries. As for new credit, it has grown much harder to come by as a consequence of the decision on the part of the private international banks not to grant new loans, of the high levels of indebtedness of the Third World countries and of their precarious balance-of-payments positions. Recently this situation has been compounded by the deterioration in the quality of the bank portfolios of both national and international entities.

Meanwhile, even when forecasts predict that good progress will be made in the control of inflation and the reduction of the nominal interest rates, they are especially cautious with regard to the possibilities of reactivating the economic sector to a significant degree in the short run. In particular, stress is laid on the asymmetry in the possibilities and rates of recovery in the different centres and doubts are expressed as to the time it would take for this recovery to have an appreciable impact on the prices of raw materials or on the flow of capital towards the developing economies (two key factors in the solution of the immediate problems of the periphery).

For this reason, and also in consideration of the high level of indebtedness of the majority of the Latin American countries, it seems wise to be prepared for a time of difficulties which can be got round only by strengthening international and regional co-operation and by implementing domestic adjustment programmes in each country in the region.

2. *A regional economy in crisis*

As indicated above, in 1982 the Latin American economy became very much weaker and suffered its worst crisis in the past 50 years. This crisis can certainly not be dissociated from the profound repercussions of the international cycle which had some impact on all the countries of the region. Commensurately with the extent to which domestic policies have been mistaken in recent years, especially policies relating to the attraction and use of external credit and exchange, fiscal, monetary and balance-of-payments policies, these international repercussions have also shaken the countries in varying degrees.

For these reasons, the regional gross domestic product fell by nearly 1%, and the per capita product decreased in all the countries of the region, while inflation markedly accelerated. In the external sector, the deficit on current account amounted to US$ 33 billion, and the balance of payments closed with a negative balance of nearly 14 billion. These results were produced in spite of the fact that the trade balance closed with a surplus of about US$ 6 billion, by virtue of a painful reduction in imports. At the same time, there have been numerous cases of devaluation and international reserves declined in the majority of the countries of the region.

As we have already indicated, during 1982 Latin America was very hard hit by the action of external factors. Real interest rates, measured by the prices of the region's exports, reached an unprecedented level of close to 25%. In addition to these unfavourable factors, there was a contraction in the net inflow of capital, which accentuated the effects of the cyclical drop in exports and the deterioration in the terms of trade.

These phenomena have in turn had severe social repercussions. Thus, in the majority of the countries, the fall in real wages has been compounded by a sharp increase in unemployment. Moreover, the contraction in external and domestic demand and the high interest rates —both national and international— have had a marked impact on the economy at enterprise level, increasing the number of bankruptcies and, more recently, also making inroads into the economy of the banking institutions.

3. *Trade problems*

Among the root causes of the difficulties now faced by both the world economy and the economy of Latin America are the problems of international trade, upon whose evolution a lasting and stable solution to the present recession will largely depend. In recent years not only has there been a sharp decline in the region's export earnings as a result of the drop in the terms of trade, but the protectionist trends which affect both the manufactures and the commodities exported by Latin America have intensified.

The protectionism prevailing in the developed countries, which began to manifest itself in new and concrete ways in the past decade, has not only been directly responsible for limiting the expansion and diversification of the exports of the developing countries but, owing to the increasingly broad application of protectionist measures, has also brought the principles and standards which sustain international trade into serious conflict with the practical realities by which that trade is governed. Thus, trade under multilateral agreements is decreasing steadily, and that carried out under bilateral agreements contracted outside the multilateral agreements or simply on the basis of unilateral decisions taken by the importing countries without regard for international regulations is increasing. As is easily understandable, therefore, the uncertainty to which this situation gives rise is in itself an important limiting factor for the normal development of international trade relations and, especially, for the resolution of the present problems with regard to the recession.

With good reason, the recent meeting of GATT, which for the first time in nine years was held at the ministerial level and was attended by representatives of nearly 100 countries from all parts of the world, gave rise to hopes that, at the highest level and in accordance with the gravity of the world economic situation, ways would be found to open the gates of international trade and to effect a substantial improvement in the prevailing trade system.

