

LATIN AMERICA'S ECONOMIC WOES: TOWARDS A DEBTORS' CLUB?

As payment of Latin America's vast debt becomes increasingly difficult, a search for a common strategy is quietly emerging.

"Without ignoring other real and concrete dangers, the worst threat to peace in Latin America is the foreign debt. When the millions of dollars for paying interest are not to be had, poor countries lose their sovereignty and their political independence."



The future overlies the present. Photo by Renzo Gostoli.

This statement was not made by an extremist, but by lawyer and politician, Radomiro Tomic, who in 1935 was co-founder of the Christian Democratic Party of Chile. Twice senator and as many times congressman representing his party, he was also the presidential candidate who lost to Salvador Allende in 1970.

In fact, the posture adopted by Tomic is one which gains adherents daily among moderate sectors in this continent, and at times even elsewhere. Recently, the U.S. Under-Secretary of the Treasury, David Mulford, admitted that there could be no solution to Latin America's debt without some stimulation to economic growth in the region. In effect, despite the optimism expressed in certain financial circles in industrialized

countries regarding the apparent success of case-by-case renegotiation strategies, the strengthening of regional joint action is still essential for reaching a viable and lasting solution to the debt crisis. Although some relative progress has been achieved as regards the treatment of the debt since 1984, the external factors of instability which provoked the financial crisis in mid-1982 still persist: high interest rates, falling prices for

most Latin American exports and the reduction of net capital flow towards the region.

In order to adapt their economies to these adverse external conditions, the countries of Latin America pursued a process of intense internal adjustment with strongly recessionary consequences. This situation is reaching its limits as the fulfillment of the region's financial obligations will depend on the availability of sufficient foreign exchange. This, in turn, will require greater access to credit and an expansion of export potential.

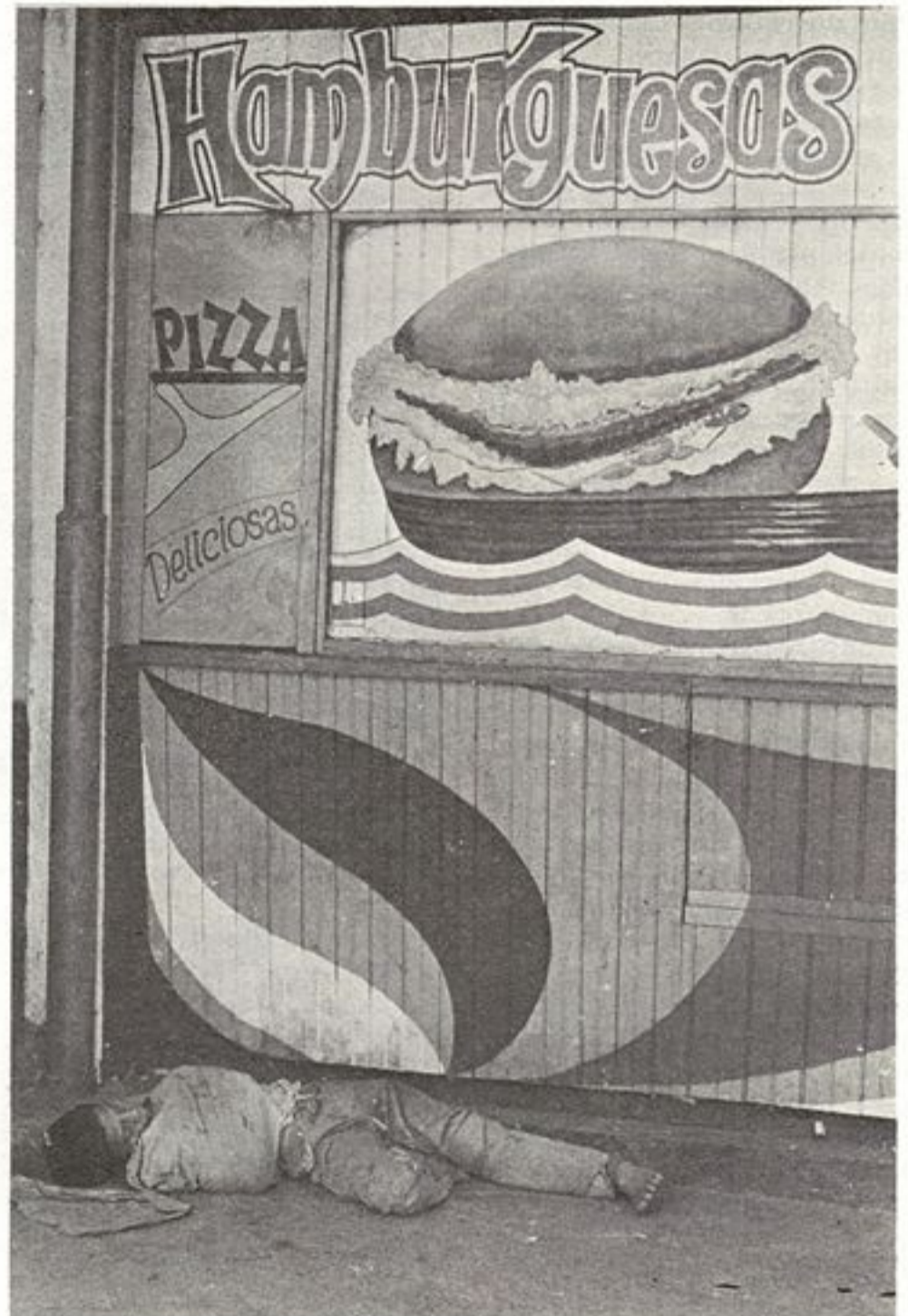
According to Tomic, "It is the international economic order which really generates the foreign debt." He points explicitly to the Bretton Woods accords signed following World War II, without listening to, nor allowing any participation

