

*THE SOCIAL SECTORS AND TRADE IN
THE INTER-AMERICAN SYSTEM*

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L'auteur fait une analyse du domaine social et commercial dans le Système Interaméricain. Il distingue deux périodes, la première qui débute en 1960 avec la création de la BID afin de promouvoir le développement économique et social; et la deuxième qui commence avec la crise économique et sociale engendrée par le poids de la dette externe. Il termine en indiquant les diverses mesures de redressement qui ont dû être prises pour y remédier.

El autor analiza el sector social y comercial del Sistema Interamericano en dos diferentes periodos. El primero, que comienza en 1960 con la creación del BID, para promover el desarrollo socioeconómico de los países del hemisferio.

El segundo, de principios del 80, se caracterizó por la crisis de la deuda externa que sufren los países de América Latina, la que repercute negativamente en el sector social y afecta la integración latinoamericana.

I will apologize for switching to English but I have a colleague here who is listening to the translation of my Spanish and I think it is better, because he will comment on what I say, that he hears me in English.

I shall refer in my presentation to the Social Sectors and Trade in the Inter-American System which I will divide into two periods: the first starts with the creation of the Inter-American Development Bank, in December 1959, and concludes with a subject, which is not in the agenda, but is critical to understanding the trade and social sectors: the debt crisis of the 1980s. The second period is presently emerging from the shambles which have resulted from the debt crisis.

Let us start by analyzing the social sector during this period (1960-1980).

First, I will refer to the Inter-American Development Bank, whose establishment was the culmination of a succession of events

which transpired in the late 1950s but whose earlier origins may be traced to the First Pan-American Conference, of 1980, in Washington. However, in spite of the many problems that were made thereafter, the establishment of a multilateral Bank for the region was continually postponed as a result of continual difficulties in the relations between the United States and Latin American. This situation lasted until the end of the 1950s at which time a series of events suddenly led to a fundamental change in the United States policy. Among the precipitating factors of this change was the positive influence which Dr. Milton Eisenhower exercised over the President, his brother: the hostile reception given to Vice President Nixon during his official trip to Latin America; and, above all, the consolidation of power by Fidel Castro in Cuba. These and other events led President Juscelino Kubistchek of Brazil to put forth, in 1958, what is known as Operation Pan-America which listed the various economic and social changes that were needed and which required the attention and support of the United States. To examine the Brazilian proposal, the Organization of American States (OAS) established a special group of government representatives, the so-called Committee of 21, and, as a result of these meetings, the governments of the region, including the United States, adopted in 1960, the Charter of Bogota.

The Charter of Bogota reflected the hemispheric consensus reached on the measures that were needed to improve the economic and social condition of the peoples of the region. Special emphasis was given in its provisions to the importance of the recently created Inter-American Bank which immediately became the institutional instrument for accomplishing the social objectives of that Charter.

Reference must also be made to the situation which existed prior to the creation of the Bank in 1959. At that time, only two institutions provided external financing to the region: the World Bank and the Export-Bank of the United States. However, the main objectives of these two institutions were to finance infrastructure projects in the case of the former, and trade transactions or investments between the United States and other countries, in the

case of the latter. Moreover, the prevailing thinking of that period gave little consideration to the importance of the social sectors to economic development. Thus, prior to the creation of the IDB, there were no institutions available for financing social development and it is only after its creation that the countries start receiving external financing for this purpose. In addition, provisions were included in the Banks Charter for making loans on terms and conditions appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects. Basically, concessionary financing by means of long-term loans at reduced interest rates and long-grace periods which allowed repayment in local currencies has not been available to Latin America until this time. The establishment by the Bank of its Fund of Special Operations (FSO), thus, enabled the latter to provide concessionary loans to the financing of social projects.

As a symbol of what the Bank would do in the future, its first loan, in February 1961, was for the financing of a sewerage and potable water plant to improve the sanitary conditions of the inhabitants of Arequipa, Perú. Moreover, its second loan was also for financing potable water and sewerage facilities; this time, for the city of Medellín, in Colombia.