Unfortunately, these hopes were not realized. It was not possible to reach concrete agreements which would assure the developing countries that in the future the commitments made in their favour would be respected and that the practices of conditional application of the most-favoured-nation clause, discrimination, selectivity, unilateral compensatory measures, 'controlled trade' and graduation would be progressively eliminated from international trade.

It is also important to point out that at the Ministerial Meeting it was agreed to initiate studies in the services field, which has vast ramifications and is of special importance for the development strategies of the developing countries. As specified in the relevant decision, the developing countries and competent international organizations must be alert and attentive to the studies recommended, with a view to acquiring detailed knowledge of the situation with regard to the extensive and complex activities which come under the heading of services, so as to be able to adopt informed positions and ward off negative impacts on their balance of payments or on the autonomy of their national development.

4. *The imperative need for global solutions*

To the extent that all countries feel the effects of the international recession, especially those which, like the Latin American countries, have in recent years been more open to international trade and financial currents, the problem ceases to be an individual or regional one and becomes a global problem, which also requires global solutions.

The indicators referred to in this review of the regional economies show that the Latin American countries are already engaged in painful processes of internal adjustment. To ensure that these adjustments do not reach dangerous limits of social and political tolerance, with additional negative effects on the rest of the economy and on international finances, appropriate economic policies on the part of the big centres are needed, as well as an imaginative policy of international co-operation in keeping with the deep-seated and widespread character of the problems.

In this connection, it is appropriate to point out that some of the recent reactions of the monetary authorities of the industrialized countries to the payments crises of the developing economies seem to indicate that they are becoming better aware of the need to act promptly and with flexibility and imagination, especially in matters relating to finance and payments. In contrast, however, as has just been remarked, there has been no similar reaction in the commercial field.

In the following paragraphs, in our interpretation of what in our view are the most urgent needs of the countries of the region, we shall make some observations of a general nature on a few of the global measures which would be desirable in the field of international co-operation as means for coping adequately with the present emergencies, particularly in the fields of finance and trade.

(a) *International reactivation*

A policy for adjusting international imbalances based on the principle that all countries must reduce their imports and expand their exports does not appear to be realistic. It would in fact make sense only in so far as some countries were to initiate a reactivation policy which would make it possible to absorb the greater volume of exports of the other countries. Obviously the ability to do this rests first and foremost with the industrial countries. It is for that reason that a recovery of the OECD countries would provide the relief needed for the countries with liquidity problems and would by the same token facilitate the evolution of those countries with structural difficulties in their external payments.

In the present circumstances it is of primary importance for the big centres to come up with concrete policies for reactivating their economies without it running into new inflationary excesses. In might be argued in this respect that single-minded, unswerving pursuit of the objective of avoiding inflation might aggravate the trends towards recession and unemployment, which would constitute a serious threat to the political and financial stability of the world system. Moreover, the lesson learned from the Great Depression was that if deflation, as a measure taken prior to the reactivation of the economies, is prolonged in time, it can give rise to uncontrollable cumulative effects which resist indirect incentives. Thus, the greater advances made in reducing the inflation might be fully outweighed by the social and political costs of a depression on a national and international scale.

(b) *Substantially increased mobilization of new financial resources*

The fact that many countries of the region find it necessary to devote an excessively high percentage of their exports to servicing their debt clearly shows that they will not be able to repay the principal and will even have serious difficulties in making the interest payments so long as the international prices of exportable commodities remain low and high real interest rates persist. It follows that in order to overcome this problem there is need for international co-operation (on the part of both public and private sources) of a magnitude in keeping with present circumstances.

Ever since the middle of the past decade, of course, private banks have been acting as the main agents in the extensive recycling of funds which was necessary in order to cope with the balance-of-payments disequilibria resulting from the increase in the prices of fuels. In present circumstances, however, private banking cannot serve effectively as the moneylender of last resort. Considerations both of risk and of profitability usually turn the banks into 'pro-cyclical agents', rendered incapable of handling the problems of the developing countries on their own. Hence an increase in public financial resources would seem to be essential.

In this connection, the measures aimed at extending the present operational facilities of the International Monetary Fund (by increasing the ordinary quotas or by extending the terms of the General Arrangements to Borrow) or providing it with the proposed new resources (an emergency fund and a fund in support of interest payments) take on particular urgency. Nor should consideration fail to be given to the idea of *ad hoc* creation of Special Drawing Rights, as a way of independently creating liquidity on the part of IMF for the purpose of coping with the drop in international liquidity and channelling new resources to alleviate a payments situation as tight as the present one.

