Bargaining on Latin-American Debt: Theories, Practice and Policy Conclusions

S. Griffith-Jones(1)

I. Introduction

In attempting to analyse the management of debt crises in Latin America and Africa, from 1982 to the present, several difficulties present themselves. In the first place, we are analysing an extremely complex process, whose final outcome is not yet known. In some ways, it is like analysing a play or a drama in the theatre at a time when only two or perhaps three of the acts have actually taken place, and in circumstances when nobody - including the actors - know the full script. In particular, in mid 1987, it is somewhat difficult to visualise the outcome of Brazil's unilateral action, which may be fairly influential in determining the evolution in the rest of the Latin American countries. Secondly, analysis is made more difficult due to the differences between rhetoric and reality. For example, since mid-1985 in the analysis made in industrial and developing countries alike, there seemed on the whole to emerge a consensus that debt crises management, as practised till then, was both unsustainable and undesirable, given the existing future likely trends in the world economy; it was therefore concluded that new ways had to be found and rapidly implemented to handle the problem, which would allow for growth in debtor economies. In spite of this consensus, at least at the level of rhetoric, (see, for example, bi-annual Interim Committee Declarations, found in IMF Surveys) two years later, effective multilateral action has not been taken, except for specific countries (e.g., the Mexican 1986/87 deal) or for limited and insufficient measures (e.g., the Structural Adjustment Facility created for low-income Sub-Saharan African countries).

II. The Key Questions

At the beginning of this book (and project) three questions, seen as key were posed (see Chapter 1).

1. The first question asked was why were the deals on debt and adjustment, agreed and implemented since 1982, so much closer to the interests and aims of creditor institutions than of debtor countries? The question seemed even more relevant after mid-1985, when the above described broad consensus emerged - in developed and developing countries - that debt crisis management was unsatisfactory, particularly for debtor nations' growth and development prospects. However, the new actions taken multilaterally, within the broad umbrella of US Treasury Secretary Baker's initiative - though positive in themselves - did not, at least till 1987, amount to a new way of handling the problem, and therefore unfortunately did not overcome the basic limitations of the approach developed since 1982.

Given this evaluation, which is increasingly accepted in a vast variety of circles, supplementary questions arise: why have debtor governments been so patient during such a long period of large negative net transfers, and why have most of them (except for the Peruvian government) not followed unilateral actions earlier and in a more consistent way? Furthermore, given that the debtor governments have been so patient in servicing debts at levels which have in several cases contributed to cause major declines in investment, employment, real wages, and social welfare expenditure, why have the societies in those nations been so patient?

It should however be emphasised that since mid-1985, a number of Latin American and African governments have either taken or seriously threatened to take, unilateral action. Particularly in early 1987, the picture changed significantly, especially as the Brazilian government suspended interest payment on its bank debt, and as Ecuador, as well as a number of other small Latin American governments took similar action. The future evolution of debt crisis management will to an important extent be determined by the outcome of Brazilian negotiations, as well as the impact on bargaining of the large loan loss provisions made by US and UK banks in mid 1987.

The situation for Sub-Saharan low-income African debtors has been somewhat different as Reg Green points out in his chapter. As most low-income African countries still receive positive net transfers, (due to official grants and concessional flows), they are in a different bargaining position from most Latin American countries (heavily indebted with private banks and with negative net transfers) as cessation of debt servicing to banks by these African countries could jeopardise the larger positive inflow from official sources. In spite of this, several African countries have built up arrears, mainly on commercial but also on government debt servicing, "quietly, on a semi-ignored, semi-condoned basis". Most unilateral declarations of a ceiling for debt service (such as that of Sudan in 1985) were based on a "won't pay because can't pay" attitude, rather than a long term strategy. However, the May 1987 Zambian unilateral imposition of a very low ceiling on external debt payments (together with its dramatic abandonment of a programme drawn up with the IMF) seems a more deliberate attempt than that of other African cases, to pursue a more radical stance on debt and adjustment.

2. The second question posed was to what extent were there differences in the debt/adjustment deals reached by different countries? What reasons could contribute to explain such differences?

3. The third question posed was how the debt rescheduling /new money/ adjustment deals varied from year to year, after 1982? Have qualitative changes been introduced?

4. An additional, fourth and perhaps crucial question relates to the future search for an alternative more "positive sum" framework of debt management. This clearly consists of two elements, when viewed from the point of view of debtor countries and governments: a) what are more appropriate technical solutions than the ones adopted till now, such that debtors' growth and development can be safeguarded without threatening the stability of the international banking system?; b) what tactics and strategies should debtor governments pursue to make the adoption of such measures feasible?

III. Attempting to explain the nature of the deals reached

Looking at the first set of issues, the fact that major debtor governments (except for Peru) have not consistently pursued a line of unilateral action is itself one of the main reasons why debt rescheduling/new money deals continue to be closer to the interests of creditors than that of debtors.

a) Amongst the reasons why such unilateral actions were not taken by major debtor governments was the uncertainty of the impact of such actions on the international banking system, and more importantly, on the funding of world economic activity and trade; more than the fear of retaliation against their own trade flows, which experiences like that of Peru seem to show is not very serious ,debtor governments legitimately feared in the past the risk of declining volumes of world trade, that could accompany a possible disruption of the international banking system.

The threat to the private banks' solvency of unilateral action by major debtors has increasingly diminished since 1982, as private banks strengthened their capital base and have increased their loan-loss provisions, as well as expanded their non LDC business far more than their LDC lending. As a consequence, the risks to the private banks' solvency from LDC default are seen in industrial countries to have diminished quite significantly, though clearly not totally.

Thus, even before the major loan loss provisions made by Citibank and other US, as well as British banks, a 1987 British All Party Parliamentary Group report (2) concluded that, "American banks are now more vulnerable to domestic energy, farming and housing loans than to LDC debt. For most of the major banks, simultaneous default (collective or coincidental) by a number of large Latin American debtors would shake them; <u>a single default would be absorbed</u>". A similar conclusion was reported in January 1987 by Salomon Brothers(3), when it stated that "the 34 major US banks they track should be able to write off some US$20 billion, or nearly 40% of their total cross-border lending to Argentina, Brazil, Mexico and Venezuela by 1989, without impairing equity ratios."

As Table 1 indicates, levels of loan loss provisions vary quite significantly among countries. Till late 1986, they were highest in continental European countries, such as Switzerland, Netherlands and West Germany; the lowest provisions rates were till May 1987 made by banks based in the USA, the UK and Japan. For US banks, provisions were already high in 1986, however, for countries that have ceased or limited payments of interest for over 90 days; thus for Peru's loans, it was reported(4) that an initial provision of 15% was required. Since May 1987, a radical change occurred in the loan loss provisions made by the twelve major US banks, most of which had by the end of June 1987 made such large loan loss provisions that those reached almost US$10 billion, and around 25% of those banks' loans to developing countries. The US banks' action was followed in mid-1987 by very large loan loss provisions by two major UK banks, National Westminster, and Midland Bank International, and by several major French banks.

<u>Though a fairly important part of developing countries' debts to private banks have been written down or written off on banks' balance sheets, this has not led to corresponding debt forgiveness.</u>
Furthermore, practically all debts of most LDC debtors, are traded by creditor banks at a discount on secondary markets; this seems further clear evidence that these banks do not think it likely that they will recover the full value of their outstanding loans. However, in debt

servicing and even in debt rescheduling operations, debtor countries are still obliged to service the debt at its full original face value, which is indeed no longer its market value. Indeed, taking the debt of 12 major borrowers as an example (which underestimates the problem), US banks holding some US$77 billion in book assets could sell those assets at only $50 billion on the secondary market, that is at only two thirds their face or book value[5]

Far higher bank loan-loss provisions, as recently made by large US banks - and previously by Swiss and other banks - clearly have advantages in the long-term for debtor developing countries. It reduces uncertainty about the risk to banks solvency and stability should debtor governments take (or be forced by circumstances to take) unilateral action. Furthermore, it strengthens the possibility for intermediate solutions, that have been amply discussed in a variety of circles, which would imply LDC governments would service the debt, but with some element of forgiveness, either attached to the level of the debt and/or of the interest payments[6].

Paradoxically, however, the strengthening of banks' loan loss provisions - and even more the requirements by bank regulators to make provisions against new loans to those sovereign debtors for which provisions were made - has possibly reduced the willingness of banks to increase their lending to LDC debtors. Differences between levels of provisions and regulations on provisions (and their tax treatment) in different creditor countries also make it increasingly difficult to make collective arrangements, for negotiating and distributing (amongst banks) new money, as the chapter by Gurria on the difficulties for arranging the 1986/87 Mexican deal clearly illustrates. In the short-term and within the framework of traditional packages of debt rescheduling/new money, the strengthening of the banks' balance sheets by increased loan loss provisions may have some problematic effects for debtor countries; however, these problematic effects should not be exaggerated, as there was already very little new net bank lending to latin America and Africa in recent years (see Chapter 1).

