Chile and the External Financial Markets: 1985 (A)

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Description of economy.

Chile, a country stretching along 2600 miles of the Pacific coast of South America, is abundantly endowed with natural resources. It held 30 percent of the world's copper reserves in 1966, and produced 25 percent of world output of copper ore. There are also substantial deposits of nitrates and of iron. Arable land is appropriate for the production of fruits, vegetables and wine, while there are as well substantial forested areas for timber exploitation. With a population of just over 13 million, its resources in these areas have been in excess of domestic needs -- Chile has as a consequence been oriented from the beginning toward foreign trade and international markets. As Federico Gil states, "the Chilean people ... are in reality islanders". This international dependence is heightened by the relative shortage of crude oil deposits within Chile.

External trade and trade policies.

Until the 1930s Chile's economic philosophy favored free trade; there were no trade prohibitions and very few quotas. The arguments for tariffs when offered were couched in terms of revenue generation. The ratio of the value of imports plus exports to gross domestic product (GDP) averaged 71.4 percent during this period.

The Depression of the 1930s had a chilling effect on international trade. In 1932 exports were but a third and exports less than a quarter of their 1930 value. Coincident with this downturn in trade was the economy's adoption of highly protectionist trade policies under the guise of an import substitution industrialization program. During Allende's term the import substitution program reached its apogee: by 1973 there were widespread prohibitions and quotas on foreign goods, multiple exchange rates (with the highest being 52 times the lowest) and an average nominal tariff of 105 percent. The ratio of exports plus imports to GDP had fallen to 35 percent.

While its neighbors in the Southern Cone were expanding trade barriers in the wake of the oil price increases of 1973-74, Chile embarked on a massive restructuring of its trade policy that led to the elimination of all non-tariff barriers and the reduction in tariffs from an average 105 percent to a uniform 10 percent <u>ad valorem</u> rate by 1979.

Adoption of an outward orientation led to a restructuring of the Chilean economy, with the non-traditional (i.e., non-copper) export sectors growing at a more rapid pace than the rest of the economy. This led to exports of goods and non-factor services rising as a percentage of GDP from 10 percent in 1965 to 29 percent in 1985.[1]

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[1]The comparable weighted average percentages for all middle-income developing countries were 17 percent in 1965 and 26 percent in 1985.

Chile's turn outward corresponds to an increased dependence on the United States as an export market. In 1975, Chilean exports to the US were only 8.6 percent of total exports, with both Germany and Japan representing larger export markets. By 1985, 22.4 percent of Chilean exports went to the US, the largest single export destination and more than double the percentage sent either to Germany or to Japan. In dollar value terms, exports to the US increased nearly six-fold over this decade while the total dollar value of exports rose 220 percent. On the import side the Chilean purchase of US goods declined somewhat as a share of total imports over the same period: in 1975 US goods and services represented 29 percent of total Chilean imports as opposed to 24 percent in 1985. While the dollar value of total imports increased 175 percent over this decade, the value of Chilean imports from the US increased only 144 percent.

This increased dependence on the US market is matched by a diversification of products exported to that market. In 1970 87 percent of Chilean exports to the US were copper ore, iron ore or refined copper. By 1985 those sectors represented only 30 percent of exports to the US, while other sectors adding to the export boom were those of fish meal, grapes, other fresh fruit, silver, mollusks -- even aircraft.

Macroeconomic developments.

Until the 1930s the Chilean government economic policy was quite non-interventionist. However, there was beginning at this time a more interventionist macroeconomic policy for the generation of output and employment. Chile shared the economic downturn of the Depression with negative growth rates in GDP during the period 1929-1932, as well as downturns that coincided with the onset of war in Western Europe and the retooling of the US to a peacetime economy. From 1949 to 1972, however, there was only one year (1955) of negative economic growth. The average growth in real GDP during the period 1950-1969 was 3.43 percent, just under the corresponding average for the US of 3.9 percent.

