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Latin America and the International Economy

It is for me a great pleasure and honor to address this distinguished audience today on a subject in which Canada and Carleton University are showing a growing interest, namely Latin America.

Canada has published a report on "Foreign Policy for Canadians" in which a most interesting chapter is devoted to Latin America, and which states:

> "Canadian trade with Latin America has grown steadily over the years. Since the end of the Second World War, for example, both exports and imports have more than quadrupled, reaching values in 1969 of $427 million and $544 million respectively."

Impressive as these figures may sound in absolute terms, the Report recognizes that there is great room for improvement; this is true, of course, not only in the economic but also in the cultural fields. The definition of future policy is based on the statement that:

> "The mainspring of the Government's policy is the proposition that, between Canada and Latin American countries as neighbours in one hemisphere, between Canada and regional groupings of such countries and between Canadians and Latin Americans on a people-to-people basis, there are expanding possibilities for mutual benefits, especially in terms of economic growth, enhancement of the quality of life and promotion of social justice between different parts of the hemisphere."

The University - with its well-known interest in public problems and international relations - has invited me, together with a distinguished Canadian economist, Mr. David Pollock, to give a series of seminars for graduate students. During a whole semester, we will review the present situation and prospects for Latin American development.

1/ The author has just joined the International Bank for Reconstruction and Development as Special Representative for Inter-American Organizations. The opinions expressed in this lecture are his own and, consequently, do not necessarily represent those of the IBRD nor those of individual members of the staff.

Today, therefore, I think the best we can do is to outline some or perhaps one of the basic problems we are facing, and the alternatives open to us for dealing with it. I have labelled the problem: "Latin America and the International Economy".

Latin America is and has been active in international forums, but at the same time has pursued policies that sometimes have been too "inward looking" in order to protect itself from outside interests. So should we wish to pursue the matter further, we might perhaps try to find a certain contradiction in goals and policies, i.e., on the one hand Latin America wishes to expand its participation in the world economy and, on the other, as it is apprehensive of the instability that this kind of approach could build into its economic system, it has very often followed policies that frequently - and without exaggeration - could be labelled as autarkic or, at least, highly protectionist. This has, of course, to a large extent, been due to Latin America's lack of confidence in its fair participation in a growing world economy, which problem still exists today; the question is, therefore, how to approach the situation, to what extent is it a matter for the Latin American countries themselves and what should and could be done by the rest of the world - both individual countries and international organizations.

I am not sure whether, at the end of this talk, we will not have more questions than answers. Latin American countries are searching for a way or ways to move faster toward a higher standard of living and rate of growth. This search is not being carried out by all of them in the same manner. In fact - as you well know - we can find, in the hemisphere, various political systems and approaches for dealing with the socio-economic situation. Therefore, to speak of Latin America as a whole is indeed an oversimplification, but, probably, it is the best we can do in a general presentation such as the one we are making today.

The definition of policies in this area is of the utmost importance for designing and implementing the development strategies of Latin American countries, regardless of their political and socio-economic systems and, of course, different answers will provide different frameworks within which foreign cooperation and participation in Latin American development will take place. So, for instance, if we wish to become more export oriented and - let us say - international organizations are willing to help us carry out this objective, the nature of these agencies' lending will not be the same as when the development strategy is mainly based on import substitution.

Latin America is composed of developing-primary producing countries with a low per capita income, generally unequally distributed, with a relatively large labor force in relation to capital goods and with low productivity of their productive resources; the bulk of their exports are made up of one or two products which, consequently, have a profound influence on economic growth and domestic stability (that is to say, they rely to a vast extent on foreign trade).

In Bolivia, tin accounts for almost half of the total export trade; in Brazil, coffee for more than 25 per cent; in Colombia, coffee for approximately 54 per cent; in Costa Rica, coffee for 30 per cent; in Chile, copper for 78 per cent; in Ecuador, bananas for 53 per cent; in El Salvador and Guatemala, coffee for 44 per cent and 33 per cent respectively; in Haiti, coffee for 37.5 per cent; in Honduras, bananas for more than 40 per cent; in Panama, bananas for more than 50 per cent; in the Dominican Republic, sugar for more than 50 per cent; in Uruguay, wool for about 44 per cent, and in Venezuela, petroleum represents more than 90 per cent of total exports.

What I have just stated justifies the long-standing concern felt regarding the relationship between foreign trade and development trends.

Nations with the economic characteristics that I have mentioned - in particular, heavy economic dependence on the export of one or two products - find themselves faced, when drawing up a development plan, with the decision of "growing inwardly" or of "growing outwardly", to use the expressions coined by the ECLA economists. It is not surprising that the economists and politicians of these countries conclude from their observations of the severe fluctuations in foreign trade - which in these cases signify violent fluctuations in the economic systems themselves - that it is necessary to diversify the economies so as to free them from their dependence on one or two products.