Table 1

Problem sovereign debt reserve levels, June 1987

Belguim	No specified percentages but there is a requirement to provide. Reserve levels vary but probably average around 15%.
Canada	10-15% reserve required by end October, 1986 for 32 designated countries. All the major banks will meet the requirement in 1986. Higher levels of reserves are expected to be required after October 1986.
France	No formal rules but most major banks have set up large reserves. BNP and Société Générale are running at over 30%; Crédit Lyonnais has somewhat less.
Germany	NO formal rules but tax authorities generally helpful. Most major banks have reserved between 30% and 50%.
Japan	Amount per country varies but Ministry of Finance "guidance" stipulates an average maximum 5% against exposure to 36 problem countries. Virtually all banks have reached this level and, with the fall in the value of the dollar, banks have been required to write back their reserve to the 5% limit. Early 1987 offshore company established to take over part of Japanese banks' loans to countries that may not be able to repay their debts.
Netherlands	From 5% to 100% on countries specified by the central bank. Most banks now have a reserve of around 20% of problem sovereign debt.
Spain	Bank of Spain circular requires from 1.5% to 100% on country groupings defined in circular. Most major banks have around 10%, and some more.
Sweden	From 35% to 80% on countries selected by Bank Inspection Board. Most banks'reserve levels now average around 50%.
Switzerland	General guideline that banks should maintain reserves of at least 20% against problem country exposure. Banks left to decide which of their exposure falls into this category. Most major banks have reserved between 30% and 50%.
UK	No formal rules. Reserves vary from 100% to very little. Large banks running at around 5%-10%, at end 1986. National Westminster made provisions of almost 30% on loans to 35 countries in payments difficulties or rescheduling their debt.
USA	Varying percentages on Poland, Nicaragua, Zaire, Bolivia, Sudan and Peru. No rules on others. Most large US banks had 5% or less for all problem sovereign debt at end 1986. In May-June 1987,most of the major 12 US banks made large provisions, such that their total loan loss reserves reached around 25% of "doubtful" LDC loans.

Source: IBCA Banking Analysis Ltd., Real Banking Profitability, Nov. 1986. Newspaper clippings (Financial Times), June 1987.

In the medium-term, and within the context of a new framework or a new phase of handling the debt problem, the existence of large loan-loss provisions in many of the major banks provides important range of manoeuvre for solutions which recognise that the real market value of the debt is no longer its face value, and that reductions should either be made of the level of the debt itself, or of debt servicing of it. It is likely that pressure from debtor governments, as well as from enlightened private actors and/or governments within industrial countries, will necessarily play a major role in the transition to the next step. Thus in a medium-term perspective, banks' greater ability to absorb LDC losses should strengthen the confidence with which debtor governments can use threats of (or even in extreme cases) take unilateral action, without fearing as much as in the past that such threats or actions would endanger the stability of the international financial (and even trading) system. Furthermore, the availability of significant loan-loss provision in banks' balance sheets makes more feasible the adoption of a framework for managing debt, which implies that banks' acknowledge some losses and that debtor governments reduce their level of debt servicing (without this implying an increase in the total level of debt). Such a package would clearly also further increase the role of industrial governments in the deals, either by increased lending, subsidising banks' losses, or take-over of discounted bad debts (the latter measures already being pursued by the Japanese government).

It is interesting that bankers and bank economists are not only expecting something like this to happen, but are saying so publicly. For example, Holley, op. cit, concludes his study arguing that a debt consolidation on concessional terms "would certainly be preferable to a seemingly endless series of negotiations, that would inhibit long-term policy-making on both sides and would not excessively affect banks' standing in the market". There also seems to be a gradual, but consistent, trend in public opinion and in political circles within industrial countries towards a view that new ways of handling the debt problem need to be found, which will imply some element of discounting such debt or its servicing; amongst the reasons for this shift is not only a wish to improve development prospects in debtor nations, but also trade and investment prospects for industrial nations[7]. We will go back to the need for searching for alternative ways to manage the debt problem, and the role that debtor governments could play as catalysts for such a new design in the last section of this chapter. Before that we will return to the reasons why major bank debtor governments have not till now taken more consistent unilateral action on the debt issue or have not till now bargained in a tougher way for a better deal.

b) An important element may have been a more long-term perception of costs and benefits obtained by debtor countries from their links with the international financial system, than is obtained by looking only at the massive negative net transfers for the debtor economies since 1982 (for the very high magnitude of those net reverse transfers, as proportion of GDP and exports, for the different countries analysed in this study, see Table 2 and column 2, Table 3).

Table 2

Net resource transfer (NRT) as percentage of GDP and exports, 1982-1986 (a)

	Average NRT as proportion of average GDP (b)		Average NRT as percentage of average exports of goods (c)
	1982-85	1986	1986
Brazil	- 3.2	- 4.1	-30.6
Chile	- 3.4	- 2.6	-16.4
Costa Rica	0.03	- 1.6	- 1.1
Mexico	- 7.7	- 1.9	-46.9
Peru	- 1.0	- 0.9	- 4.9
Venezuela	-10.0	-10.2	-39.8
memorandum			
Argentina	- 6.1	- 3.3	-43.5

(a) NRT (net resource transfer) is equal to net capital inflows less payments of profits and interest. Net capital inflows include long and short term capital flows, unilateral official transfers and errors and omissions. Figures were in US$ of each year.

(b) GDP in 1982 US$, 1982-85; for 1986, GNP in 1986 US$.

(c) Exports of goods in US$ of each year; 1986 export figure is an estimate, based on December 1986 CEPAL report.

Sources: CEPAL Notas sobre la economia y el desarrollo de America Latina, several years for net resource transfers, IDB, Economic and Social Progress in Latin America, several years for other variables.

Indeed, debtor governments may have compared the large positive net transfers which they had received, particularly during the seventies, with large negative resource transfers since 1982, and felt especially initially, that the net impact on their economies of the total period was still positive or at least zero. With such a perception, the incentive to take unilateral action would be reduced, particularly if and while a reversal of the sign of net resource transfers was seen as likely to occur in the near future. Around 1986, that perception began to change; this was reflected for example, in the analysis made by the Inter-American Development Bank, which estimated in its 1986 Annual Report that in nominal terms, the negative net transfers from Latin America as a whole since 1982 had roughly wiped out the entire net inflow of capital generated in the massive petrodollar recycling of the 1970s.

As the evaluation of costs and benefits of the link with the international financial system takes place basically at a national level, it seems useful to calculate the total net resource transfer to and from the countries we are studying over the 1973-85 period.

A technical, but clearly relevant issue to determine the correct measure is the choice of deflator. Measurement in current US dollars of every year clearly provides only a first, and rather imprecise, approximation. The second option is to use a deflator which reflects inflation in the US, which has a connection with import prices of Latin American countries, given the high proportion of imports from the US. The third option, and in our understanding the most precise one, is to deflate net resource transfers by an index which reflect the different countries' terms of trade.

What we are trying to measure is to compare the real value in domestic resources of the additional foreign exchange obtained by a country when net transfers were positive with the real resources used by the country to make negative net transfer of foreign exchange. Massad and Zahler[8] have suggested that it is most precise in such circumstances, when making an evaluation from the point of view of the debtor country, to use as a deflator the country's terms of trade, as this would reflect most precisely the real social price of net resources obtained by and extracted from the debtor country. Though the use of terms of trade index as a deflator may not incorporate all the effects of world inflation on the real value of total net resource transfers, it does reduce the margin of error involved.

Table 3

Real Net Resource Transfer, deflated by the barter terms of trade, as a percentage of GDP, expressed in 1984 US$, 1973-85

	1973-81	1982-85	1973-85	Ranking of case studies,best to worse
Brazil	1.5	-2.9	0.2	2
Chile	4.8	-3.0	2.4	1
Costa Rica	4.4	-2.3	2.4	1
Mexico	2.8	-5.4	0.2	2
Peru	0.6	-0.7	0.2	2
Venezuela	2.4	-10.5	-1.6	3
Memorandum				
Argentina	0.2	-6.0	-1.7	
Colombia	0.7	2.4	1.2	

Sources: (a): net resource transfers in nominal values, from Table 4, J. Eclac "Latin American Debt: Resource Transfers, Investment and Growth". Mimeo, Inter-American Development Bank, October 1986. The figures differ somewhat from ECLAC figures given above, because they do not include grants and aid, which is particularly significant in the case of Costa Rica.

(b): terms of trade figures, by country, from UNCTAD Handbook of International Trade Statistics, 1986 Supplement.

(c) GDP figures, same source as (a).

As can be seen in Table 3, by the end of 1985, the real net resource transfer, taking the whole of the 1973-85 period was negative for Venezuela (and Argentina), and around zero for Brazil, Mexico and Peru; indeed if the 1986 figures are added, the net resource transfer for Brazil, Mexico and Peru would also be negative. For all these countries, by late 1986, there had been no net contribution in net resource transfers from the international financial system, since 1973, even though their stock of debt had grown significantly. The situation is slightly better for Chile and Costa Rica (particularly the latter if grants and aid are included), but even in those two cases a continuation of negative net transfers at the levels of recent years would imply that the net contribution from external capital flows since 1973 will become zero or negative, while their external debt has increased very significantly during that period. If this perception is combined with the prospect of continued negative net transfers for future years (as projected by most international institutions and independent observers) the net contribution over the long-term of international capital flows will increasingly be seen as negative by the major debtors.

Even if the net resource transfers are deflated by a price index reflecting only domestic U.S. inflation, (as a proxy for the price of imports of those countries), the total net resource transfer for the whole period 1973-86 is negative for Argentina and Venezuela and only very marginally positive for Mexico and Brazil; however, the outcome is somewhat more positive, if U.S. inflation and not terms of trade is used as a deflator, for Peru and Chile, and particularly for Costa Rica. It is specially noteworthy that for the whole of Latin America, total net resource transfers, deflated by U.S. inflation, for the whole 1973-86 periods are around $50 billion (1984 US dollars), in spite of the fact that the region's external debt during the period grew by over $200 billion. Thus, even if deflating only by U.S. inflation, and thus ignoring the additional effect of terms of trade deterioration, the total net transfers to the region could become zero or negative before 1990, if negative net transfers continued at their very high 1982-86 level.

We can thus conclude that by the late eighties, practically all Latin American countries will have stopped receiving positive net transfers from the international financial system, even though the whole period since 1973 is taken into consideration and whatever the methodology used to estimate the; as a result, Latin American governments' resistence to continue making such negative net transfers can be expected to be strengthened.