Shortly thereafter, in 1961, President Kennedy launched the Alliance for Progress and, for the fulfilment of its objectives, the United States Government created a Social Progress Trust Fund of \$550 million which was given in administration to the Bank. As a result, as administrator of this Trust-Fund, the Bank became responsible for financing the following social projects under the Alliance for Progress:

- (a) land settlement and improved land use, including access and feeder roads, assistance to agricultural credit institutions, assistance to supervised credit and agricultural extension, and development of storage and marketing facilities, provided that the resources of the Fund not be used for the purchase of agricultural land;

(b) housing for low income groups, through assistance to self-help housing and to institutions providing long-term housing finance and engaged in mobilizing domestic resources for this purpose;

(c) such supplementary financing of facilities for advanced education and training related to economic and social development as agreed upon from time to time between the United States and the Administrator.¹

Some years later, in 1966, an amendment to the Social Progress Trust Fund enabled the Bank to finance preinvestment technical cooperation in support of Latin American Integration and, in general, during the 1960s and 1970s, the role of the Bank in the social areas was very much linked to the fulfilment of the social objectives of the Alliance of Progress.

During this period, in order to qualify for financial assistance, the countries were subject to a performance review which was undertaken annually by CIAP (Consejo Interamericano para la Alianza para el Progreso), an institution established by the Alliance of Progress. CIAP operated in the OASD with representatives from the international financial institutions and under the chairmanship of an Executive Secretary and a small staff. In addition, representatives from the Latin American governments would come, at least once a year, to give country reports to the institutions represented in CIAP in order to obtain financing for the execution of their projects and programs. In other words, the different projects and programs executed under the Alliance for Progress were coordinated by CIAP with the participation of the international financial institutions, including the Inter-American Development Bank.

However, as a result of the scarcity of concessionary resources, the use of convertible currencies for financing social

¹Section 1.04 of the Social Progress Trust Fund Agreement of June 19, 1961.

projects in the member countries of the Bank began to suffer a number of restrictions.

First, in 1976, the four more developed countries of the region, Argentina, Mexico, Venezuela and Brazil voluntarily decided not to request financing in convertible currencies from the FSO. From then on, continued restrictions were introduced in the use of these resources which, first, consisted in concentrating their use to the financing of specific projects or programs or economic sectors. One such area of concentration were the rural and urban development programs, which were regarded as being in greater of concessionary funds. Thereafter, the restrictions were related to the development stage of the countries, so that the least developed would receive the largest amount of such resources. As of this writing, the convertible currencies of the FSO are allocated in accordance with a special scale of priorities. Under this system, the five least developed countries receive the largest amount or 55%, and the balance, or 45%, is allocated to the other five least developed countries of the region.

In 1983, as a result of the increasing scarcity of concessionary funds for social projects the Bank created the so-called Intermediate Financing Facility (IFF) which enabled eligible countries to receive ordinary capital loans and use the resources of this Facility to reduce the interest due on the respective loan. Thus, if the interest of the loan is of 8%, but the country qualifies under the IFF, the interest rate may be reduced to 3%. Hence, these resources have been used exclusively for subsidizing social projects in the least developed countries.

In addition to the FSO and IFF described above, the Bank established targets in terms of allocating a given percentage of its overall resources to benefit low-income groups. As of 1978, Bank policy required that 55% of its resources should benefit low-income groups. This applies even if the project is financed with the ordinary capital resources and is located in one of the most developed countries of the region. Pursuant to this requirement, a special methodology has been established for determining how to allocate the funds, how to channel them to low-income groups, and

how to insure that the established social objectives are effectively fulfilled. In accordance with the Banks 1989 report, low-income groups obtained 49% of the Banks loans which is comparable to the targets reached in previous years.

There are two other Bank programs for low income groups which must also be mentioned.