It has been estimated that historically the deterioration in the terms of trade of the primary producing countries vis-a-vis the industrial countries absorbs a very significant amount of foreign aid received. Where Latin America is concerned, the volume of export trade and its value rose by approximately 44 per cent during the period between 1960 and 1968. Due to an estimated price increase of 10 per cent in Latin American imports, the import capacity (of its exports) rose by about 30 per cent over the same period, and 5.4 per cent per capita (if we take into account the population growth). These statistics have been figured out based on ECLA's data; this same source shows that the terms of trade for Latin American countries deteriorated by 7.5 per cent during the same period 1960-1968.1/

When economists and political leaders are faced with the problem of how to go about the diversification of their countries' economies, they find that a lot can be done in the field of consumer goods as these can be manufactured in relatively small quantities at competitive prices and are absorbed by the domestic market; in many instances, however, and even in this area - particularly where durable consumer goods are concerned - internal costs and prices are well above those of the international market. Of course, the first lines of action have been directed toward import substitution with the domestic markets in mind. But here, two basic closely linked limitations soon appear:

(i) production techniques, and

(ii) the size of the local market.

1/ Economic Commission for Latin America, Estudio Económico de América Latina, 1969, p. III-136. Strange as it may seem, the U.N. Statistical Yearbook, 1969, shows an improvement in the terms of trade for Latin America, over the same period 1960-1968, of 4.1 per cent.

It is because of these limitations that traditional foreign trade with the rest of the world continues to be of fundamental importance for small countries but, viewed in this perspective, it is also possible to realize the great consequence economic regional integration can have for their economic development.

Take, for instance, the case of the Central American Common Market where integration appears to be the only formula leading to a certain degree of industrialization in the area. The five Central American nations have a population of approximately 16 million, with an average annual per capita income of US$320.-, unevenly distributed in some cases. In 1950, interregional trade was estimated at approximately US$8 million, whereas today - in 1969 - it is close to US$250 million (25 per cent of Central America's total foreign trade), due basically to the integration process begun in 1958. Since then, the average annual rate of growth for interregional trade has been higher than that for the area's foreign trade. Of course, an increase in interregional transactions will always have a limit. In Central America, internal trade could eventually make up, let us say, one third of the area's total foreign commerce, estimated at approximately close to a billion dollars (US$972 million).

Without integration, there would have been no possible means of diversifying these economies and they would have been entirely dependent on foreign markets both for selling and supply purposes. By means of integration, it is possible to visualize progressing beyond the earlier stages of development and establishing some industries such as the manufacture of tyres, copper and aluminium wires, caustic soda, fertilizers, detergents, textiles, pulp and paper, steel mill plants, glass, foods, plastics and small electrical appliances. However, it would seem that the Central American market is, as yet, not wide enough to establish industries producing intermediate goods.1/ Perhaps I should add that the process of economic integration could lead to other ways of interregional collaboration such as monetary integration which, in turn, could give rise to more stable and advantageous monetary, exchange and fiscal policies. This signifies that, at the present time, thanks to economic integration, the economies of countries with small markets are more viable than in their previous state of relative isolation, which would also seem to imply that, once begun, the process of integration cannot be reversed.

The problem posed, however, is to decide whether or not industrialization is the best answer for the exploitation of scarce productive resources. Of course, it reduces the excessive dependence of monoproducing countries, a dependence which is important from the development and stabilization points of view.

1/ The concept of the size of the market is relative; what we have in mind here is effective demand, purchasing power, and not only the unsatisfied desires or needs of the people; of course a "need" or a "desire" can be changed into effective demand through adequate income policies which ought to be of great importance in the development program of any developing country. Therefore with a larger population than that of the U.S.A., the size of the Latin American market is much smaller due to the differences in the per capita income, as well as differences in the structure of income distribution. But we are not discussing this problem today.

However, for a rational use of productive factors, it is important to ensure the possibilities of international competition, i.e., the industries which are established must be competitive.

This is the situation which we face. From a purely economic point of view, it seems to be a pretty obvious one which leads us to wonder why we have not moved faster in the process. There are, of course, some technical, economic and financial problems but I think that one of the main obstacles in speeding up integration is the lack of any concept of some sort of political union of our subcontinent.

This seems to me to be extremely important since it creates difficulties for the taking of measures in the economic and financial spheres: for instance, problems of rates of exchange and, in general, balance of payments policies; differences in trends of inflation and, in general, of monetary policies; social security, fiscal policies and the like. Of course, no great political decisions can be taken without risks. But if we do not accept such risks, we, the Latin Americans, are going to advance more slowly than otherwise in the process of integration. So far, I make bold to say, nationalistic interests are always present in the debate as also in the actual negotiations that are under way in pursuit of this goal.