Naturally, our assessment is too aggregate, as it does not examine the use made by the borrowers of the positive net transfer of funds in the initial period. The welfare effect for the debtor economy as a whole will be different if the resources were mainly invested in productive and effective projects, were consumed domestically, or were exported as private assets abroad, a key point to which we will return below. In this aspect, the welfare effects of borrowing on the national economy are more positive, the larger the proportion of those additional resources which were used in expenditure that increased growth capacity of the economy and/or their ability to generate additional future foreign exchange flows.

c) This leads us to a third element in the exploration of why debtor governments may not have taken more consistent unilateral action or even tougher bargaining positions. Most analysis centers on "the national interest", that is the interest of the debtor country as a whole, assumed to be represented by its government. This concept is too aggregate, given the complex social and political realities of debtor countries, which are reflected in the actions of governments[9].

In terms of the special interest of those wealthy citizens, who benefited from the huge inflows of the seventies by increasing their consumption levels domestically or exported their wealth abroad (which frequently reduced illegally the amount of tax they pay to their governments) and who have been more sheltered from the cost of adjustment to negative net transfers and deteriorating terms of trade in the 1980s, the net impact of those external flows may still be seen as positive. For poorer and more vulnerable groups, who may have benefitted somewhat from improved living standards as a result of positive net transfers of financial resources, but who have been severely affected by negative net transfers - bearing a disproportionate share of the cost of the adjustment - the net balance may be very negative.

To the extent that wealthier groups had a larger influence on debtor governments than poorer groups, this may have discouraged unilateral action or tougher bargaining. However, to the extent that broader strata of the population are affected by slow growth or recession, to the extent that democratisation in several of the major debtors implies a far greater influence for the interests of the poor and the vulnerable, and to the extent that even wealthier groups perceive as potentially unsustainable the huge "social and human" cost of adjustment, without a clear perception of improvement in the near future, the balance within debtor governments can be expected to shift (and has broadly been shifting), either to far tougher bargaining positions and/or to unilateral action. As was discussed in Chapter 1, this shift broadly corresponds to that indicated by bargaining theory. Major changes in negotiating posture are likely to occur when - in assessing the concessions made by both sides - it is found that there was "unfair advantage" to one of the sides, in this case the debtor countries, and particularly to the poorer and more vulnerable groups within them; the change in negotiating position arrived as a result of this evaluation relates not only to how closely the negotiator responds to his own constituents (as bargaining analysts correctly point out) but also to who his main constituents are at the time.

To the shift of power and perceptions within debtor nations, should be added the shift of perception within industrial countries, where concern has been growing, within government, representatives in international financial institutions, and more broadly in the media and in public opinion, of the excessive human cost of adjustment of developing economies to the debt problem and to the deteriorating international environment(10)

d) Part of the reasons why governments, and peoples, have been so patient in servicing their debt, even at the cost of large domestic sacrifices of adjustment, are country specific and often related at least partly to non-economic variables. For example, several countries faced the initial stages of the debt crisis at a time when their countries were beginning a return to democratic rule, after years of military dictatorship. Such processes, in countries like Argentina, Uruguay and Brazil, imply a number of delicate domestic negotiations for the creation of new institutions, for the establishment of political coalitions, for mutually acceptable relationship between civil society and the armed forces. The difficult and complex nature of the tasks already facing governments may have inclined them, particularly initially, to avoid an additional potential source of tension or conflict with international creditors and financial institutions. Thus, the youth and the potential fragility of the new democratic governments seems to have inclined them towards a more conciliatory and conservative approach in international economic relations. However, when popular pressure has mounted for higher real wages and employment (or a recovery of previous levels), these new democratic governments have hardened their stance towards the international creditors and have increasingly placed minimum economic growth on the agenda of negotiations with them.

On the other hand, the lack of patience of the Garcia Peruvian government and its unilateral and somewhat defiant actions can also to an important extent be explained by political variables. As is discussed in the chapter by Ugarteche, the Garcia government faced since mid-1985 not only a difficult economic situation, but also a very tense political situation, with an extremely serious challenge to the government's stability (and that of democracy in Peru) coming from the extremist Sendero Luminoso guerrillas, and with a country that lacked both a sense of future and of national unity. President Garcia's unilateral action on debt, as well as particularly the uncompromising harshness of his language towards foreign creditors and international financial institutions, can thus to an important extent be explained by the "need" to find an "external enemy" that provides a catalyst for national unity; naturally, the particularly severe trade off between growth in Peru and servicing the debt fully provided an additional incentive for unilateral action, especially given strong democratic pressures for growth and increased living standards of the very poor.

The priority given by a country's government and society to economic growth, in relation to other objectives, also has a large impact on the government's attitude towards debt servicing. For example, as is discussed in the chapter by Carneiro, the Brazilian government and entrepreneurs give very high priority to economic growth; recession is seen as extremely undesirable, both by the government and the private sector. While full debt servicing was consistent with high economic growth, the Brazilian government continued to service debt in a timely way; however, when a conflict arose between growth and debt servicing in early 1987 (exacerbated by excessively expansionary macro-economic policies, as discussed below), the Brazilian government suspended temporarily servicing of the debt to private banks. In Mexico, the priorities of objectives seem somewhat different to those in Brazil. Mexican entrepreneurs and the Mexican government seem to give far higher priority to objectives different from growth, than their Brazilian counterparts. Thus, stable and friendly relations between the Mexican government with foreign creditors, as part of a harmonious relationship with industrial countries, and particularly with the US, are seen by Mexican entrepreneurs and government as an important policy objective; it is within such a harmonious context, that the private sector will be more willing to invest domestically. If relations between Mexico and the outside world are not seem to be clear and harmonious, and/or domestic confidence of private capital diminishes for other reasons (e.g., high inflation, over valued exchange rate), then an important part of domestic savings leaves the country as capital flight. Thus, in an economy such as the Mexican one, with practically no capital controls, with such an "internationalised" entrepreneurial class and with such close proximity and growing integration to the US economy, the government seems to objectively be (and feel) constrained in its bargaining on debt and in the design of its macroeconomic and development strategy by the need to avoid massive capital flight and to avoid disrupting friendly relations with its important neighbour.

Similarly, in Venezuela, the government and the entrepreneurs seem to attach higher priority to objectives other than growth. For example, a major stated policy objective of the Venezuelan government has been to be able to return to "voluntary" market borrowing. In such a context, any radical, or even unorthodox option, of limiting debt service payments would be very counter-productive to its major policy objective. Furthermore as discussed below, the Venezuelan government has even made fairly large amortisation payments, partly with a view to increasing the country's "creditworthiness". However, at the time of writing, it would seem very unlikely for Venezuela to be able to seize important new sources of finance on the private capital markets.

III. Comparisons between Countries

a) Net transfers and policy conditionality

In analysing the deals on debt rescheduling/new money/adjustment that different Latin American countries have agreed with their creditors, it becomes clear that there are certain important trade-offs between the quality of the financial package and the conditionality of the adjustment. It should however be stressed that the trade-offs are basically within a fairly narrow range, as since 1982 for almost all the Latin American countries analysed here and for almost every year examined, net resource transfers have been negative and conditionality on their economic policies has in several cases been fairly heavy. It is absurd that conditionality is being applied ex-post, well after the net resource transfer from abroad has been made and spent, and at a time when the net contribution from foreign creditors is clearly negative; in fact, debtor governments are being told how to allocate their own resources, so they can generate a surplus for making a net transfer of resources abroad. Independently of ideology, conditionality clearly makes far less sense in the current context, than in one when financial flows make a positive contribution to countries' resources.

A very relevant variable for the type of financial deals obtained seem to be size, as small countries, particularly if they have geo-political importance to industrial governments or can make a special case on humanitarian grounds, can more easily obtain positive net transfers. A clear illustration of this is Costa Rica, the only Latin American country in our sample to still obtain positive (though very low) net resource transfers since 1982 (see Table 2) and also one of the two countries doing best, if the whole 1973-85 period is evaluated (see Table 3). The reasons are clear; large (in proportion to the countries' economy) official flows are feasible financially, because these flows are small in relation to the US budget; they are actually made, to an important extent (though not only) because of Costa Rica's geo-political importance to the US and particularly because it borders with Nicaragua. (The magnitude of aid flows to Costa Rica has risen dramatically since 1983(11); while total aid (ODA) flows from industrial countries to Costa Rica averaged less than US$30 million between 1979 and 82, they rose to an average of above US$200 million between 1983 and 1985, almost a tenfold growth!). Undoubtedly, other reasons also contribute to explain the relatively favourable deals obtained by the Costa Rican government, such as the design and implementation (since 1982) of viable macroeconomic packages and the good technical level of the negotiating team. However, clearly the relatively small size of the Costa Rican debt and economy, as well as the country's geo-political importance to its main creditor country, are the major reasons for explaining the relatively positive financial outcome.

As Rodriguez clearly points out in his study, the cost of positive net transfers for small countries is very heavy conditionality, often exercised simultaneously by different international financial institutions (the latter is now called cross-conditionality). As Rodriguez illustrates such heavy cross-conditionality not only generates an extreme form of dependency of national economic policy on foreign decision-makers, but is also extremely inefficient, due to its heavy administrative cost, both in terms of time of senior decision-makers and actually in financial terms.

As Green describes, low-income African countries have, particularly since 1984, bargained mainly on a case of smallness and (very genuinely) of weakness. This argument is based on humanitarian concerns (avoidance of starvation or extreme deprivation for large numbers of people) though to a lesser extent, also on the possibility of reversing a decline of important markets for industrial countries and avoidance of political instability. The modifications obtained, particularly in rescheduling (with the Paris Club and with private banks but also in other fora) have only been granted in the African case, once IMF agreements were in place. Cross-conditionality is a very common feature in Sub-Saharan Africa, for example, Structural Adjustment Loans from the World Bank (which include a significant amount of policy conditionality) are far more common in Africa than in Latin America.