for developing or underdeveloped countries." In fact, in the opinion of numerous Latin American experts, that pact perpetuates unequal trade relations because it enforces the notion that the market is the best regulator of goods and services and of the prices of manufactured goods and raw materials.

The experience of the past forty years has shown that the industrialized countries, by controlling 99 per cent of industrial

discover that now they have lost their political independence."

Since 1982, Latin America has become a net exporter of capital, for a total of approximately \$40 billion. The region's economic growth, therefore, must be stimulated. Nonetheless, this depends not only on the productive capacity of each country, but also on the lowering of protectionist barriers erected by the industrialized countries.



The dream to struggle against?. Photo by Renzo Gostoli.

patents, 98 per cent of the scientists and 99 per cent of technological and scientific research monies, run roughshod over the countries of the Third World when competing with them. Several Third World experts thus feel that the time has come to introduce rational and ethical factors to correct the mechanical effects of the market which, in reality, is never free for poor countries.

"When \$370 billion are already owed, and \$40 billion a year must be paid in interest and there is nowhere to find the money, what poor countries have lost is their sovereignty," insists Tomic. "When such extremes of indebtedness have been reached, they suddenly

The primary goal must be to achieve a reduction in debt service costs to reasonable levels. Latin America cannot continue to allot 64.6% of its export earnings towards the payment of its financial obligations. To modify this critical situation, efforts have been increasingly focused on seeking joint, concerted action to improve the conditions for renegotiation. Such efforts have grown out of the fact that the foreign debt is no longer simply a financial matter. It has become a political issue, as well. These initiatives are also based on the Latin American conviction that more viable and definitive solutions to this problem must be found within a framework that

provides mutual benefits and advantages to both creditors and debtors.

When the crisis erupted in mid-1982, Latin American countries adopted a plan of action which included the following elements: a) debt renegotiation, particularly of the short-term debt contracted with private international banks; b) adoption of a set of domestic policy adjustments, under the supervision of the International Monetary Fund (IMF); and c)

the region's nascent democracies.