The foregoing, together with some observations of LAFTA's operations, leads me to believe that a practical approach to the gradual integration of the Latin American economies would be that of encouraging sectorial agreements, beginning with those activities requiring multinational markets in order to develop under competitive conditions in relation to world trade. The automotive industry is today a typical example. These sectorial agreements would certainly not be incompatible with those general plans designed to bring about integration.

This approach, if acted upon immediately, could perhaps avoid the continued creation of rigidities which, as time goes on, hinder integration more and more. In fact, there are still cases of countries building and planning their industries according to local demand and these - for the reasons I have outlined earlier - too often cannot be either competitive or economic. However, some nations find it impossible to import these goods - due to balance of payments difficulties - which factor acts as a stimulant towards the establishment of such industries, resulting in the immediate taking of protective measures. It is, in this manner, that obstacles are placed in the way of possible future integration and, in general, foreign trade.

1970 marked the tenth anniversary of the creation of the Latin American Free Trade Association at the signing of the Treaty of Montevideo, which grouped the countries of South America and Mexico together, with a view to freeing their regional trade by 1980 and with the goal of a regional common market. Other important areas of cooperation have also been identified. The LAFTA agreement has brought about a rapid expansion of trade within Latin

America which resulted in a doubling of intra-LAFTA trade in the decade, while the Parties' trade with third countries has increased by approximately 25 per cent during the same period.

However, not only quantities are important. From a qualitative point of view, a most welcome diversification of exports has taken place with an increase in the relative participation of industrial products.

I should also mention that in order to speed up the integration process of the Andean countries of South America, within the framework of LAFTA's Montevideo Treaty, the Andean Subregional Group was formed in 1966.

> "The subregion constitutes a free trade zone insofar as a continued effort will be made to eliminate tariffs on products originating in the member countries. It presents the characteristics of a customs union in that a common external tariff on goods originating in third countries is foreseen. On the other hand, the idea of a common market is embodied in the eventual uniform treatment of goods, services, persons and capital. Finally, the subregion represents an effort to achieve a real economic community in the projection of uniformity of policies within a supra-national structure."1/

The newest of these arrangements is the Caribbean Free Trade Association which, created in 1968, is composed of eleven Territories with a total population of approximately five million. The small size of most of the Parties dramatizes the importance of the Agreement. The introduction of a common tariff is proposed by January 1972.

I have made these short comments on integration to remind you of its paramount importance in the development process of our subcontinent and to stress the fact that Latin Americans are striving to expand their exports, thereby increasing the productivity of their economic systems. I do this because it appears to me that in some sectors there exists the belief that Latin Americans - and for that matter developing countries in general - do not make the necessary internal efforts to speed up their process of economic growth and rely too much on foreign assistance. Foreign assistance is important for Latin America: we are receiving it and we need it for the future but, it is also true, that the main force for propelling the development process onward has been, is and will be our own, which is as it should be. Nowadays, at least 90 per cent of investments is financed out of local savings and we are active in export promotion policies as I have just shown. There are, of course, many weaknesses which can be pinpointed and areas in which greater efforts are clearly possible; but rare is the occasion when we cannot find room for improvement no matter which country or what policies are being submitted for international scrutiny and evaluation.

1/ Chilean Development Corporation, Chile Economic Notes, September 1970.

Latin Americans themselves are constantly reevaluating the situations they face and indicating possible remedial actions when they feel these are called for.

For example, Raúl Prebisch in his recent report on "Change and Development, Latin America's Great Task" has stated with regard to one of the integration schemes we have mentioned:

> "What has been achieved in LAFTA is undoubtedly significant. But there is no denying that progress toward the common market is weak and hesitant. And there have been important instances in which the advantages of reciprocal trade would seem to have been forgotten altogether. A conspicuous example is afforded by the motor-vehicle industry, which has been established in several of the member countries - in some cases proliferating on an anti-economic scale - without any attempt to concert integration agreements. This was done later in respect of parts and spares - a slight and belated palliative for an ill which still persists."

But it is true that integration, quite apart from its problems and even should they be overcome, is not THE answer to the development strategy of Latin America. To be sure, it will be a part, a necessary but not sufficient condition in order to speed up the rate of growth.

In 1968, total Latin American exports reached a level of US$12.190 million, of which approximately 44 per cent was raw materials and fuels; 45 per cent was food and 11 per cent manufactured goods. These exports were shipped, in approximate figures, as follows: one third to the U.S.A., one third to Western Europe, 11 per cent to Latin America, 3.5 per cent to Canada, 5.4 per cent to Japan, 5.3 per cent to Socialist countries, and the remainder, less than 10 per cent, to other areas. I might perhaps add that Latin America's participation or share of the U.S. market has consistently declined over the last two decades from 35 per cent in 1950 to 24 per cent in 1960 and to 12 per cent in 1968.