The only fairly large Latin American economy that has had World Bank Structural Adjustment Loans (SALs) is Chile. Furthermore, since 1983, Chile has almost continuously had IMF upper credit tranche agreements, and has on the whole complied with its performance criteria better than any other Latin American country. More broadly, the orthodoxy of Chilean economic policies - which as Ffrench-Davis points out often exceeds that of the IMF or World Bank - has made it easier for Chile to obtain slightly better deals in terms of net resource transfers than other Latin American debtors, largely due to a fairly large increase in public flows.

There seems in this case to have been a "trade-off" between obtaining a slightly better net resource transfer deal than for other countries (see again Table 2), related to an important extent to the fact that the Chilean government has been willing to adopt both very drastic and very orthodox adjustment packages, and implement them successfully, particularly since 1985. Indeed, it could be argued that the Chilean government only bargains genuinely on debt rescheduling and new flows, but not really on the type of adjustments, as its views on the subject are as orthodox, if not more, as that of international financial institutions. Two caveats seem useful here; firstly, Chile has obtained such slightly preferential treatment, in spite of concern amongst several of its creditor governments (as well as other governments) about the country's extremely slow transition to democracy, and poor human rights record, reflecting perhaps the overriding importance attached by international financial institutions till now to Chile's commitment to orthodox adjustment and to financial objectives, such as inflation control, and its punctuality in servicing its debts. Another caveat is that although Chile's NRT outcome is less bad for the 1982-85 period than other Latin American countries, it is still strongly negative; however, if the whole 1973-85 period is combined (see Table 3 again) Chile together with Costa Rica gets the relatively biggest contribution of positive net transfers from capital flows.

A somewhat different trade off seemed to emerge in the deal signed in 1986 for Mexico. The Mexican government was able to negotiate in 1986 both a fairly gradual and unorthodox adjustment package, (see chapter by Villareal), as well as a fairly favourable financial deal, in terms of net resource transfers, changes in maturity of the debt, spreads; furthermore, new ground was broken by the innovative elements in the package, such as the contingency clauses for minimum growth and protection against oil price fluctuations (see chapter by Gurria), as well as the acceptance by the IMF of a new concept for measuring the fiscal deficit (see chapters by Villareal and Gurria).

This favourable deal cannot merely be attributed to the clear geo-political importance of Mexico to the US and to the size of the Mexican debt to the banks; the importance of these elements was enhanced by the fact that after very tough bargaining - in which the possibility of unilateral action was a clear option - the Mexican government accepted a multilaterally agreed deal, which though very favourable, had no purely concessional elements in it.

The Mexican bargaining experience of the 1986/87 package (as described in detail with an insider's insight in the chapter by Gurria) shows that better financial deals (the negative net transfer for the 18 months after the deal is being implemented will either be sharply reduced or possibly even fall to zero!) seem to be struck within the multilateral framework of negotiations, by governments that have clear objectives in their bargaining stance, that are willing to threaten unilateral action (with a clearly studied and broadly supported - within the government - option for such action), policy-making, as well as the broader deeply negative effects of capital flight on national economies, poses the question whether some greater degree of capital controls may not in fact be desirable for Latin American economies. Clearly such controls would be difficult to implement, particularly in Mexico, but such difficulties may outweigh the benefits of such measures.

The country in our Latin American sample which gets the worst result in terms of real net resource transfer is Venezuela. This is to an important extent due to the fact that, as Alvarez describes, between 1974 and 1983 the external debt did not basically fund trade deficits, as in most other Latin American countries, but its end use was the export of private assets abroad. Indeed, according to the estimates provided by Alvarez (see Table 3), the total increase in the foreign debt between 1974 and 1983, of US$33b, corresponded exactly with the estimated increase in private assets; most of this accumulation of private assets occurred in the 1979-83 period, when the bolivar was overvalued and per capita GDP systematically declined. The lack of profitable domestic opportunities, related to economic decline, and particularly fears of devaluation, provided incentives for capital flight, a process which was eased by lack of any capital control. As the level of total foreign debt declined since 1983, the flight of capital has continued, though at lower levels than in the 1979-83 period.

The magnitude of the capital flight from Venezuela during 1982-85 is estimated to have been so large that on fairly conservative estimates, it represented around 75% of the total negative net transfers (of around 10% of GDP) from the country during that period[13]. If such figures are correct, then "only" 2.5% of Venezuelan GDP was transferred abroad during 1982-85, as a result of larger debt servicing than new inflows of capital. Though this sum is still very high it is more comparable to that of the rest of the large Latin American debtors (see Table 2). The key issue, in an effort to stem negative net transfers from Venezuela, thus seems to be the definition of an alternative economic policy and development strategy to that pursued in recent years, such that will stem the but that permanently continue a conciliatory dialogue with creditor governments and international institutions. Because international financial markets are so influenced by perceptions, respect for formalities (such as keeping key actors informed of changing developments, using friendly and conciliatory language, expressing the wish to reach agreement, as well as willingness to service the debt in the long-term even when short-term unilateral action is being presented an an option) is of great importance. In that sense, the radical rhetoric used by the Garcia Peruvian government in criticising its bank creditors and the IMF (though explained by domestic political reasons and pressures) was in some ways more damaging to Peru's relations with some of its creditors and lenders (such as the Inter-American Development Bank and the World Bank) than the unilateral action itself taken by the Garcia government; this is particularly because the previous Peruvian government (under President Belaunde) had in fact been during its last year servicing less of its foreign debt than the Garcia government has!

Even though the 1986/87 financial Mexican package was so favourable, it had not enabled, at least till mid-1987, economic growth. This is particularly surprising, as Mexican foreign exchange reserves reached in mid-1987 their highest historical level, reflecting that, at least temporarily, foreign exchange scarcity was not the main constraint to growth. Slow growth was only partly due to the constraints placed on economic policy by IMF performance criteria. Additional constraints on economic policy making arose partly from the government's need to pursue policies that avoid flight of private capital (and as far as possible encourage return of capital already fled). This leads to policy objectives such as very high real interest rates, necessary to avoid capital flight, but clearly counter-productive to private productive investment growth(12). Thus, as pointed out above, in economies very open in their capital flows, with a very internationalised entrepreneurial class, there are additional (domestic) constraints imposed on government policy - to those coming from the policy conditionality attached to IMF or World Bank lending, and to the broader constraints on growth posed by limited availability of foreign exchange and of domestic savings. The problematic effects of this additional restriction on economic very large capital flight from the country. A second important issue is that Venezuela has during 1982-86 not obtained significant new credits from the private banks, and has not only serviced interest, but also amortised some capital, thus reducing the level of its total foreign debt. At a time when foreign exchange is becoming an important constraint to growth in Venezuela, the need for a more favourable agreement between the government and its creditor banks seems to acquire greater urgency.

There are at least two other Latin American countries where the issue of capital flight was in the early eighties (and potentially may again become) as important as the types of deals reached with foreign creditors, in influencing the level of total financial net transfers. As discussed above, one of them is Mexico; the other is Argentina. As can be seen in Table 4, between 1982 and 1985, capital flight is estimated to have represented 49% of negative net transfers for Mexico, 67% for Argentina and 75% for Venezuela. Increased capital flight since 1980 in those three countries both contributed to cause and was accelerated by the debt crisis. A more fundamental solution to the debt crisis than has been found till now could potentially contribute also to limiting capital flight, if it contributed to restore growth and confidence, while reducing uncertainty. However, the issue of controlling capital flight must also be given importance per se; in particular, the possible need - at this stage of their development - for greater government controls on capital flows requires further exploring, given the excessive "internationalisation" of the process of financial intermediation in some Latin American countries, and the relatively smaller size of capital flight in countries (such as Brazil) where more capital controls have always existed.

Table 4

Capital flight flows, from selected Latin American countries

	Capital flight 1982-85, US$ of each year (a)	Capital Flight as % of negative net transfers 1982-85 (b)
Venezuela	17.0	75%
Mexico	23.3	49%
Argentina	9.9	67%

Source: (a) Conesa, op. cit. in (12)
(b) Net transfers figures based on CEPAL, Balance Preliminar de la Economia Latinomericana, Dec. 1986.

Returning to the subject of conditionality, it is noteworthy that the Venezuelan government, has been able to resist signing an agreement with the IMF, which allowed it somewhat greater autonomy in its economic policies; however, as Alvarez points out, the adjustment policies adopted by the Venezuelan government were in several aspects as (if not more) contractionary and orthodox as those recommended by the IMF. The form of monitoring adopted, via Economic Memoranda prepared by the Government and by bi-annual Article IV consultations, was however fairly innovative. The ability to systematically resist an agreement with the IMF as a condition for rescheduling is partly related to the fact that Venezuela has had very large foreign exchange reserves, continued to serve the interest on its public and publicly guaranteed foreign debt, and merely requested a rescheduling of most amortisation payments, without requesting any new money from the private banks, as part of the package negotiated. The Venezuelan government did not request "involuntary" new lending from the private banks; furthermore, it has even made fairly substantial amortisation payments (see chapter by Alvarez).

The Garcia government in Peru has tackled the trade-off between financial deal and policy conditionality in a different way from that of other Latin American debtors; since 1985, it has both taken unilateral action on debt and has embarked on its own adjustment programme, openly rejecting IMF conditionality and even suspending repayments on previous IMF loans (see chapter by Ugarteche). At least at the time of writing (mid 1987), the results of these actions have been positive both in terms of the financial deal on net transfer (see Tables 2 and 3), in its effect on the country's growth record in 1986 and early 1987, as well as in the extent to which economic policy has favoured or protected more the poor and the vulnerable(14).