In 1970 Salvador Allende became President in 1970 on a populist platform. The government directly or indirectly took control of a substantial part of the agricultural, manufacturing, and financial sectors. In addition, the fiscal deficit increased from 6.7 percent of GDP in 1970 to over 30 percent of GDP in 1973. This deficit was monetized by the Banco Central de Chile and inflationary pressures rose. Price controls and commodity rationing became widespread.

Policies changed dramatically when the military government led by General Augusto Pinochet took over in 1973. During the ensuing two years the government liberalized domestic commodity markets and started to liberalize the domestic financial market. Liberalization allowed a suppressed inflation of nearly 1000 percent annually to emerge. A large tax reform was implemented in 1974 in conjunction with a drastic reduction in government spending. 30 percent of outstanding debt service for 1973 and 1974 was rolled over as well.

The external crisis that Chile suffered in late 1974 and early 1975 -- when copper prices dropped almost 50 percent (see Table 6) and the price of oil stayed at four times its 1973 value -- forced a large devaluation of the peso and a severe fiscal austerity program. The fiscal budget was in fact balanced by 1977.

Present Economic Policies.

In February 1978 the Chilean government announced its plans to use the nominal exchange rate as an "anchor" to reduce the inflation rate. An active (pre-announced) crawling peg, or tablita, was introduced.

The rate of crawl, established with respect to the US dollar, converged toward zero in June 1979: at that time the exchange rate was fixed. General Pinochet announced on television that "not even the devil" would bring about a further depreciation of the exchange rate.

Chilean inflation was much higher than inflation in the US or other major international markets.[2] Further, the process of wage indexation had been determined by law to be "backward-looking", so that wages were increased by a large percent of the preceding year's inflation rate, leading to rising real wages. There was also a widening gap between domestic and foreign interest rates. This increased demand for foreign borrowing just when international capital markets were extremely liquid and restrictions on capital inflows were being lifted.

The Chilean external accounts moved sharply into deficit during the period 1978-1982. The current account deficit equalled 7.1 percent of GDP in 1978; in 1981 this ratio was 14.5 percent. These deficits were of necessity financed by external borrowing, so that Chilean external debt rose from $ 7 billion in 1978 to $17 billion in 1982. This was a quite large burden in relative terms: it totalled 48 percent of GDP, as compared to 17 percent for Argentina at that time. Then, with the crisis in Mexican non-payment on its external debt, commercial bank lending to Chile slowed dramatically. The Banco Central was forced to use its reserves to finance current account deficits -- as these were depleted, the government was forced to devalue the peso in June of 1982.

These external imbalances had domestic counterparts. Production in the tradeable sectors of agriculture and industry declined throughout 1981 and 1982, while the demand for non-tradeable goods caused excess inflation in those sectors. The government was reluctant to alter its exchange rate policy, and insisted that an "automatic adjustment process" in domestic prices would soon reverse these declines. However, real GDP fell 14 percent in 1982 and another 1 percent in 1983. Unemployment increased to record levels, reaching 31 percent in 1983.[3]

In January 1983 the Banco Central took over, or "intervened", the five largest private banks. It also liquidated a few other financial institutions and provided massive support to the remaining financial system. Bank deposits were publicly guaranteed, upper limits on nominal interest rates were imposed, and several emergency credit programs were established. Two of these -- the provision of a preferential exchange rate to reschedule peso private debts and a preferential exchange rate for US dollar debtors -- involved substantial increases in Banco Central credit to financial intermediaries. The Banco Central also purchased the non-performing loan portfolios of commercial banks.

In early 1984 the economic authorities reached a rescheduling agreement with commercial creditors. This provided some additional lending in return for government guarantee of the amounts of debt rescheduled. They also launched a substantial public investment program and raised tariffs on imports. This led in 1984 to an increase by 6.3 percent in GDP with a decline in unemployment to 22 percent. However, the fiscal

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[2]Tables 1 through 5 at the end of the case provide macroeconomic statistical support for the statements in this and following sections.