As far as Latin American imports are concerned, their approximate composition in 1966 was the following: raw materials and fuels, 10 per cent; food, 9 per cent; and the remainder - the bulk of total imports - manufactured consumers' and capital goods. The main suppliers for 1968 were: U.S.A., 38 per cent; Western Europe, 30 per cent (of which the Common Market countries represented 18.5 per cent and the Free Trade Association 9.5 per cent); Latin America, 11 per cent; Soviet Union, 5.4 per cent; Japan, 5 per cent; and Canada, 3.1 per cent.

It is not my purpose tonight to embark on a lengthy discussion of the many different obstacles that Latin American exports face in obtaining access to the markets of the industrialized countries, but let me say that they exceed the tariff barrier problem; in addition, we have:

a) quotas,
b) sanitary restrictions,
c) labelling regulations,
d) marketing regulations,
e) administrative restrictions,
f) escape clause mechanisms,
g) government procurements.

To this list, we should add a different set of problems for foreign trade, namely, preferences; these, however, are closely connected with the restrictions I have just mentioned since, for instance, what would be the real meaning of preferences operating under a strict system of quotas and/or other limitations?

The real question is up to what extent does the world really believe in the advantageous application of the comparative advantage principle, and how far is it willing to act accordingly, or is it, in fact, preaching what it is not determined to practise, taking the comfortable position of saying: do as I say but not as I do?

This is why less developed countries in general - and particularly the Latin Americans - realize that the recent UNCTAD decision to grant general commercial preferences is only one step toward an improvement in their trade position, because of the existing non-tariff barriers. Moreover we should keep in mind that tariff reductions are still subject to congressional approval in certain countries.

In order to deal with our basic problems of small internal markets[1/] and the weakness of internal competition, we must look to an improvement of our trade relations on a world-wide basis. As Raúl Prebisch has just put in his last report which I have already mentioned:

> "Far from representing alternatives to each other, regional cooperation and the opening-out of the economy toward the rest of the world are both indispensable as components of a development strategy for the Latin American countries, and both must be energetically promoted."

Small internal markets also mean that competition is weak simply because, with present technology, it is often the case that one or two enterprises can supply all that is required. That is to say, the Latin American productive

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1/ See footnote 1/ on page 4.

structure, as is well-known, tends to be monopolistic or oligopolistic due to these technical reasons. As these enterprises usually operate behind high tariff walls, their productivity is lower than that of their counterparts abroad due, precisely, to lack of competition. To be sure, these measures have been justified with the well-known argument of infant industry protection, but the truth of the matter is that most of these undertakings seem to have a very prolonged period of infancy and, in many cases, it appears to be indefinite, a situation which many human beings find enviable ...

The liberalization of our foreign trade is, therefore, a technical necessity, but it is no easy task. Internal vested interests are too strong and I am not only thinking of businessmen but also of wage earners and, in the short term, of local and federal governments for fiscal reasons.

Very often these vested interests - which are respectable and powerful - will argue that opening up our frontier - or reducing its protective walls - will make us more subordinate to foreign nations for the supply of essential raw materials, capital and consumers' goods. And they add that the reallocation of resources implied in such a policy - shifting resources from imports to exports - will further reinforce the tendency since the stability of our economies - as well as our rates of growth - will depend - even more than today - on that of our foreign markets.

This is part of the reason why Latin American countries, at the same time as they open their economies, try to improve the access of their products to the markets of the developed countries, the accomplishment of the latter goal being - to an important degree - a prerequisite for moving faster in the liberalization of their import policies (this is not to say - to be sure - that they could not move faster in the process of Latin American integration).

In order to present their case before the industrialized countries, the "Special Committee for Latin American Coordination" (CECLA) was organized; in a meeting at the ministerial level, held in Viña del Mar, Chile, in May 1969, a common position was reached for its members vis-a-vis the U.S.A.; the agreed upon document was presented to the President of the United States. I am going to make a rather extensive quote from it in order to convey to you, in its exact wording, the position of the Latin American republics.

It is established that:

> "Determined to overcome underdevelopment, they (the Latin American republics) reiterate their conviction that economic growth and social progress are the responsibility of their peoples and that attainment of national and regional objectives depend fundamentally on the effort of each country, supported also by closer cooperation

coordination, and harmonization of policies and attitudes among the Latin American nations, which factors find relevant expression in the decision of the Presidents of the countries of Latin America to move to a common market.

The achievement of those objectives depends in great measure on the recognition and assumption of their responsibilities by the international community and, in particular, the countries that today carry greater weight in world decisions."

The report goes on to state that:

"As the present decade nears its end, the economic and scientific-technological gap between the developing world and the developed nations has widened and is continuing to widen, and the external obstacles that act as a brake on the rapid economic growth of the Latin American countries not only have not been removed; they are on the increase. The persistence of those obstacles manifests itself with particular intensity, for example, in the tariff and non-tariff restrictions that impede access to the great world markets under equitable or favorable conditions for the raw, semi-processed and manufactured products of the aforesaid countries; in the progressive deterioration of the volume, terms and conditions of international financing assistance, which is practically offset by the burden of service on existing debts, with the resultant serious impairment of the Latin American countries' capacity to import ..."