Indeed, partly as a result of Peru's unilateral action of limiting payments on debt which released some foreign exchange, the Peruvian economy in 1986 was the fastest growing in Latin America. However, the fact that debt payments were limited, has by no means eliminated the constraints for economic growth. Thus, in mid 1987, very rapid growth plus weak prices of Peru's exports, and policy mistakes, such as overvaluation of the exchange rate, are leading to accelerating inflation, and - even more problematically - to rapidly declining foreign exchange reserves. Though unilateral action limiting debt service payments has freed foreign exchange resources allowing for higher growth in the Peruvian economy, it has not by itself laid the base for sustained growth.

Unless growing macroeconomic imbalances are revised in time, there is a risk that in Peru, the heterodox or alternative (to the IMF) economic policy package will run into severe problems. The failure of heterodox macroeconomic management in Peru would follow on from the failure of the unorthodox, anti-inflation plan Cruzado in Brazil (described in Carneiro's chapter); it is often the inability of developing country governments to design, negotiate domestically and implement technically coherent and politically viable heterodox macroeconomic packages, which forces these governments ultimately to go to the IMF. Clearly in the Peruvian case the political pressures on the governments are great; given sharp declines in previous years of income of the more vulnerable groups and the pressure from the extremist Sendero Luminoso, the government finds it politically difficult to control real wages and its own social expenditure; on the other hand, unless real wages and social expenditure are controlled, a growing and eventually unsustainable macroeconomic disequilibrium will develop, which may threaten much of the progress achieved both in terms of economic growth and income distribution.

From the point of view of international financial flows, the Peruvian experience has shown that after two years of unilateral action no legal response has come from the creditor banks to confiscate assets or other drastic measures; the only "cost" of the unilateral action, as regards creditor banks, has been their curtailment of short-term credit lines. It could be argued that the Peruvian case is exceptional, as it is not a "major" debtor (though it is a medium one) and due to the fact that Peru has become a sort of "basket case", given its more or less widely recognised inability to pay. However, it should also be stressed, in this context, that the creditor banks' response to the Brazilian unilateral action in 1987 of suspending interest payments, has been equally - if not more - low key. As a consequence, there seems to be growing - though obviously not conclusive - evidence that creditor banks will tend to respond to unilateral action defensively, by curtailing short-term credit lines, but not aggressively, e.g., by legal actions. Naturally, the risk of legal action or of curtailment of intra bank lines is always present, even though existing experience seems to indicate it as unlikely.

On the other hand, the Peruvian government's suspension of payments to the IMF (and its failed attempts to reschedule payments to that institution) has had negative effects. Suspension of payments to the IMF, as well as Garcia's harsh critique of the Fund, seems to have seriously inhibited new credits from the World Bank and the Inter-American Development Bank, with negative effects on the Peruvian economy.

It seems noteworthy that successful resistance to accept IMF conditionality has been more widespread (Brazil since 1985, as well as Venezuela and Peru) and began far earlier, than unilateral action on the debt front in Latin America. This is particularly clear in the evolution of the Brazilian government's position, which since

1985, adopted its own macroeconomic programme, without IMF supervision, but continued to service the debt till February 1987, when it adopted unilateral action.

The fact that the Brazilian government did not reach an agreement with the IMF in 1985 and 1986 implied costs, such as the fact that its financial deals with the banks were less attractive, e.g., as relates to level of "spreads" than say those of Mexico, and more importantly implied a lack of new credits from private banks. However, the freedom to define its own macroeconomic policy, allowed the Brazilian government to pursue growth oriented policies. As can be seen in Table 5, during the 1985-86 period, per capita GDP growth in Brazil (at 5.8%) was by far the highest in Latin America, and well exceeded the Latin American average (at only 0.8% during the two years). Two very important caveats should however be made here. Firstly, sustained growth in Brazil in the mid-1980s was made more feasible than in other Latin American (or indeed African) countries, due to the structural adjustment investment in tradeables and capital goods so effectively carried out by the Brazilian government in the 1970s (see chapter by Carneiro, for a clear discussion). Secondly, even though the Brazilian government launched an innovative and unorthodox macroeconomic stabilisation programme to curtail inflation (the Plan Cruzado), policy mistakes in the Plan's implementation - such as excessive monetary expansion, excessive real wage increases, insufficient corrections to public enterprise prices - implied that severe financial disequilibria emerged, leading both to extremely high levels of inflation and to a dramatic reduction in the balance of payments trade surplus(15). Though impressive, the levels of growth reached in certain sectors were clearly unsustainable; this was particularly so in the industrial sector, where total production grew by 34% between March and October 1986, with non-durable consumer goods production growing by 43% in the same seven months!

Table 5

Latin America: evolution of GDP per capita

	1981	1982	1983	1984	1985	1986	Accumulated variation 1981-1986
Latin America (excluding Cuba)	-1.9	- 3.7	- 4.7	0.9	0.4	1.2	- 7.6
Brazil	-4.2	- 0.8	- 4.8	2.6	5.9	5.7	4.0
Costa Rica	-5.0	- 9.7	0.0	5.1	-1.7	0.4	-11.0
Chile	3.5	-14.5	- 2.2	4.3	0.7	3.2	- 6.2
Mexico	5.4	- 2.6	- 7.6	0.9	0.1	-6.3	-10.4
Peru	1.3	- 2.5	-14.2	1.2	-1.0	5.9	10.1
Venezuela	-3.9	- 4.1	- 8.2	-3.7	-3.2	-1.0	-21.9

Source: CEPAL, Balance preliminar de la economia latinoamericana, 1986.

Again, as in the Peruvian case, there are political explanations for the design of excessively expansionary macroeconomic policies. It is clearly difficult to have consistent economic policies in a context of democratisation, with serious institutional tensions, with some doubts over the legitimacy of the President himself, and with crucial elections in November 1986. In this context, the initial success of the Cruzado plan, and the immense popular support that the governing party and the President gained as a result, were incorrectly accepted by the government as evidence that essential measures of demand control and adjustment of relative prices was unnecessary. The government won the election, but lost the fight against inflation!

The subordination of economic policy to short-term political objectives, so frequent in Latin America, led inevitably in Brazil to unsustainable financial disequilibria, and to the failure of the unorthodox package. The failure of an unorthodox package clearly reinforces the attractiveness of more conventional packages, and the perceived desirability (within and outside the country) of reaching an agreement on stabilisation with the IMF, which implies exactly the opposite result to that desired by the authors of unorthodox macroeconomic packages. An important, though by no means new, lesson is that if unorthodox stabilisation is to be successfully implemented, it requires not just a coherent and viable technical package but above all, political consensus on the important of supporting such a package.

As a result of declining trade surpluses, and foreign exchange reserves, in February 1987, the Brazilian government declared a unilateral moratoria on all interest payments of its debt to private banks. Whatever its limitations, the unilateral moratoria implied an important step, which clearly marked the beginning of a new stage in debt crisis management. It showed that the largest LDC bank debtor of all, Brazil, when confronted between a choice of restricting growth or unilaterally limited debt servicing chose the latter path. Even though Brazil's unilateral action may well prove to be temporary, it would seem to have posed a far deeper challenge to the multilaterally agreed package framework prevalent since 1982, than for example, Peru's unilateral action since 1985.

There were several problems with the Brazilian moratoria. The declaration of unilateral cessation of interest payments was not part of a clear strategy, but a response to the rapid deterioration in the trade surplus and foreign exchange reserves. In this respect, the timing was very poor; the Brazilian government declared a moratorium at a time of rapidly increasing inflation and declining foreign exchange reserves, indeed, at a time when its unorthodox stabilisation plan was widely seen to be failing and no alternative macroeconomic package had been designed. From the point of view of bargaining power, the Brazilian government's position would have been far stronger if it had taken such action the previous year, when foreign exchange reserves were high, the Cruzado Plan was seen as very successful, etc. (It should however be recognised that a moratorium is easier to justify on a "can't pay, won't pay" argument, which Brazil was far more able to use in early 1987 than it would have been able to in 1986). Secondly, the Brazilian government did not for several months, make explicit its objectives in negotiations with the banks on key aspects such as interest capping, amount of new money required, etc; thus, the Brazilian government did not present a concrete alternative proposal on how the debt problem should be managed, which could serve as a base for negotiation of a new type of deal. Given the seriousness of the action involved, it was also surprising that the Brazilian government expressed from the beginning that it would <u>not</u> request any concessionality, either of interest relief or debt relief. Unless major innovations are introduced into the agreement that apparently will be reached with creditor banks, the value of the Brazilian unilateral action could be depreciated by the lack of significant improvement or innovation.

In any case, the Brazilian moratoria has had two beneficial effects on Latin American economies, by mid-1987. Firstly, it has provided Brazil with some breathing space in the first half of 1987, allowing for higher growth than would have otherwise been possible. Secondly, other Latin American governments - such as the Mexican, Argentinian, and Chilean ones - found it far easier to finalise their rescheduling/new money deals more rapidly and somewhat more successfully, due to the wish of bankers to avoid any risk that Brazil's precedent should spread to other fairly large debtors. As Tussie points out very clearly in her paper, the offer of special "sweeteners" to governments so they do not pursue unilateral action, when such action is taken by another government, also has occurred on previous occasions.