[3]This figure includes those enrolled in two emergency support programs: the Minimum Employment Program and the Program for Heads of Households.

deficit widened to 4.4 percent of GDP and the current account deficit became 10.7 percent of GDP. This led to new limits on imports. After increasing tariffs from 10 percent to 20 percent in 1983, the government added a 15 percent surtax on selected import items in March 1984. At the end of 1984 all tariffs were increased to 35 percent.

Foreign perception of our economy is beginning to sour. Recently, Sidney Weintraub sharply criticized our economic policy in the pages of the Wall Street Journal. He said (among other things)

> The Chile I visited a few weeks ago is a desperate place. One hears only pessimistic comments from private citizens...
>
> When the outside world was singing paeans of praise about the Chilean model, the country was living in an orgy of speculation as it was cutting back its industry and agriculture.
>
> ...This was a Ponzi scheme for an entire country, not just a firm.

This criticism hurts, especially coming from a US economics professor in the pages of that conservative newspaper.

The Crisis Elsewhere in Latin America.

Chile was not alone in its adoption of import substitution policies in the aftermath of Depression, nor was it alone in its record of strong growth from 1950 to 1980. As Table 7 indicates, real GDP growth over that period averaged in excess of 5 percent annually for Latin America as a whole, fuelled in part by an annual ratio of investment to GDP averaging over 21 percent.

The 1980s, however, have been quite different. First, in 1981 the Volcker monetary strategy in the US led to high nominal interest rates that exceeded by a great deal the US inflation rates: This led to much higher real interest rates on commercial bank debt denominated in US dollars. Private and government actors in the Latin American countries had incurred a great deal of short-term debt with commercial lenders, and this debt was quickly rolled over at the higher real interest rates. Second, in October 1982 Mexico announced to its commercial creditors that it would be unable to service its external debt. This was earthshaking for the commercial banks: although they subsequently (and with US government prodding) reached an agreement to reschedule the Mexican payments due, they also drastically reduced new lending to the region.

Real growth rates were negative for the region as a whole in 1982 and 1983 with only modest growth in 1984. The investment ratio plummeted to 15 percent between 1981 and 1983, and remained low in 1984. This change in economic activity is strongly correlated with the increase in the cost of external debt service and the reduction in new lending. As Table 8 indicates, from a ratio to GDP of 2.6 percent in 1980, this cost rose to 5.3 percent of GDP in 1982. It has remained near that level since. Further, availability of external finance has dwindled from 5.4 percent of GDP in 1982 to 1 percent of GDP in 1983 and almost zero in 1984. As a result, for Latin America as a whole, net external financing (new borrowing minus debt service) shifted precipitously from positive 1.7 percent of GDP in 1981 to -4.3 percent of GDP in 1983 and - 5 percent in 1984.

The downward adjustment in investment expenditure, though substantial, was not sufficient to bring the countries into adjustment. Although balance on the current account was attained in 1984, the demands for financing expenditure were switched to internal sources. Latin American governments issued internal debt and increasingly monetized this debt -- leading to financing of government fiscal deficits through an inflation tax. By 1985 the inflation rate in many Latin countries was quite extreme. The external debt remained a large problem, although relatively less so than in Chile. In 1984 the share of export receipts paid out in external debt service for Latin America was 36 percent.

Inflation Rate, 1985, Selected Latin American Countries

Country	Annual Inflation Rate
Argentina	385.4
Bolivia	8170.5
Brazil	228.0
Ecuador	24.4
Mexico	63.7
Peru	158.3
Venezuela	5.7

Source: Sachs (1989, p. 20)

Present Policy Choice.

We stand at a crossroads. There is substantial unemployment and unused capacity in our economy. However, our traditional Keynesian tool for solving that problem -- expansionary fiscal policy -- has just been demonstrated as inadequate to our present situation.