Where trade is concerned, a plea is made for continued action in favor of elimination of customs duties and other non-tariff barriers which affect the access and marketing of basic commodities, offering some concrete proposals thereto.

It is also indicated that joint efforts should be made toward:

"...the elimination within a fixed period of time of the discriminatory preferences that prejudice the selling of Latin American basic commodities in the markets of certain developed countries, suggesting the adoption of measures or action that will facilitate or induce the renunciation of such preferences by the developing countries receiving them."

And they:

> "...reiterate the urgency of putting into force the system of general, non-reciprocal and non-discriminatory preferences in favor of the exports of manufactures and semimanufactures of developing countries..."

I must say that this report has been sympathetically received by the U.S. Administration, so much so that the "Comisión Especial de Consulta y Negociación" (Special Commission for Consultation and Negotiation), CECON, formed by U.S. and Latin American officials, has been established and is actively negotiating the reduction or elimination of tariffs and of some of the other obstacles facing 800 Latin American products in the U.S. market. Another Working Group has begun discussions on the subject of transportation.

Furthermore, the U.S. Administration has consented to submit to the country review process that CIAP conducts annually for each member country of the inter-American system under the Alliance for Progress program; the main purpose of this exercise - suggested in the CECLA document to which I am referring - will be, I quote:

> "To study the execution of commitments undertaken, including those national policies that may impinge on the economic development of the Latin American countries."

The first of these reviews has just been completed at CIAP's headquarters in Washington D.C.

During last July, another CECLA meeting, at the ministerial level, was held in Buenos Aires, Argentina. Its purpose was to study and reach a common position vis-a-vis Europe; the document agreed upon is along the lines of the one just described.

Well, ladies and gentlemen, I do not think I should extend my comments any longer. If I try to summarize (even at the risk of oversimplifying) this presentation, I think I could state the point I am trying to make in the following manner:

1) Latin America has reached a stage in its development at which, in order to attain and maintain an acceptable rate of growth (let us say, for the sake of illustration, 7 per cent), it must expand its exports and, at the same time, make its internal markets more competitive, which means increasing imports;

2) This task will be effectively facilitated by the process of economic integration among Latin American countries themselves. Integration is, therefore, a necessary but not sufficient condition. The scope of integration should be understood in its widest possible meaning, including - whenever feasible - the economic, social, scientific and technological areas.

3) The expansion of exports outside the sub-continent thus becomes absolutely essential. To make this possible, determined efforts are required from Latin America and also from abroad, mainly on the part of the industrialized nations. It is understood that the accomplishment of this goal will be facilitated by a policy of greater liberal and conducive financial assistance from the industrialized to the developing countries.

4) Why am I telling you this here tonight? Because Canada being a leading developed nation can play a very active and influential role in dealing with this subject in the international community.

The world must make rational decisions in matters of trade and, in general, in problems pertaining to international cooperation. Only four decades ago, we had to go through a large scale crisis in order to substantially change the monetary system and policies. It was only a quarter of a century ago - after the second World War - that international institutions were designed to improve the working of the monetary system and to facilitate, on a multilateral basis, the transfer of financial resources to the developing countries in order to help them in their fight against poverty. However, since then the world has proved that it can make rational and timely decisions without waiting for a crisis or a war, and I, as do many others, certainly hope that we are not going to wait for disaster to force us to take action which reason is so clearly dictating to us.

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March 19, 1976

CENTER FOR INTER-AMERICAN RELATIONS

New York, March 22, 1976

ROLE OF EXTERNAL PRIVATE FINANCING IN HELPING TO MAINTAIN BALANCE OF PAYMENTS STABILITY IN LATIN AMERICA

Notes for a talk by Mr. Luis Escobar*

1. There have been many comments, in the last few months, about the seriousness of the balance of payments situation of some Latin American countries, or a group of them, or even with reference to the region as a whole. I think this is what prompted Ronald Hellman--on behalf of the Center for Inter-American Relations--to ask me to come here today to talk to you about the balance of payments situation and prospects of the Latin American and Caribbean countries (LAC) and its impact on economic growth in the region. I have accepted this invitation because I think that several of the comments I am referring to are too pessimistic, others fail to differentiate country situations while still others seem to ignore the remarkable strength of the international financial system demonstrated in the manner in which multilateral and bilateral (public and private) institutions have dealt with the problem in the last two and a half years. Having followed developments in the region for many years, I thought that, perhaps, I could make a contribution toward a better clarification of the issues. The issues I want to discuss today are, basically, two: one, what is the present situation in the LAC countries and immediate prospects, and two, what should be done to keep the situation under control allowing growth with external financial stability. Let me say, at the outset,

*Mr. Escobar is Deputy Executive Secretary of the Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries). However, he is solely responsible for the opinions expressed in this talk.

that I am cautiously optimistic and that my optimism is based on: a) what I have seen with respect to the ability that the international financial system has shown, so far, to deal with the balance of payments imbalances of the last two and a half years, and b) the potentials for LAC countries' continuous growth. Let us, first, take a look at the global figures for the largest part of the developing world.