The first is the so-called Small projects Program and the other is the Micro-enterprise Program. The Small project Program was established in 1978 and provides financing and technical co-operation to low-income individuals who normally have no access to conventional forms of domestic or international financing. Until the operation of this program it was not possible for projects of % 500 000, or less, to obtain financing from international institutions. Now the Bank provides loans to low-income beneficiaries for up to the above amount through non-profit intermediaries such as producers associations, cooperatives or foundations which, in turn, make credits available to the final beneficiaries. Since its creation, in 1978, until 1990, the Bank had approved loans for a total of \$95.3 million under the Small Projects Program. Moreover, under this program, special assistance has been given to targeted groups such as women, youth and indigenous communities.

The Micro-enterprise Program was started in 1990 and is geared towards the informal sector of Latin America. As is well known, a lot of literature has been written on this subject, including the study, "The Other Path", of the Peruvian sociologist, Hernando de Soto. This program broadens the previous Small Project Program by reaching not only the producing but also the trade and service microenterprises in the urban and rural areas. The financing of trade and working capital is a significant innovation which allows the Bank to reach individuals which had had no access to the credit systems of their respective countries either because of lack of capital or of organization. Now the Bank makes global loans to qualified intermediary institutions which, then, recycle and relend the Bank loan to the final beneficiaries. An operation may, thus, reach as much as 50,000 beneficiaries whose credit needs, until very recently, had been ignored by the domestic and international financial

systems. In 1990, the Bank approved three microenterprise credit programs for Colombia, Ecuador and Uruguay, for a total of \$37,6 million which were accompanied by \$6 million in grant technical cooperation assistance.

Concerning the trade aspect we shall report that the Bank's early cooperation in favour of regional and subregional economic integration institutions and programs. In addition, in 1963, the Bank established an export financing program which remains in force until today; and, as indicated earlier, Social Progress trust Fund resources were allocated as of 1966 to finance preinvestment and technical cooperation in support of Latin American integration.

The beneficiaries of the Bank's technical cooperation trade programs have been the existing institutions of regional and subregional integration, including the Central American Bank of regional and subregional integration, including the Central American Bank of Economic Integration (CABEI), the Caribbean Development Bank (CDB), the Andean Development Corporation (in Spanish, CAF), the Latin American Free Trade Association (LAFTA) and, its successor, the Latin American Integration Association (LAIA), the Fondo Financiero para el desarrollo de la Cuenca de la Plata (FONPLATA), among many others. Further, in 1965, the Bank established in Buenos Aires, Argentina, as an integral part of its organization, the "Instituto para la Integración de América Latina" (INTAL) which, since that date, carries out economic, social, institutional and legal research and analysis to identify the instruments and mechanisms which contribute to the expansion and acceleration of the process of Latin American integration.

The Latin American Free Trade Association was established in 1961, and, thereafter, the Bank began a period of active promotion and support of the regional and subregional integration process. The Bank, however, abstained from directly financing short-time trade operations for which ample credit was available from the commercial banks.

Since its inception the Bank has financed specific integration projects or programs benefiting two or more countries. Thus,

during the 1960-1990 period, the Bank has provided resources for a total equivalent to \$2,9 billion to finance specific integration projects for a total cost of \$16 billion. These projects have been in the areas of transportation, infrastructure, communications and electric power and have been instrumental to the development of international trade within the region. Among such integration projects are the Andean highway which connects Mendoza, in Argentina, with Valparaíso, in the Pacific ocean, approved in 1970; the multipurpose hydroelectric project of Salto Grande in the river Uruguay which supplies energy to Uruguay and Argentina, approved in 1972; and, in 1978, the hydroelectric project of Yaciretá, in Paraguay, which provides electric power to Argentina and Paraguay. In addition, during the energy crisis, the Bank financed almost the entire hydroelectric and interconnecting power systems of the countries of Central America.

In terms of current projects significant to trade, the hydro-transport project in the River of Paraná is among the most ambitious to be financed by the Bank. It is in its early stages of analysis, and its estimated period of execution is of ten years. It will provide hydro-transportation and contribute to accelerate the economic development of the five countries of the Paraná basin, namely, Bolivia, Uruguay, Paraguay, Argentina and Brazil.