Our external debt stands at nearly $20 billion. This represents over 100 percent of GDP for this year, and debt service alone uses 62 percent of our export proceeds. The real cost of servicing this debt has risen substantially since the halcyon days of 1978: whereas the real interest rate then was 3.2 percent, the rate today is greater than 8 percent.

Provide an analysis of the macroeconomic and international financial policy of the past decade, highlighting both positive and negative developments. Then analyze the possible options for the future.

TABLE 1[a]

Chile: Basic Macroeconomic Data, 1978-1984

								Indices (1978-80 = 100)		
	1978	1979	1980	1981	1982	1983	1984	1970	1973	1983
NATIONAL ACCOUNTS										
(Percent change p.a. at 1977 prices)										
GDP	8.2	8.3	7.8	5.5	-14.1	-0.7	6.3	83.9	85.3	97.0
GNP Per Capita	6.3	6.0	5.6	2.2	-18.1	-2.3	2.3	98.7	96.6	86.3
Domestic Expenditures	9.7	10.5	9.3	11.6	-24.1	-4.6	8.5	89.8	93.4	88.4
0/w Priv. Cons. p. cap.	5.7	4.7	5.0	8.9	-13.6	-5.0	-0.4	106.8	114.9	93.6
o/w Gross Fixed Invest.	17.4	16.8	21.9	16.8	-33.9	-14.9	9.0	107.2	78.7	78.1
Exports of GNFS	11.2	14.1	14.3	-9.0	4.7	0.6	6.8	42.8	37.7	109.0
Imports of GNFS	17.6	22.7	18.7	15.7	-36.3	-15.1	16.5	73.0	77.3	74.2
PRICES										
(Percent change p.a.)										
Consumer Prices	40.1	33.4	35.1	19.7	9.9	27.3	19.9	*	0.3	218.9
Real Effective Exch. Rate	-16.6	1.5	16.1	18.0	-9.6	-18.7	-1.7	245.9	167.2	96.0
Terms of Trade	-1.0	11.3	0.6	-15.7	-4.7	8.9	-4.9	210.0	212.8	91.2
Real Wages	6.4	8.2	8.6	9.0	0.3	-10.9	0.2	121.2	94.1	105.3
Real Minimum Wages	18.1	-3.1	0.2	-0.8	-2.0	-19.5	-14.6	103.1	75.6	83.4
UNEMPLOYMENT										
(As percent of labor force)										
Open Unemployment	14.1	13.6	10.4	11.3	19.6	14.6	14.0	27.6	33.9	114.9
Emergency Programs	3.9	4.0	5.8	4.8	7.4	13.7	8.3	0.0	0.0	300.0
Total Unemployment	18.0	17.6	16.2	16.1	27.0	28.3	22.3	20.3	24.9	163.9

SOURCES: National Accounts Data and Terms of Trade: Central Bank of Chile.

Consumer Prices: INE (period average).

Real Effective Exchange Rate, 1970-76: World Bank (CECMG); 1976-87: IMF (trade weighted, period average). An increase in the index reflects an appreciation of the Chilean peso.

Real (Minimum) Wages = Nominal Wages (INE), deflated by the Revised CPI (Cortazar and Marshall): Arellano (1988), Table 3, p. 8. Minimum wages were a obtained as the average of industrial minimum wages and urban wages (sueldo vital), and exclude dependent benefits.

Open unemployment rates: INE. Figures for 1978-87 are those of the last quarter of the year. The estimate for 1973 (= 4.3 percent) is based on the surveys for the Greater Santiago Area conducted by the U. of Chile.

Emergency Employment Programs (PEM and POJH): Central Bank of Chile. The figures given are those for September of each year.

[a]Source: Moran (1988).