This is why it is of particular importance to think, as was recently advocated by some international monetary authorities, of convening a large-scale international conference to update the principles underlying the system of international economic relations established at the Bretton Woods Conference and to lay the foundations for a new international trade and finance organization.

Not only is it necessary to lay claim to greater international resources to provide emergency support for countries with liquidity problems, but also the flow of long-term public capital to the developing countries should be activated in a markedly anti-cyclical direction. Latin America has been repeatedly criticising the error of drastically reducing the flow of public funds from the World Bank or IDB to the region on grounds that it has attracted a large volume of private capital in recent years. Experience shows that this reasoning has not held good for long and that today more than ever the region needs additional long-term resources, precisely to compensate for the sharp cutbacks in external private resources and the decline in foreign investment.

Moreover, it would be particularly inappropriate for the private banks, in the wake of the broad financial permissiveness which prevailed in the second half of the past decade, to initiate a very restrictive policy. In this connection, the cautionary observations made by the Managing Director of IMF to the private banking sector at the Toronto meeting, when he asked it to be prudent with regard to possible cutbacks in the resources loaned to developing regions, seem to us to have been particularly relevant. The policy that IMF agreements should be accompanied by private bank support is indispensable, not only for the viability of the adjustment programmes but also in the interests of the private system itself.

It should be pointed out that in spite of the fact that a significant percentage of the debts contracted with international banks had no public guarantee, many governments readily agreed to recognize the responsibility of the State in the fulfilment of the external commitments of the private sector. If account is also taken of the heavy profits obtained by the banks on their loans to developing countries in recent years and it is borne in mind that in their past experience, international private banks have suffered only minor losses in recovering their portfolios in the region, these institutions might well be expected to take up positive attitudes towards supporting the programmes designed to channel new resources to the Latin American countries in the present conjuncture.

(c) *International machinery for rescheduling the debt*

It also seems obvious to us that in the present circumstances some international arrangements should be provided for supplying organic and systematic relief to the developing countries in their debt servicing. The key to these arrangements is that they must be tied to development criteria and not just to repayment criteria.

In so far as these agreements involve extensions to the payment of the principal and new credits to cope with the payment of interest, they do not necessarily imply a loss for the banks, and in many cases would only mean that practices agreed to by the banks in their own national markets would be reproduced at the international level.

These arrangements are being provided for under the system of special agreements with international institutions such as the International Monetary Fund and the World Bank. Thus, the problem of the terms under which such agreements are entered into and the need for adapting the traditional criteria in that respect to the magnitude and general prevalence of the world recession once again comes to the fore. In this connection, it should be borne in mind that traditional adjustments on the expenditure side, devaluations, reduction of fiscal deficits and liberalization of prices and interest rates, etc., have seldom met with success, since, in addition to the fact that some of the theoretical assumptions on which they are based are weak, their practical application has come up against economic and social obstacles which are not always easily surmounted.

It is for this reason that in the midst of a world recession, in which the large majority of the developing countries are experiencing serious pressures in their domestic sectors, these adjustment policies should take into account the severity and general prevalence of the difficulties of the moment by trying to bring structural adjustments in the balance of payments and the gradual reduction of inflationary pressures into line with the maintenance of adequate rates of development.

(d) *Trade reform*

The stagnation of international trade and the deterioration of the body of rules and principles which should govern the international trade system represent great challenges to the developing countries and to their export expansion and diversification policies, and place serious limitations on the efforts to solve the region's payment problems. In connection with those problems, the loss of dynamism and the openness of world markets in the past decade is a fact of major significance which should be duly considered in the short- and even the medium-term development strategies of the Latin American countries.

As we have repeatedly remarked, the problems of the past have been greatly aggravated in recent years by the burden of servicing Latin America's external debt, which eats up an increasingly large share of the income realized from exports. To embark on a solution to these problems there must be an improvement in trade, in which context importance again attaches to such matters as the free access of Latin American manufactures to the markets of the developed countries, higher and more stable commodity prices and a greater degree of processing of primary commodities in the producer countries. The Latin American and other developing countries must pursue their efforts to negotiate these questions satisfactorily with the industrialized centres.