2. The combined, current account deficit of 88 non-oil LDCs rose from $9 billion in 1972 and in 1973 to about $28 billion in 1974 and to $37 billion in 1975. (The current account deficit is defined as the balance on goods, services and private transfers--before grant aid-- including net payments of interests and profits. Grant aid along with loans, direct investments, etc. are considered capital transactions.) For 1976, it is estimated to fall to about $34 billion (this figure does not include amortization of external debt--which accounts for another $10 billion--which would be necessary to add in order to figure out total gross requirements).

3. The pertinent figures for the LAC countries follow. The process of deterioration of the balance of payments position of net oil importing LAC countries meant that their combined current account deficit rose from $4.3 billion in 1973 to $13 billion in 1974 and to over $15 billion in 1975. For 1976, it is estimated to fall to about $13 billion. I will not go into details about the assumptions on which these projections are made nor will I discuss any country in particular.

4. How were the above global deficits financed? For 1975, non-oil LDCs received official bilateral financing (grants and loans) in the order of $15 billion (including in this figure $4 billion from the OPEC countries); multilateral grants and loans, $5 billion; $14 billion from the private sector (including $4 billion of direct private investment with most of the remaining $10 billion corresponding to commercial bank loans and Euro-currency credits); and the balance of $3 billion needed to finance the deficit of 1975 came from a drawdown of reserves of LDCs, mainly LAC countries.

5. What was the picture in Latin America with respect to financing of the current account deficit? In addition to the use of reserves, in an amount of $3 billion in 1975, official bilateral flows amounted to about $1.3 billion; multilateral flows, $1.4 billion; private direct investment, $2.5 billion; and borrowing in the U.S. banking system and in the Euro-currency market for a total of close to $7 billion (including in this figure $2.3 billion of commercial and suppliers' credits of over one-year maturity). Besides, there was some short-term financing in an amount of less than half a billion dollars. It can be seen that in Latin America most of the financing is coming from the private sector, particularly borrowing from private banks in the United States and in Europe; this is also, by the way, the most expensive financing available (as compared with official bilateral and multilateral lending). This is due to the fact that OECD countries have decided to give priority, in their development assistance programs, to the lower income LDCs--who have limited or no access to capital markets--leaving the "middle class of the LDCs" fighting their way mainly in the private sector (borrowing from private banks, trying to gain or improve access to long-term capital markets and via export promotion and attracting private foreign investment).

6. In 1976, as far as the structure of financing the current account deficit is concerned, the situation will probably be pretty much the same as that in 1975 even though, as I have already indicated, a lower total deficit in current account--than in 1975--seems possible ($13 billion as compared to $15 billion), which would allow a reduction in the use of official reserves (particularly if allowance is made for some increase in the total level of multilateral flows). Maintaining capital inflows in 1976 at the same level as in 1975 in nominal terms would, evidently, imply a reduction in real terms and also a reduction in relative terms with respect to the GDP of the region.

7. How is it possible that LAC countries may have a lower current account deficit in 1976 than in 1975?

The basis for this projection is the assumption that the 21 oil-importing LAC countries (including Mexico and Colombia even though the first has become, in 1975, a net exporter and the latter is, virtually, self-sufficient in oil) will have higher export revenues as a consequence of the recovery from the recession which is taking place in the industrial countries, and the assumption that there will be no further deterioration of the terms of trade, that is, in the relationship of the region's import prices to its export prices / (in 1975 the terms of trade deteriorated by an average of 11 per cent for the LAC countries). Exports in 1975 reached a total of $26 billion and in 1976 they may be around $29 billion. Imports in nominal value are supposed to remain the same as for 1975 ($34.5 billion) which means that, in volume terms, there will be a compression of about 8 per cent. The underlying assumptions are that most countries in the area, as a matter of deliberate policy, will keep the demand for imports fairly restrained through suitable demand management in an effort to keep their balances on current account under control and to avoid further reductions in reserve holdings as well as to reduce further increases in foreign debt.

The depressive effects of the recession in the industrial countries, which weakened the demand for the LAC countries' exports, coupled with the increases in the costs of fuel and other imports made themselves, finally, felt in the rate of growth of the region as a whole in 1975 pushing the rate of increase of GNP down to a 3.5 per cent from the average 7 per cent rate of real growth which prevailed during the first years of the 70s.