TABLE 2[a]

Chile: External Debt, 1970, 1973 and 1978-84

	1970	1973	1978	1979	1980	1981	1982	1983	1984
DEBT DATA									
(In billions of US $)									
Total External Debt	n.a.	n.a.	7.011	8.663	11.207	15.591	17.159	18.037	19.666
Long Term Debt	2.767	3.261	5.923	7.607	9.413	12.553	13.815	14.832	16.963
Public & Pub. Guaranteed	2.218	2.862	4.353	4.771	4.720	4.416	5.157	6.689	10.601
Priv. Non-Guaranteed	0.549	0.399	1.570	2.738	4.693	8.138	8.658	8.143	6.362
Short Term Debt	n.a.	n.a.	0.741	0.977	1.671	2.989	3.338	2.599	1.914
IMF Net Credit	0.002	0.095	0.347	0.179	0.123	0.049	0.008	0.606	0.743
DEBT RATIOS									
(In percent)									
Priv. Non-Gtd. Debt/L.T. Debt	19.8	12.2	26.5	36.5	49.9	64.8	62.7	54.9	37.5
Total External Debt/GDP	n.a.	n.a.	45.5	41.8	40.6	47.8	70.5	91.3	102.5
Total External Debt/XGS	217.2[c]	228.7[b]	235.0	183.5	178.6	277.7	332.9	373.4	408.5
Debt Service Ratio[b]	24.4[b]	16.1[b]	49.0	42.3	38.8	61.8	62.9	56.5	62.1
MEMO ITEMS									
(In percent)									
Average Interest Rate[d]	6.8	5.8	10.6	13.0	13.8	15.0	13.2	11.8	12.5
LIBOR[e]	8.5	9.2	9.1	11.9	14.0	16.7	13.6	9.9	11.3
Real LIBOR[f]	2.8	2.4	1.7	2.9	4.5	6.5	6.7	5.9	6.9

SOURCE: Central Bank of Chile

[a]Source: Moran (1988).
[b]Total debt service payments as a percent of exports of goods and services (XGS).
[c]Debt ratios for 1970 and 1973 exclude short term debt and interest payments on short term debt.
[d]Average cost of new commitments on public and pub. guaranteed long term debt, obtained from the Bank's Debtor Reporting System.
[e]London interbank offered rate on 6-month U.S. dollar deposits.
[f]LIBOR deflated by the U.S. GNP deflator.

TABLE 3[a]

Chile: Balance of Payments, Savings and Investment,
1970, 1973 and 1978-84
(As percent of GDP, current price data)

	1970	1973	1978	1979	1980	1981	1982	1983	1984
BALANCE OF PAYMENTS									
Trade Balance	4.7	-0.3	-2.8	-1.7	-2.8	-8.2	0.3	5.0	1.5
Current Account Balance	-1.4	-4.2	-7.1	-5.7	-7.1	-14.5	-9.5	-5.7	-10.7
SAVINGS AND INVESTMENT									
External Savings[b]	-0.7	1.9	3.3	2.8	4.2	10.3	1.9	-2.7	1.1
Gross Domestic Savings	17.1	6.1	14.5	15.0	16.8	12.4	9.4	12.5	12.6
Net Factor Income	-2.2	-1.1	-2.2	-3.0	-3.4	-4.5	-4.5	-7.8	-10.2
Net Current Transfers	0.3	0.2	0.5	0.4	0.4	0.3	0.5	0.5	0.5
Gross National Savings	15.2	5.2	12.8	12.4	13.9	8.2	2.1	4.4	2.9
Private Savings	7.9	25.0	4.0	3.4	3.3	2.7	2.9	4.2	2.3
Public Savings	7.3	-19.3	8.8	9.0	10.6	5.5	-0.8	0.2	0.6
Gross Domestic Investment	16.4	7.9	17.8	17.8	21.0	22.7	11.3	9.8	13.6
Gross Fixed Investment	15.0	12.8	14.7	14.9	16.7	18.6	14.6	12.0	12.4
Change in Stocks	1.4	-4.9	3.1	2.9	4.3	4.1	-3.3	-2.2	1.2

SOURCE: Central Bank of Chile and Bank Staff estimates.

[a]Source: Moran (1988).
[b]Net imports of goods and non-factor services.