In the short term, the developing countries, and those of Latin America in particular, are faced with an imperative need to organize their bargaining capacity in such a way as to keep the protectionist tendencies of the industrialized countries from making headway and embark on an effort to secure their elimination. Moreover, they must ensure that the steady deterioration in the standards laid down in the international trade system is halted, since it is harmful to the developing countries, and they must join forces with a view to moving ahead to a more efficient and equitable world trade system.

The next session of the United Nations Conference on Trade and Development (UNCTAD VI) will provide the international community with a significant opportunity to muster the consensus needed as a point of departure in surmounting the obstacles in the way of the international trade system. Now is the time to define important issues in this regard, since in April of the current year it will be necessary to begin negotiations for the establishment of a global system of trade preferences among developing countries, which, in accordance with the guidelines already adopted by the Group of 77, should lead to the creation of a real economic system for the developing countries. The establishment of this system will be a new venture, opening up vast prospects for the future of the developing countries in the concert of international economic relations.

Furthermore, these obstacles highlight the need for co-operation among the developing countries and, in particular, inter-Latin American co-operation and integration, a matter to which reference is made below.

5. *Domestic policy options and the role of regional co-operation*

(a) *The margin for manoeuvre and the basic orientations of domestic policy*

The foregoing comments have made manifest the depth of the external upheavals which are affecting the region and the consequent need to introduce changes into the environment in question —a responsibility which is primarily incumbent upon the central economies and the basic institutions of the world system.

The predominant importance of these factors, however, by no means implies that Latin America is completely subject to their influence and can therefore do nothing on its own account to counteract them. On the contrary, we believe that much can and must be done in this direction; not only to 'manage' the crisis but also to palliate it and to create conditions which will contribute to the recovery of the Latin American economies.

The present author dwelt on this subject at some length last year, drawing attention to two circumstances which are of vital importance.

In the first place, the history of the Great Depression of the 1930s —over and above irrelevant analogies— bears witness to the fact that many countries were able to react energetically to its traumatic effects and to discover appropriate means and policies whereby to give impetus to a recovery that in certain cases was actually steadier and more significant than that achieved in some of the industrialized countries.

Secondly, it will not come amiss to repeat that the region now facing the present crucial situation has undergone substantial changes in the past half century, which have implied the expansion and diversification of its structures of production, the improvement of the technical calibre of its professional élite, both in the public and in the private sector, and the establishment of institutional machinery of considerable power and efficacy. In a word — to repeat a conception that may still be considered valid and pertinent— there has been an increase in our countries' 'capacity for defence' against external contingencies.

But these remarks should not be interpreted as an exercise in ritual optimism. Even if the foregoing propositions are upheld with full conviction, it is impossible to overlook the fact that in the scenario of today new and singularly complex situations can be distinguished. Cases in point are those already referred to in connection with the external debt, and those discernible because of the greater dependence of internal dynamism on the available supply of imports. And to these are added others, no less specific and original in relation to past scenarios, such as the disruptions of the production apparatus that have been caused by mistaken policies in some countries, and, above all, the encumbrance of a generalized inflationary pressure which indubitably militates against the possibilities of any reactivation programme.

In view of the diversity of national situations in these and other respects, it is too hazardous to make any attempt to sketch out positive and universally meaningful guidelines. Nevertheless, there are some courses of action which —in different versions— are taking shape in the region.

The first seems to be the decision in favour of an explicit reactivation policy, founded on two cornerstones. One of these is encouragement of production for the home and regional markets, combined with resolute export promotion to supplement this effort and help to maintain the level of imports as far as is viable. The other is the adoption of all the necessary and possible provisions to ensure that these endeavours are not frustrated by upsurges of inflation. A third requisite is that overall strategy should concede top priority to the relief and resolution of the serious social problems, in particular the scourge of unemployment.

Each and all of these lines of action present formidable challenges, but this does not lessen the supreme importance of establishing a basic frame of reference for the policies of defence and reaction to be adopted.