At the time of writing (mid-1987), there seems to be increased agreement within debtor governments that the 1986/87 Mexican deal, successful as it was on its own terms, will in this round - unlike in previous ones - not provide a blueprint for other deals. The difficulty, even for Mexico to receive new money (see paper by Gurria) will be very clearly compounded more for other debtors with less geo-political clout and smaller debts. In this context, the need for a new "formula" to handle the debt overhang seems increasingly urgent. The outcome of Brazil's negotiations with creditor banks and industrial governments is thus crucially important not only for Brazil itself, but also for the future evolution of the management of the debt problem in the rest of Latin America.

b) The hidden agendas

In our workshops, evidence has emerged that in the multilateral negotiations on debt, new lending and adjustment, there were some hidden agendas, often not made explicit in the official documents. As could be expected, political matters and bilateral economic issues, particularly those of interest to the US government, were high on those agendas in negotiations with Latin American countries. For example, several Central American countries (particularly those not included in our sample) have benefitted from more lenient economic conditionality, but have had to accept political and even military conditions. Cross conditionality thus has far more than an economic dimension! Though disturbing, the use of economic leverage by major powers to achieve political objectives is a common feature throughout history.

At an economic level, issues such as countries' position on the new GATT round have been made part of the negotiation on debt rescheduling and new money; for example, a senior US Treasury official openly told the Argentinian press before the Uruguay meeting in the GATT that the Argentine government would not get new credits if it continued to oppose the US GATT position. It would seem that debtor governments have not used sufficiently strongly other agendas (such as access to their own markets, better concessions to foreign investment) in their bargaining on financial flows. It is however, interesting to point out that on several occasions these hidden agendas were successfully resisted by the Latin America debtors; for example, in one case, the reduction of tariffs posed as a condition of a structural adjustment package was not only negative for the particular country's industry, but also threatened to undermine an existing regional common market agreement; the maximum political authority of that country resisted this condition, and the potential danger to the regional common market agreement was lifted.

As regards agreements with the IMF, often some of the key conditions for approval of a package are not made explicit in the official documents exchanged. This is clearly illustrated by the Brazilian experience, where the importance attached by the IMF to de-indexation of wages is not made explicit in the official documents, but can be clearly deduced from the timing of suspension and renewal of disbursements of IMF credit (see paper by Carneiro).

Another area insufficiently studied till the present, where to some extent, there has been a hidden agenda, has been the rescheduling of private non-guaranteed external debt, which has been carried out in a fundamentally different way in the different countries we have analysed. The problem is quantitatively, as well as qualitatively important, as due to both large conversions from private to public debt by several Latin American countries, and the fact that new disbursements of private debt fall below principal repayments, a significant overall fall in private non-guaranteed debt occurred, from US$110 billion to US$99 billion, in 1985 alone[16].

The most extreme case has been that of Chile, where initially most (around 65%) of the external debt was originally private, <u>without government guarantee</u> (a fact on which the government had expressed pride, given its belief in the great efficiency of private indebtedness). In this context, it was paradoxical that - when the debt crisis came - <u>the Chilean government ex-post acted as borrower of last resort</u>; this is in sharp contrast with the attitude of industrial creditor governments, who have consistently refused to grant ex-post lender of last resort facilities to the credits held in LDCs by their private banks. Not only did the Chilean government itself conduct negotiations on debt, a majority of which it had not borrowed or guaranteed; it went further, in giving ex-post government guarantee to an important part of the private debt ,that of the private financial sector. The granting of the ex-post government guarantee can be partly explained (even though not justified) by the fact that it was the private financial sector whose debts were being bailed out, and that bankruptcy or serious financial distress in an important part of the banking sector would have had potentially very disruptive macroeconomic effects. Furthermore in those cases where it did not grant ex-post guarantee, the Chilean government gave different types of subsidies (including a preferential exchange rate) to the private sector, so as to enable it to service its debt; Ffrench-Davis estimates the total cost of this subsidy as reaching roughly one fifth of one year's GDP!.

As Ffrench-Davis points out, the major concession of ex-post public guarantees and massive subsidies on the private debt were granted by the Chilean government without this being explicitly used as a bargaining chip to obtain at least some compensatory concessions from the creditor side.

In none of the other countries studied, were ex-post explicit public guarantees granted on private debts. Interestingly. Alvarez reports that in the Venezuelan case, creditor banks did not even demand ex-post government guarantee for private debt; however, the creditor banks did exert pressure on the Venezuelan government to grant a preferential exchange rate for private debt servicing, and <u>linked explicitly</u> the granting of this concession on the private debt to their willingness to reschedule the public debt. Similarly as in the case of Chile, Alvarez feels that the government of Venezuela should have used far more the important concession granted to creditor banks of subsidising servicing of private debt, to obtain far better terms on debt rescheduling or new money. The amount of the subsidy granted by the Venezuelan government has been fairly substantial. For example, between March 1984 and December 1986, servicing of the private debt was carried out at the preferential exchange rate of Bs.4.30, while most other transactions (except those of essential imports) were made either at the Bs.6.00 exchange rate or at the Bs7.50 exchange rate, thus implying a massive subsidy.

Other countries gave less favourable treatment to the servicing of its private debt. Perhaps the most complete and interesting scheme was that developed by the Mexican government, which established through FICORCA a system that neither granted official ex-post commercial government guarantee on the private debt, nor gave an explicit exchange rate subsidy (for details, see Gurria's paper). An implicit subsidy may have arisen in periods when, for other economic policy reasons (such as an attempt to control inflation), devaluation have been retarded; however, the magnitude of the implicit subsidy granted seems clearly well below that granted by either the Venezuelan or the Chilean government.

Within the framework of multilateral negotiations, the Mexican government seems to have negotiated relatively best on better financial terms (first country to get multi-year arrangement, relatively low spreads, long grace and maturity period and abundant new money in the 1986/87 package) and important degrees of flexibility and heterodoxy in its adjustment package (e.g., growth clause; acceptance of the operational deficit concept). Similarly, the mechanism it has agreed for the private debt has been the least burdensome for the national Treasury, amongst the cases analysed here. The Venezuelan financial package has clearly been less favourable than that obtained by Mexico, particularly as it has implied no new money. Similarly the Venezuelan government granted large subsidies to the private sector for its servicing of the foreign debt. The most damaging treatment of the private debt (from the point of view of the national interest) has been that accepted by the Chilean government, which both granted ex-post guarantee for an important part of the debt and gave large subsidies for its servicing in the rest of it. The Chilean government's weak bargaining in this aspect coincides with its very weak bargaining on the nature and timing of adjustment. The Chilean government has (as discussed above) obtained slightly better results (or less bad ones) in net transfers between 1982 and 1986, possibly because it has been so willing to make concessions both on the adjustment and treatment of the private debt.

IV. A new framework

Recent Trends

Though important differences exist between debtor nations in the deals on debt, new flows and adjustment between 1982 and 1986, the overall picture is clearly one of continuous negative net transfers from most Latin American nations, insufficient positive net transfers for low-income Africa, and excessive foreign conditionality on policy-making in both regions.

As regards the evolution for Latin America, net negative transfers have declined somewhat in 1986, from their peak of US$32.9 billion in 1985 to US$22.1 billion in 1986;the 1986 outcome, though still extremely unsatisfactory, is the least bad of the 1983-86 period. The relative improvement is half due to reduced nominal interest payments (though real interest payments remained high as export prices fell sharply, by over 12% in 1986!) and half due to a small recovery of new net capital flows to Latin America, basically explained by larger new official flows. It can be expected that probably in 1987 negative net transfers will diminish further, as Mexico's new package starts operating and implies a fairly large inflow of new loans, and as Brazil's unilateral stance will have implied a significant reduction in that countries' massive interest payments. It should be stressed that such a reduction in 1987 of negative net transfers to an important extent would result from very tough bargaining (within the multilateral framework) by the Mexican government in 1986 and from explicit, even though possibly temporary, unilateral action by the Brazilian government in early 1987.

Even somewhat reduced negative net transfers for the next 5 or 10 years, from debtor countries, are clearly unacceptable. Particularly in the context of major changes and the poor prospects in the international environment to which these countries' economies continually have to adjust, developing countries require high levels of productive and social investment to grow and develop. The chapter by Villareal clearly shows, for the Mexican case, how the imperative of growth and structural adjustment requires levels of investment that can only be achieved if negative net transfers are eliminated and preferably if there is a net inflow of foreign savings from abroad. A similar case is valid for our other case studies. It should be stressed that a reduction or elimination of negative net transfers to creditor banks and institutions will only free domestic resources potentially for domestic investment. However, appropriate policies need to be implemented so as to assure that increased availability of national savings effectively is used in ways that enhance future growth and development. A better "formula" for dealing with the debt overhang is clearly a necessary but not a sufficient condition for recovery of development.

Debtor governments' allies

In their search for a new and more appropriate framework for handling international financial flows from and to them, developing countries may have far more potential allies within industrial countries than they realise. Exporters to indebted developing countries, and foreign investors in them, are perhaps most obvious. There is growing awareness in the US, and increasingly also in Europe, of the large export and job losses that industrial countries have suffered as a result of debt crises in Latin America and Africa.Indeed, alternative "formulae" for managing the debt problem are increasingly in the US evaluated in terms of the increased level of US exports and jobs which they would generate[17]. Producers of goods in industrial countries (e.g. agricultural ones) whose prices are depressed by rapidly increased export volumes from debtor nations may also support measures that reduce negative net transfers and thus the pressure on debtor countries to increase export volumes.

Those politicians in industrial nations concerned with political stability in developing countries are also sympathetic to new approaches on the debt issue[18].

Perhaps less well known is the fact that many bankers themselves are suffering from "debt rescheduling fatigue", in a similar, though less painful way, to the "adjustment fatigue", being suffered by debtor countries, and particularly the poorest and most vulnerable groups in those societies. Such bankers are anxious to overcome the problems of the debt overhang, so as to focus their attention on voluntary new lending or new issuing of securities, either in developing countries <u>or far more probably, elsewhere</u>. As pointed out above, many categories of banks have already established large loan-loss provisions on their developing country debt and therefore can afford to make concessions, without damaging either their stability or solvency.