8. The external financing received by 21 LAC countries (excluding the oil-exporting countries--Venezuela, Trinidad and Tobago, Ecuador and Bolivia) / raised their external debt to $55 billion, an increase of $30 billion, during the four-year period 1972-75. But the export performance of LAC countries was also very impressive, meaning that the debt service ratios have been kept at manageable levels even though they are high in certain /countries (total amortization plus interest payments as a percentage of total export revenues). Whatever importance one wants to attach to the debt service

ratio (and there is some discussion on that), the expansion of output and exports in LAC countries justified the increase in foreign debt and, to some extent, it was made possible by it. I think this is an important concept.

Many people seem to be afraid of the volume of external debt of the region--as well as of the burden imposed on the countries' income by its service--without realizing that these higher volumes of indebtedness are indications, in most countries, of higher levels of output, exports and growth rates. Of course, 1974 and 1975 were exceptional years in that the non-oil exporting countries had no choice but to borrow important amounts to compensate for the deterioration of their terms of trade and to keep their economies running with still acceptable growth levels.

LDCs must supplement their own domestic savings with foreign savings in order to accomplish the level of investments which make possible given rates of growth. In LAC countries the percentage of foreign financing has been around 10 per cent of total investment in the last few years; even if that percentage is maintained, the absolute amount of external financing will grow with the total volume of investment necessary to accomplish higher levels of GNP. As development takes place, countries eventually achieve a situation in which they are able to finance--with domestic savings--their investment programs and, later on, they graduate to developed countries and become capital exporting nations. LAC countries, even though they constitute the most developed group among the LDCs, have still some distance to go before achieving the stage of self-sustained growth; during this period, they will have to continue increasing their volumes of external indebtedness even though at progressively lower rates; of course, in this as in other areas of the balance of payments analysis, in the Hemisphere, there are differences among countries. But there will be a decline in the resource gap of the LAC countries in the years to come. In the exceptional circumstances of 1974 and 1975, this gap rose to 2-2.5 per cent of GDP; I have seen projections that have the resource gap falling to 0.5 per cent by 1980 as a result of a resumption of growth of exports and savings with GDP returning to annual growth rates of the order of 6-7 per cent (after 1976 when the overall growth rates of the economies can be expected to be only slightly better than in 1975).

During the stage of development with external finance, a relation of interdependence develops among debtors and creditors, in the same manner that the international division of labor imposes a situation of trade interdependence among the countries of the world. Now we have a situation of financial interdependence. Debtor countries need external resources to supplement their domestic savings while creditors find secure and profitable places where to put their excess financial resources. If you think that many private commercial banks, based in the capital exporting countries, are making loans to LDCs with rates of more than 1-1/2, 1-3/4 or even more than 2 per cent over LIBOR and that this has been going on for quite some time with no defaults, you have to realize that these institutions are making interesting profits, which is the legitimate compensation for the services that they are providing. This relationship, in the volume that has taken place during the last few years, has changed, in a qualitative sense, the traditional bank-customer relationship that many people keep in mind. Creditors have become vitally interested in the economic and financial development and stability of their customers. This is an association which requires a long-term view of the relationship which has several implications: One, banks and other creditors cannot move in and out of a given country following short-term economic financial fluctuations, unless they want to risk exaggerating--instead of ameliorating--situations of financial disequilibrium; thus, the attitude that bankers adopt vis-à-vis their debtors in the LAC countries will influence to a large extent, the financial stability of the debtor countries in the short run. Here we are facing, one might say, a vicious circle.

If creditors--multilateral, official bilateral and private--decided to withdraw or to drastically reduce their exposures in certain countries, those countries would face a period of financial trouble because external financing is part of the normal picture of development; on the other hand, if creditors continue giving support to the debtor countries, in the amounts they have already incorporated in the pattern of development, the debtor countries could continue their development process without facing other than normal external difficulties.

My conclusion, then, is clear: creditors, and particularly private banks--because they constitute the most important source of financing in Latin America--cannot drastically reduce in the immediate future their exposure in the region if they do not want to provoke serious financial troubles. Such actions would badly hurt both debtors and creditors with benefits to nobody. Levels of lending have to be programmed in order to make possible an orderly process of development with external financial stability. If creditors were to reduce drastically their levels of lending--because they are afraid of the deterioration of the international payments position of LAC countries--payments difficulties in these countries would become a self-fulfilling prophecy with serious consequences at the private and national levels.

At the national, macro-economic, level it is pertinent to remember here part of the remarks made by the President of the Inter-American Development Bank before the Council of the Americas last December; Mr. Ortiz-Mena said and I quote: "Latin America has become an important market and an essential source of supply for the industrialized countries. Between 1960 and 1973, Latin American imports climbed from $8 billion to $25 billion, a three-fold rise, about four-fifths of which came from industrialized countries. The relative importance of the Latin

American market can be judged, for example, by taking a look at the geographical destination of United States exports which in 1974 reached the level of almost $100 billion. In that year Latin American imports from the United States represented approximately 15 per cent of that total and those from Asia--excluding Japan--reached a similar level, while all of the African continent accounted for only 3.6 per cent. Furthermore, Latin America has become a major market for capital goods, consumer durables and chemical products. United States exports of these products to Latin America are three times larger than to Japan and almost as large as to the European Economic Community.