(b) *The revitalization of regional co-operation*

Furthermore, in the present circumstances it is imperatively necessary to take a fresh and imaginative look at the possibilities of regional co-operation. The opportunities afforded by a regional market of a million million dollars, the steady expansion of intra-regional trade during the last few years, the manifold institutional channels existing, and all the methods of informal co-operation explored in the recent past, offer grounds on which to base a concentrated effort in that direction.

The first step should be the urgent adoption of measures designed to stop the deterioration of the region's current terms of trade. Acute balance-of-payments difficulties often give rise to the danger of raising internal barriers to regional trade. But it is indispensable that medium- and long-term considerations and interests should prevail over any immediate temptation. Defence of regional trade is, in our view, a *sine qua non* in present circumstances.

Secondly, attention should be turned to the possibility of expanding regional trade on the basis of the idle capacity which is on the increase in the region, particularly in industry. This might be achieved through government agreements concluded with the active participation of the private sector, which knows and has access to flexible and varied channels of interconnection.

In this context, it becomes especially important to consider innovative and flexible financial machinery to facilitate the mobilization of the real resources that are lying idle in the region. On other occasions mention has been made of the need to forge ahead with the study of reciprocal balance and credit compensation facilities and with the analysis of mechanisms conducive to the creation of a financial safety net for the region, and today it seems desirable to lay further stress on the importance which in the writer's view attaches to these measures.

Furthermore, the member countries of the Asociación Latinoamericana de Integración (ALADI) (Latin American Integration Association, ex-ALALC) must in the near future apply a margin of preference in respect of their reciprocal trade. Maximum efforts should be made to ensure that this margin is really meaningful, for it must not be forgotten that the present conjuncture and future prospects call for more intensive and efficacious utilization of the regional market, and likewise that the eleven member countries have been trying for two decades to construct a preferential trade area. In addition, consideration should be given to the possibility that this preference might be applicable to all the countries of the region. Such a measure would undoubtedly constitute a major incentive not only to the expansion and diversification of reciprocal trade, but also to regional co-operation in every guise.

But the need to reassess the intrinsic merits of regional co-operation and integration is not confined to the field of trade. There are many areas and activities in the region to which a collective and concerted approach has been and can be adopted. In this connection, new and creative patterns of co-operation can be promoted through the SELA Action Committees and the mechanisms of partial or multilateral scope for which provision is made in the 1980 Montevideo Treaty by which ALADI was created. The vulnerability of the region which has been evidenced in this crisis of the world economy has led the Latin American countries to reach agreement, within the framework of SELA, on a regional economic safety device. The steps recently taken to study the specific measures that would set it in motion are deserving of special support and attention. A regional economic safety net should comprise specific action in the areas of financing and payments, food and agriculture, energy and trade.

Final considerations

A review of the economic evolution of the region in 1982 and the recent trends in the world economy suggests two considerations.

The first is the conviction that to surmount the present crisis a new vision of the future will be required and a new system of international economic relations which will be responsive to the radical economic changes occurring in the world scenario, and which, besides making it possible to cope with the present emergency, will formulate new trade and monetary rules to facilitate the sustained growth of the world economy. Because of the indissoluble linkage between the region's current problems and global solutions, it is imperative that Latin America should bring the nature of its problems before the appropriate forums and should express coherent views on the global solutions to which the whole world must feel itself committed.

The second reflection relates to the medium-term view of our problems. In this terrain, it seems worth while to recall that the region faces problems of liquidity, but not of insolvency. The dynamism shown by the Latin American economy in the past decade, the transformation and diversification of its production capacity and the abundance of its human and natural resources leave no room for stultifying pessimism. Rather must it be considered that alongside their costs, crises always open up oportunities for making structural adjustments and devising growth strategies which, thanks to the lessons of past experience, aim at achieving an economic and social development consonant with the expectations that the region may legitimately hope to see fulfilled.

Lastly, as always ECLA will shoulder its full share of responsibility as regards contributing to the study and solution of the serious problems besetting the region today. To this end —and in pursuit of a practice which has borne valuable fruit at other crucial junctures in the past— the ECLA Secretariat has decided to convene a select group of Latin American personalities with a view to learning their views and proposals on the subject under discussion, which will have an enlightening influence on the institution's activities and will be of help in discovering the solutions for which our countries are clamouring today.