Perhaps the clearest recognition that a chapter of debt crisis management was closing in May 1987 came from Mr. John Reed, the chairman of Citicorp, the bank with the highest exposure in Latin America, when he explicitly recognised that "the debt problem will be with us into the 1990s and we see nothing in the global economy that would enable these countries to get out of this situation...The global economy is less solvent today than when the present approach was devised in 1982"(19).

There is even more "fatigue" by bankers for "involuntary new lending", as is reflected in the figures of declining <u>levels</u> of bank exposure to all areas of the developing world during the first nine months of 1986! This is partly related to the fact that, as John Reed clearly pointed out, world trade volumes and particularly commodity prices have been disappointingly low since 1985. However the unwillingness of banks to make further new lending (either "voluntary" or "involuntary" to heavily indebted developing countries) has even deeper causes. It is conventional wisdom that private banks consider a ratio of around <u>200%</u> between total external debt and value of total exports, as a maximum over which they do not wish to increase their exposure; however, that ratio reached <u>401%</u> for Latin America in 1986; it had been systematically <u>rising since 1982</u>(20). It is unlikely on these grounds, that there will be significant new bank lending, especially of a voluntary nature, for at least five or ten years more. The problems caused to all involved by the debt crisis will deter even further for many years the willingness of banks to renew significant new flows. The myth that in the short-term, successful adjustment will restore major new private flows is being increasingly disbelieved.

The realisation that there will be not significant new lending from banks leads perceptive observers to the inevitable conclusion that new approaches are needed. A distinguished analyst of the international financial system, John Williamson, concluded in early 1987 that "in 1985, Fred Bergsten, William Cline and myself had concluded in a study that the best approach was to maintain a flow of concerted new lending packages, but that if that process broke down, it would be necessary to resort to interest capitalisation. Recent events suggest that the time has come to examine what we then conceived as no more than a contingency plan"(21)

The need for specific proposals

A key conclusion from our project is that debtor governments have achieved better results when they have taken the initiative and put forward clear, specific proposals to the creditors. Though not always all their suggestions have been accepted, a clear initial position by the debtor governments can serve as a basis for the package to be adopted. The Mexican deal signed in 1986/7 seems to illustrate this rather well. On the other hand, the Argentine position in 1984, in which a tough stance vis-a-vis creditors was hinted at, but no clear proposals emerged, did not contribute to obtaining an improved deal.

A limitation of the Mexican negotiation in 1986 may have been the complexity of the financial package proposed, even though net financial flows required for the next two or three years were clearly put forward, (see paper by Gurria). The package had many interesting and creative innovative elements (e.g., use of exit bonds, linking payments to the relationship between the price of oil and interest rates, etc); however, in a sense the package contained too many innovative elements at the same time to be easily implemented and, above all, to be acceptable to the banks. The pressure of time to reach an agreement gave bankers an additional (partly legitimate) reason to turn down the Mexican proposal. The package adopted implied a major improvement in the financial deal and incorporated some but not the main new concepts supported by the Mexican authorities.

It would seem best to make proposals, or at least monitor developments, in terms of the variable that affects most centrally debtor developing countries, that is net transfer of resources. A drastic reduction or elimination of negative net transfers, for middle income debtors, at least till the end of the eighties, may seem radical in the present context, but in terms of economic development theory or international justice, is a fairly modest target. An elimination of negative net transfers would free an important amount of resources to allow for restructuring of middle income debtor economies, to make feasible their development in the nineties, as well as to start servicing their domestic "social debt", incurred with the poorer and more vulnerable groups during the years of "adjustment without growth". An additional secondary objective would be that the level of total foreign debt in relation to the volume of exports should not continue to rise, as this only postpones the problem into the future.

Of importance in the case of middle-income heavily indebted countries is the proposal of reduction in interest rate payments to a certain level (e.g. 5 or 6%), the excess of which would only be repaid if and when interest payments fell below that level during the period of the loan. The difference between the "market rate" and the fixed rate would be financed by an interest compensatory fund. In November 1986, a concrete proposal along these lines was made by Mr. A. Herrhausen, Speaker of the Management Board of the largest German bank, Deutsche Bank; the idea has received an important amount of support in European circles. One of the proposal's interesting features (increasingly relevant after May 1987) is that part of the "subsidy" would be funded by private banks, drawing on loan-loss provisions they have accumulated.

Another area where specific proposals are important is that of principal payments. Till now the main way of reducing amortisation payments has been via rescheduling, which postpones the problem to the future (in the case of the 1986/7 Mexican deal, the postponement has been significant). However, the market value of the debt is increasingly recognised to be below its face value, as is reflected in the rapidly growing (though rather thin) secondary market and in increasingly widespread loan loss provisions. It seems absurd that if the market and most of the creditor banks have recognised explicitly that the book value is unrealistic, debtor governments and economies are still obliged to service the debt as if it was worth 100% of this value. To allow the value of the debt being serviced to reflect closer market realities, a number of options can be pursued. Amongst these, debt equity swaps are already being implemented in a number of countries; the 1987 Argentine package also includes exit bonds used by banks wanting to withdraw from the process of rescheduling/new money, albeit at a loss. A third variety has been suggested, but not yet implemented; these would be so-called "debt development" swaps. In that case, part of the debt or debt service would be converted into investment/expenditure in the domestic economy for high priority activities, such as exports, import substitution or social expenditure, under the monitoring of an international organisation, such as the World Bank, the corresponding regional development bank, or another specialised agency(22).

In the Latin American context, the Inter-American Development Bank President, Sr. Ortiz Mena has launched an interesting proposal which implies a debt/development swap. Part of the interest on foreign debt incurred would be deposited in local currency by the debtor government in an escrow account, administered by the IDB. The funds would be used for productive expenditure within the country, monitored by the IDB. In the context of low-income countries, mostly but not only in Sub-Saharan Africa, UNICEF is launching a somewhat similar proposal, which would imply that part of debt or interest relief would be placed in a national child survival fund. This fund would be used for additional expenditure, in nutrition, health and education for poor children; the programme would be jointly designed, implemented and monitored by the government and UNICEF, as well as another multilateral organisation, such as the World Bank.

Such innovations may require changes in banking and taxation regulations in some or all creditor countries, that would smooth (over the years) and make less costly to creditor banks the partial writing down and writing off of debt, and/or some sort of interest relief. Such institutional changes are already beginning to be discussed in the US Congress at the time of writing; institutional changes are actually being carried out in Japan that would make such measures possible. Existing regulations have become too major an obstacle to innovative solutions to the debt crisis; it has often been almost forgotten that regulations are only man made and can be modified if they do not suit current needs!

As regards new credits, it seems important for debtor governments to focus more on negotiations with governments, institutions and private agents, both willing and able to provide significant new flows. In this sense, far less time should be perhaps spent than at present in negotiations with the US government and banks, <u>while</u> the US economy is itself in such a large current account deficit, and particularly while US financial intermediaries are far less able as well as less willing to provide significant new flows to most developing countries than they were in the seventies. Far greater emphasis, both nationally and collectively needs to be made by debtor governments, to attract flows from the Japanese and West German governments, as well as private institutions. Of great interest in this context is the May 1987 proposal (made by Wider)(23) that Japan contributes - via different mechanisms and institutions - US$25 billion a year to the financing of developing countries. The Japanese government has already begun to sharply increase its flows to developing countries, particularly heavily indebted ones. Again in this sense the 1986

Mexican financial package was interesting, as it incorporated a major new (US$1bn) loan from Japan.

The focus of dialogue for the creation of appropriate financial mechanisms, and possibly on policy conditions, needs to change somewhat from the traditionally large supplier of new funds - US government and institutions - to the real and potential providers of new funds, the Japanese and to a lesser extent, the West German ones. Though clearly the US government and banks will continue to play an important role in financial negotiations in Latin America, due to US importance in geo-political and trade terms, as well as due to the level of its existing financial exposure, there should be an increased shift to bargaining more with the providers of new funds. To some extent, this will mean a new additional source of economic dependence for debtor nations; however, it also implies a diversification of dependency, and a diminishment of its political dimension, given that Japan is an economic but not political superpower.

A third area for concrete proposals is that of contingency arrangements for financial flows, in case of fluctuations in international economic variables, such as the price of countries' main export products. In this sense, new ground has already been broken by the packages described above by Alvarez, for the case of Venezuela and by Gurria, for the case of Mexico. Given the high level of instability in key internationally determined variables, the need for contingency clauses in any long-term debt management becomes increasingly important, for all debtor nations.

As regards low-income countries, the case for officially granted debt relief is very strong, and increasingly accepted; debt relief for those countries also has precedent, in the Retrospective Terms Adjustment, granted since 1978, by several industrial governments, which converted official development assistance loans into grants. As Green points out, much more could be done in that direction. At the time of writing, the UK and the French government had launched a very important initiative in this direction for Sub-Saharan Africa. An important principle to be established here is that negotiations on Sub-Saharan and more generally on low-income countries' debt have no direct linkage and establish no automatic precedents for other categories of debtors. Closer liaison than exists at present between representatives from African debtor governments and representatives of Latin American debtor governments is clearly required for this and other purposes.

The bargaining process

In the Latin American and African context alike, a key pre-condition for successful negotiation on debt/new money deals is the existence of clearly defined and appropriate development strategies as well as consistent short-term macro-economic programme. The existence of such plans clearly strengthens the case for extracting concessions/new flows from creditors, as these concessions/new flows can be more easily justified in the industrial country; the existence of development plans and targets also changes the focus of discussion from a purely financial one to the "real economy"; if a particular growth rate and income distribution is targetted, as well as certain minimum levels of government expenditure and investment required to achieve such targets, then the external financial flows required are dependent to a far more important extent on those national objectives.