In the second period (1980-1990) the debt crises of the 80s was an earthquake which shook the region with profound negative consequences to development. I shall refer to its impact on the social sectors and on trade.

The crisis erupted in the early 80s and was a consequence of a number of decisions adopted in the previous decade which, as indicated, divided the regions development into two periods: prior and after the crisis.

In what refers to the social sector, we have that, in 1960, the population of Latin America was roughly of 20 million people, but in 1990 it had more than doubled, to 453 million. Moreover, in the 1960s, the region's population and that of the United States, were about the same; today, however, the population of the former is expected to double the latter in the next few years, which, by

itself, is a major social development with multiple consequences to the relations with the United States.

Another development which separates the two periods is that, in the 50s, roughly two-thirds of the population of Latin America was concentrated in the rural areas; today, however, the situation is the reverse and almost two-thirds live in the urban sectors. In addition, in the 1960s and 1970s the average GDP growth rate of the region was of roughly 6% per year. However, during the so-called "lost decade of the 80s", the annual growth rate was reduced to an average of roughly 1% of GDP per year and, in some years, to zero.

What remains a subject of concern is the on-going transfer of capital Latin America continues to make abroad. This negative transfer results from the high debt service payments and drastic fall in the prices of primary commodities. Thus, the balance between the capital inflows entering the region from foreign capital and loan investments and the amounts paid abroad on interests and profits has been steadily negative during this last decade. The cumulative negative balance of capital transferred abroad during 1980-1990 has been the equivalent to roughly 200 billion dollars. In other words, the costs to the region of this transfer of capital has been higher than the total amount of loans received from any single international financial institution in the last thirty years.

As a result of the negative transfer of capital provoked by the debt crisis, domestic investments in the social sector have been drastically reduced. Thus, the number of people living in conditions of extreme poverty has increased and is now estimated at 40% of the total population. In addition, on account of the population growth of previous decades, the countries will have to provide in the coming decades employment to twice as many people as those in their present labor force.

Finally, in what refers to trade, we have that, in order to generate a surplus in foreign currency to pay the external debt, the countries have to maximize their exports outside the region and to reduce their imports. As a result, trade within the region has

plummeted. Thus, the trade indices of the member countries of the Latin American Integration Association show a reduction in intraregional imports from %12.199 million in 1981 to \$9.921 million in 1988. Likewise, in 1989, the volume of intra-Central American exports in 1989 was approximately on half that of 1980, and intra-Caricom trade in 1985 was 25% of that of 1980.

However, there have also been positive developments which forebode a better future. Thus, in the area of trade, the macroeconomic adjustment of this last decade has enhanced the importance of the integration of the region's markets to the global economy. Moreover, President's Bush recent Initiative or Enterprise for the Americas has given a new impetus to this development. In this regard, the adjustment policies undertaken by Mexico and Chile have already proven successful and, among other accomplishment, have expanded and diversified their international trade.

Important changes have also occurred in the composition of the region's exports. In the past, the growth of the region's exports of non-fuel commodities kept pace with the growth of the imports of the industrialized countries. However, this parallelism was broken in the 1980s when the exports from Latin America of those commodities grew at less than half the rate of the imports of the developed countries. This change was caused by the increase in the supply of primary commodities by the industrialized countries which expanded 1.3 times faster than the world trade in this type of good. However, this weakness in the commodities markets brought two positive developments to Latin America. The first was the some countries diversifies their exports to non-traditional primary commodities; and the second was the significant expansion of the exports of manufactured products whose volume grew twice as rapidly as that of primary commodities. As a result, the share of manufacturing exports which, in the 1960s, represented less than 12% of the total of Latin American export earnings, rose in the mid-eighties to 31%.

Simultaneously with the above, there has been a fundamental transformation of development strategies. From their

traditional reliance on the role of the state, the countries are now giving major responsibilities to the private sector. In this sense, it is clear that a total new era has opened and that the region is finally integrating itself to than global economy.

Thank you, very much.