"Latin American countries have also become important suppliers of food, raw materials and hydrocarbons, which are so vital to the continuing expansion of the world economy. Today, our countries are the principal world suppliers of fishmeal; they are among the top three exporters of beef, corn, soybeans and sugar, and they are among the top five sources of the world's iron-ore and petroleum. Its tillable area, water potential, and variety of climates, moreover, make Latin America one of the world's best equipped regions to produce food and natural fibers.

"Through its direct investments, moreover, the United States has an important economic stake in Latin America. Latest data on United States direct investment abroad indicate that nearly 14 per cent of the total, or about $15 billion, is in Latin America. This represents about 60 per cent of the United States direct investments in the developing countries of the world.........."

These figures are a useful reminder that we live in a world of financial interdependence. It cannot be a matter of indifference to the United States, for example, what happens to a market which is absorbing more than $15 billion a year of North American exports and it cannot be a matter of indiference to U.S. bankers what would happen to the U.S. exporters if their sales to LAC countries were going to be reduced. The world's economy is organized on the basis of international division of labor and of international cooperation, not on the basis of autarchy and isolation; long ago, the international community of nations agreed that this approach would allow higher levels of output at lower costs but this approach--as it is well known--implies and imposes special responsibilities for the different parties involved. What is new, in the process of financial interdependence, is the very important role that the private sector is playing, basically, outside governments' control and the fact that the traditional creditor-debtor relationship is evolving more and more toward a relationship of partners in the development process. The private sector has, therefore, a key role to play in providing the financing needed by LAC countries.

¶ The industrial countries will have to implement the necessary measures to facilitate access by LAC countries to their markets for the export products, to facilitate access by LAC countries to the capital markets of the capital exporting nations and to facilitate the flow of private foreign investment as well as loans by the private financial community. Official development assistance is expected to rise, at least in nominal terms, in the immediate future even though several of the major industrial countries will keep themselves at quite a distance from the aid targets proclaimed by the United Nations. Also, multilateral lending will hold the line. The only element--in the picture of the resources needed to finance the current account deficits of LAC countries--that could change in a manner capable of unsettling financial developments in the Hemisphere is private lending, one on which governments and international organizations (I.O.) have no effective control. This implies a serious responsibility for the private sector but also poses a challenge to governments and international organizations. They should, in my view, stand ready to move in to substitute for the private sector whenever the latter is pulling back; they should adopt a sort of stand-by position: the techniques to do so are known, the figures are known; all that is required is the will, i.e., the political determination to defend and maintain financial stability in the world. The adoption of such a posture by I.O. and governments would probably constitute a strong incentive for the private sector not to make unsettling moves, it would increase confidence in the working of the international monetary system. I am not suggesting that nothing of the sort is being done today; in fact, I.O. (particularly the IMF in the monetary field) and governments are very active in the general area of international balance of payments management. My comments are prompted by the very impressive proportion that the private sector takes in the total external financing of LAC countries. Even though the private sector has shown an attitute of great responsibility in its dealings with the debtor countries, and one should expect that this will continue being the case, it would be reassuring to them as well as the debtors if governments and I.O. would make it unmistakenly clear that they will not allow payments crisis to arise from a sudden withdrawal of an important creditor from the picture of international financing of a particular country.

Two, another implication of the relatively new type of relationship between creditors and debtors is that the former can be very influential in helping the latter to structure their foreign debt in a manner which is most adequate to the financing of their respective development programs; this can be of particular importance especially after emergency situations like the one the world has faced since the outbreak of the oil crisis in 1973. The world had to face this crisis without being prepared for it and even though the way the situation has been handled has been quite satisfactory, one could not say that the transfer of resources that has taken place via loans to the non-oil exporting countries has been done in the terms and conditions most appropriate to their development needs. Most of the financing was made as a short, emergency, balance of payments support and I think, consequently, that there is a lot of room for improvement in re-structuring the external debt position of some LAC countries in order to alleviate heavy short-term pressures which may exist. In this context, I mention with special emphasis LAC countries because they have received most of the short-term private money which has gone to the LDCs during these crisis years.

Three, the long-term view that both parties take in the new relationship also implies that creditors are getting more concerned with the question of how and for what purposes the money is being used; this has led, e.g., to a greater involvement of the private banks in project lending and also to the fact that international lending institutions (i.e., World Bank, IDB) are trying to formalize co-financing agreements with private banks in an effort to channel most of the financing available to the type of high priority development projects that these institutions finance.