Particularly in cases of governments not wishing to accept upper credit tranche conditionality from the IMF, it is essential that foreign creditors and lenders, as well as the citizens of the debtor country, see that the government has its own effective and consistent macro-economic programme, that will avoid major financial disequilibria. The lack of such a clear "alternative adjustment" package seems to have weakened the position of the Argentine government via-a-vis its creditors in 1984, and may also weaken the pursuit by the Brazilian government in mid 1987 of a far more favourable deal with its creditors. In the case of unilateral action, the need for prudent and careful macro-economic management, as well as a clear development strategy, becomes even more crucial than for multilaterally agreed deals; the task is made somewhat easier by the fact that unilateral action frees additional foreign exchange resources, but more difficult because a higher level of contingency foreign exchange reserves are required, in case unforeseen events generate pressure on the country's balance of payments. The Peruvian government seems to have initially successfully combined unilateral action on the debt front with a fairly clear development strategy and an initially relatively balanced macro-economic programme; however, increasing macroeconomic imbalances, reflected in rising inflation and declining foreign exchange reserves, pose a growing threat both to the government's long-term development strategy and its independence vis-a-vis its creditors - as well as international financial institutions.

A second element relates to the bargaining itself. The experience studied in this project seems to suggest that, even though unilateral action, by debtor governments is undesirable in itself for all actors involved (as it implies the risk of unquantifiable negative effects), either <u>such unilateral action or the threat of it, may be necessary for debtor governments to achieve financial deals that are consistent with growth and development in their economies</u>. It would seem that such tough bargaining positions, or even unilateral action is more effective if it has unified support of all branches and levels of the government and the active support of a large part of the countries' population, political parties, trade unions, etc. It is also more effective if the aims of the debtor government are clear, and if its position can be seen internationally as "reasonable" relating both to past costs of adjustment and future benefits to be derived from the path pursued or suggested. It is also very important to establish at all times that the position is <u>not confrontational</u>, and wishes to avoid harming the creditor institutions. There seems a clear need for debtor government negotiators to show "good will" in negotiations with creditor banks and governments, to maintain "channels of communication" open, to maintain formalities and use conciliatory language, not only when taking a very tough negotiating stance, but even when unilateral action is raised as a possibility or carried out. The successful effect of tough positions or actions and diplomatic behaviour is well illustrated, for example, by the Mexican experience in 1986/87.

Particularly, if some element of concessionality is being negotiated, it seems essential for the debtor government to show not only that: a) the resources freed are used in a developmental context, leading both to sustained economic growth and increased welfare of the population, b) a significant contribution is made by wealthy citizens of debtor countries toward funding development. The containment of capital flight, as well as an attempt to return capital already fled is a very crucial example, as would be increased taxation on high income groups, restrictions on luxury goods imports, etc.

A third important tactical element is to recognise that important differences exist in the interests, aims and regulatory environment of different creditors, particularly but not only private banks. These differences have tended till now to work against debtors in multilateral negotiations,as the relief or new money granted has tended to be "the lowest common denominator" acceptable to all creditor banks. For example, banks with large loan-loss provisions, e.g. some European ones, may be willing to write off or postpone some interest payments, but are not keen to lend new money, as this will imply they have immediately to increase their loan-loss provisions; on the other hand, the big US banks are more willing to lend new money, but are unwilling to give any concession or even postponement of interest payments, as this lowers the rating of the debt in their books. As a result, it is extremely difficult either to get new money or to get interest rate postponements or concessions.

If debtor governments that have negative net transfers were to fix a target acceptable to them in net transfers, they could then negotiate separately with different types of creditors, e.g. banks of different nationalities, on the concrete mechanisms through which this target of net transfers would be achieved. The deals would in this case be equitable amongst creditors, but different. As a result US regulations would not constrain German bank actions, nor would German regulations constrain US bank lending. At the time of writing, the Costa Rican government was embarked on an attempt to strike such a deal.

It seems that some creditors themselves favour such an approach, given its greater flexibility. However, it should be stressed that dealing with groups of creditors separately could become cumbersome. For this reason, the deals would need to be one-off deals, which would attempt to deal with the problem for an important length of time.

The final issue relates to the appropriate forum for negotiation of new flows and rescheduling. Clearly the steering committees and the IMF provide too narrow an outlook on the problem; the greater involvement of the World Bank, though adding an extra fairly heavy element of conditionality, has the positive element that its perspective is more on the long-term and on development issues. It is necessary that both in national and collective negotiations, financial matters are not left only to financial interests, but that broader interests, representing for example, productive and trading sectors in industrial countries and the poorer groups in developing countries (e.g. via their Industry and Labour Ministries or international institutions, such as UNICEF or ILO) are represented. It is crucial that these latter interests and concerns are represented <u>at the time</u> the major financial decisions are being made, and <u>not</u> as now, left to "pick up the pieces" of the productive or social cost of the adjustment, after the adjustment was designed by those with fundamentally financial criteria in mind.

1. This paper was prepared for the CEPR workshop on Economic aspects of international security held 20th November, 1987.

2. Managing Third World Debt, Report by the Second Working Party established by the All Party Parliamentary Group on Overseas Development, ODI, London 1987.

3 Salomon Brothers, "Less Developed Countries' Indebtedness: Secular Developments in US Banking are Defusing the Problem." Bank Weekly, January 20, 1987.

4. Holley, Developing Country Debt, the Role of the Commercial Banks, Chatham House, Paper 35, 1987.

5 Source: International Financing Review, FFIEC Statistical Release, E. 16 (126), Feb. 13, 1987.

6 For a recent review of different options for solution, see P. Wertman, "The International Debt Problem: Options for solution" in Hearings before the Sub-Committee on International Finance, Trade and Monetary Policy of the Committee on Banking, Finance and Urban Affairs, House of Representatives, Banking Committee Provisions of the Trade Bill, Washington, 1987.

7 These concerns are clearly reflected in the US Banking Committee Provisions of the Trade Bill quoted in (6) in the proposals of US Senator Bradley, Congressman Schumer and other US Congressman, as well as in the Report by the British All Party Parliamentary Working Party quoted in (2).

8 The proper use of deflator for debtor countries for similar variables is duscussed in detail and with rigour in C. Massad and R. Zahler, "World inflation and foreign debt for the creditor and the debtor", in Latin America: International Monetary System and External Financing, UNDP/ECLAC. Santiago de Chile, 1986. I would like to thank Adrian Wood for his useful comments on the issue of an appropriate deflator.

9. For an interesting discussion, see A. McEwan, "Es posible la moratoria en America Latina?", Comercio Exterior, Jan. 1987, vol. 37, no. 1, pp. 60-64; see also paper by C. Fortin, in this volume, for a more detailed discussion.

10 For a very articulate statement of this problem and an empirical review of the evidence, see G.A. Cornia, R. Jolly, and F. Stewart (eds), Adjustment with a Human Face: Protecting the Vulnerable and Promoting Growth, Oxford University Press, 1987. Increased concern has also been expressed by the World Bank and by the IMF, in their declarations and in their studies.

11. OECD Geographical Distribution of Financial Flows to Developing Countries, 1982/5 (Paris, 1987).

12 There is a very clear economic correlation between local real interest rates and capital flight in the Mexican case, though not in other Latin American countries. However, there is also high inverse correlation in Mexico between economic growth and capital flight;

thus, high real interest rates, on the one hand discourage capital flight, but to the other extent that they inhibit investment and GDP growth, they also encourage it. For an interesting econometric analysis, see E.R. Conesa, "The flight of capital from Latin America: causes and cures", paper presented to the Econometric Society, Universidad de Sao Paulo, Brazil, 4-7 August, 1987. Mimeo, Inter-American Development Bank.

13 The capital flight figures estimates used here are taken from Conesa, op. cit., in (12) and the net transfers are taken from CEPAL, see footnote Table 2.

14. For the latter, crucial point, see chapter on Peru by L. Figueroa, in (ed), A. Cornia, R. Jolly, F. Stewart, Adjustment with a Human Face, vol. II, Oxford University Press, 1987.

15 For a clear description of the Cruzado plan and its problems, see also Carneiro, D. "The Cruzado Experience", Mimeo, PUC, Rio de Janeiro, 1987.

16. Source: World Bank, "Introduction", World Debt Tables, 1986/7,Washington D.C.

17 See, for example, R.E. Feinberg, "The Debt Trade Equation", in US Congress Hearings, quoted in (6).

18 For a clear presentation, see for example, statement by Senator Bradley in the US Congress Hearings, quoted in (6).

19 Quoted in A. Kaletsky, "Banks face the facts at last", Financial Times, 21 May 1987.

20 Source, CEPAL, op. cit.

21 J. Williamson, "The Debt Crisis, the IMF and the US Trade Deficit", in US Congress Hearings, op. cit in (6).

22. This idea was developed first in Latin America, see, for example, O. Sunkel America Latina y la Crisis Economica Internacional, Grupo Editorial Latinomericano, Buenos Aires 1985, and R. Prebisch, "Statement to the US House of Representatives in July 1985" reproduced in CEPAL Review no. 27, Santiago de Chile, Dec. 1985. The idea has increasingly received support in industrial countries, particularly by the UK All Party Parliamentary Report in (2).

23. See Financial Times, 11th July 1987; for details, see WIDER, "Mobilising International Surpluses for World Development: a WIDER Plan for a Japanese Initiative". Study Group Series, May 1987, WIDER, Helsinki.