Finally, the evolution of the world financial and monetary crisis, highlighted by the overvaluation of the dollar and high interest rates, has curtailed hopes for revitalizing Latin American trade in the short- and medium-term, while worsening the debt-servicing problem for the entire continent.

Following the Latin American Economic Conference held in

reaching a new understanding in order to properly analyze the political implications of the debt.

To a large extent because of this type of initiative, the governments of Sweden and France and the president of the European Economic Commission, have recognized the political dimension of the debt issue, and have noted the need for including a discussion of the monetary and financial system in any negotiation regarding the international trade system.

Latin American countries share the same basic process of debt accumulation and the same crisis in their capacity to make debt-service payments. And they have joined together in the search for a lasting solution to the debt problem. Although the terms and conditions of negotiations are different for each country, all have reached similar conclusions. Latin American countries have also assumed responsibility for finding solutions which can offer a minimum of stability for economic planning, as well as assuming the social and political costs implicit in those solutions.

A strategy of regional cooperation, born of a common vision and diagnosis of the problem and its possible solution, has been undertaken by the countries of Latin America. This strategy calls upon the industrialized countries to reach an international consensus based on Latin America's diagnosis of the problem.

The proposals that have grown out of the common strategizing have not been extremist or idealist. They have not proposed canceling the debt, for example, nor treating the debt exclusively on a case-by-case basis. What the countries of the region have proposed is a more equitable global framework so that the renegotiation of their debts does not preclude their continued national development on solid bases.

In sum, it is a middle-ground position that seeks to reconcile the need for a global framework with the individual renegotiation needs of each country. At the same, the position is clear that renegotiation cannot replace another equally necessary process of more general political discussion with the industrialized countries.

The facts have shown increasingly that in the case of the debt, as well as in many other areas, solidarity and joint action in Latin America are the best means for reducing the region's vulnerability to external factors and strengthening its own economic security.★

Compiled by Arturo Arias, based on information in an article by Sebastian Alegrett, Permanent Secretary of the Latin American Economic System (SELA) and on an interview with Radomiro Tomic done by Luis Suarez.



Extreme necessity. Photo by Renzo Gostoli.

the notion that the crisis would be overcome once the world economy recovered its traditional dynamism.

The results noted to date, however, have not been hopeful. Renegotiation with the private international banks proved to be much more costly than expected due to high interest rates that generated even greater indebtedness. This in turn, has worsened the conditions for external financing, as well as the general economic situation for Latin American countries.

The short-term focus the IMF gave to the continent's economic problems has also been proved inadequate. It has endangered the political and economic stability of several countries, and has become an obstacle to the strengthening of

Quito, Ecuador, at the beginning of 1984 with the participation of high-level delegations from 30 countries in the region, some sort of joint action has been called for as a viable alternative. The second meeting of the Cartagena Group at Mar de la Plata (Argentina) in mid-September 1984, and the third, held in Santo Domingo (Dominican Republic) in February 1985 continued this process.

The Cartagena Group managed to define the positions of debtor countries before important meetings of international monetary and financial institutions, at which issues related to the debt were to be discussed. Thus, the points of view of Latin American countries were not to be ignored. Finally, the Group emphasized the necessity of

HAITI, THE CARIBBEAN CALDRON

Duvalier is gone, but most Haitians doubt that real change has actually come their way.

"Managing the hopes and expectations stemming from the end of the Duvalier era will require great political ability," says a Western diplomat.

True and understated. Many observers doubt that despite Baby Doc's downfall, the 29 year old Duvalier era has really come to an end.

Jean Claude's regime was

finished in a matter of weeks, and he was quickly replaced by a governing council dominated by his own loyalists. No organized force overthrew the dictatorship, mainly because none existed in the country.

Close to 20% of the six million Haitians are in political or economic exile. Thus far, liberal and progressive exiles have not been allowed to return to their homeland, and neither have many of the thousands of Haitians who over the years