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S.e.l.a. Member Nations Discuss Joint Actions Toward Foreign Debt Reduction, Cutting Capital Resource Outflow

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In Caracas, representatives of the Latin American Economic System (SELA) commenced a two-day conference on June 19 to discuss a joint approach to foreign debt reduction. For the first time since the debt crisis began in 1982, SELA has proposed a plan for joint action in coping with the region's $420 billion foreign debt. In a document prepared for the meeting titled, "Latin American and Caribbean Proposal on the Foreign Debt," SELA suggests that member-nations could demand from creditors a 50% reduction in principal, and a 75% reduction in interest payments on existing debt. SELA recommends a 50% reduction on principal for loans contracted with foreign governments and commercial banks. Interest applied to the reduced principal of old loans, said the document, must be fixed at a rate no higher than 5% per annum. Repayment of old debts would occur through the issue of bonds based on the discounted value of the debt at 20-30- or 40-year terms. These bonds, according to SELA, would be guaranteed through the creation of a special fund in each debtor nation, or via deposits every year of 1% of the value of each country's bonds in special accounts created by the Inter-American Development Bank (IDB). The role of the World Bank and the IDB toward supporting economic recovery and debt reduction for Latin America, said the document, would be "ensuring a sufficient volume of [financial] resources" to Latin American and Caribbean nations. The two institutions were also called on to develop conditionality criteria linked to development indicators, and thereby avoiding criteria which are national governments' exclusive areas of competence. Next, after stating that a rapid increase in capital contributions to the International Monetary Fund (IMF) is imperative, the SELA document recommends earmarking Special Drawing Rights (SDRs) to debt reduction programs for Third World nations. The document states that SELA recommendations are grounded on a basic premise: The future of Latin American and Caribbean prospects for the continuity of democratic politics and the social welfare of its peoples depends on economic development. After describing the 1980s as Latin America's lost development decade, the SELA document states that in the past 10 years, the region has transferred $200 billion to the exterior in the form of debt service. SELA recommendations, said the document, are aimed at reducing the region's net capital transfer in order to provide an opportunity for the resumption of sustained economic growth, and "regain a greater autonomy in decision-making affecting national economic policy management that has been severely eroded in recent years."
The document states that SELA studies indicate that "solid bases do not exist" for distinguishing between countries, sub-regions or regions in Latin America and the Caribbean in terms of the consequences of respective debt burdens. In addition, said SELA, the results of debt negotiations between individual governments and creditors reveal the justification for a "new joint effort vis-a-vis creditors." On June 19 at the SELA conference inaugural session, SELA permanent secretary Carlos Perez del Castillo said that Latin America cannot expect creditor banks to "overcome" their "Hardline attitude" on their own, especially when such attitude is to their benefit. The SELA official then asserted that if Latin America does not take advantage of opportunities to present a united front vis-a-vis creditors, in the next few months some governments in the region will be forced to declare repayment moratoriums. Perez del Castillo said that foreign bankers have always
treated proposals by SELA, and other Latin American multilateral organizations as threatening, confrontational. "Defense of our legitimate interests is not confrontation, but rather a response to the political demands of our peoples," he said. Next, Perez del Castillo criticized governments in the region for displaying a lack of seriousness regarding joint debt strategies since followup actions remained at the level of rhetoric. He also accused creditors of "multiple efforts" to emphasize differences among debtors that presumably prevent discussion much less negotiations on debt restructuring between debtors as a group on the one hand, and creditors on the other. According to Perez del Castillo, while differences are real, Latin American and Caribbean nations share the same experiences of the damage caused by excessive debt burdens. According to participants at the two-day meeting, the agenda does not include elaboration of the bases of joint debt negotiation, but rather the recognition of common bases for discussion that SELA member-nations would use when negotiating with creditors on an individual basis. Perez de Castillo said SELA recommendations are aimed at achieving annual GDP growth rates of 5.5% to 6% in all Latin American countries. He added that the proposal includes many elements of the US debt reduction initiative (Brady Plan), such as modifications to legislation affecting commercial banks' accounting practices and tax liability, reduction of debt principal, and case-by-case negotiations. If SELA recommendations are approved by member-nations on June 20, they will be forwarded to creditor banks, multilateral institutions and governments. On June 15, San Salvador Archbishop and president of the Latin American Episcopal Conference (CELAM), Arturo Rivera y Damas, told reporters in Tijuana that the Catholic Church supports the SELA proposal. Debt service payments totalling more than $30 billion per year, he said, have exacerbated poverty and despair throughout Latin America and the Caribbean. Rivera y Damas and other clergypersons were attending a conference in Tijuana on action programs carried out with lay participation. Attending were delegates from Mexico, and Central American and Caribbean nations. (Basic data from Notimex, 06/14/89, 06/15/89, 06/19/89)

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