TABLE 4[a]

Chile: Public Sector Finances, 1970, 1973 and 1978-84
(As percent of GDP, current price data)

	1970	1973	1978	1979	1980	1981	1982	1983	1984
NON FINANCIAL PUBLIC SECTOR									
Current Revenues	38.2	21.3	36.7	33.8	35.0	31.8	31.4	30.5	31.2
Direct Taxes	7.7	5.7	8.1	7.2	7.3	5.8	5.7	5.0	4.6
Indirect Taxes	10.8	10.1	13.7	13.3	13.4	14.8	13.8	14.6	16.6
Other Revenues	19.7	5.5	14.9	13.3	14.3	11.2	11.9	10.9	10.0
Current Expenditures	30.9	41.1	27.9	24.8	24.4	26.3	32.2	30.3	30.6
Current Surplus	7.3	-19.8	8.8	9.0	10.6	5.5	-0.8	0.2	0.6
Capital Formation	10.4	8.4	6.7	5.2	5.4	5.0	4.7	4.7	6.4
Overall Surplus	-6.7	-30.5	1.5	4.8	5.5	0.8	-3.4	-2.8	-4.4
CENTRAL BANK									
Net Income[b]	n.a.	n.a.	n.a.	n.a.	1.0	1.5	0.5	-6.4	-6.2
CONSOLIDATED PUBLIC SECTOR[c]	n.a.	n.a.	n.a.	n.a.	6.5	2.3	-2.9	-9.2	-10.6

SOURCE: Ministry of Finance, Central Bank of Chile, and Bank Staff estimates.

[a]Source: Moran (1988).

[b]These figures were obtained from the Central Bank's statements of income and expenses. Since 1982, they include the subsidies given to commercial banks (to finance losses originating from the purchases of bad loans) and to individuals and corporations (to finance restructurings of domestic debts and the preferential exchange rate system). These figures omit price adjustments due to indexed operations.

[c]Includes Central Bank and Non-Financial Public Sector.

TABLE 5[a]

Consumer Price Index, By Commodity Groups:
Annual Rates of Change (%)

	FOOD	HOUSING	CLOTHING	MISC.	TOTAL
1974	510.6	533.1	281.0	689.1	497.8
1975	377.1	398.3	274.5	440.9	379.2
1976	238.2	214.2	243.7	230.0	232.8
1977	118.3	108.1	127.5	105.7	113.8
1978	47.5	54.4	51.4	51.3	50.0
1979	31.1	40.9	32.0	32.3	33.4
1980	36.1	39.6	28.2	32.3	35.1
1981	14.2	23.2	20.3	24.9	19.7
1982	3.6	12.7	2.8	18.1	9.9
1983	25.8	26.0	23.2	30.8	27.3
1984	21.1	15.3	24.1	20.9	19.9

SOURCE: Revised figures by Cortazar and Marshall (1980) for 1973-78, National Institute of Statistics for 1979-85.

[a]Source: Ffrench-Davis (1987).

TABLE 6

Copper

(Price per Metric Ton)

	LONDON METAL EXCHANGE[a]		NEW YORK MARKET[b]	
Year	Current $	1980 Constant $	Current $	1980 Constant $
1950	493	2,181	468	2,071
1951	607	2,326	534	2,046
1952	715	2,619	534	1,956
1953	664	2,496	635	2,387
1954	686	2,639	655	2,519
1955	968	3,653	827	3,121
1956	906	3,307	922	3,365
1957	605	2,161	652	2,329
1958	545	1,912	568	1,993
1959	655	2,331	687	2,445
1960	677	2,359	707	2,463
1961	633	2,168	660	2,260
1962	644	2,168	675	2,273
1963	646	2,212	675	2,312
1964	968	3,248	705	2,366
1965	1,290	4,300	772	2,573
1966	1,530	4,920	797	2,563
1967	1,138	3,624	843	2,685
1968	1,241	3,978	923	2,958
1969	1,466	4,470	1,048	3,195
1970	1,413	4,049	1,272	3,645
1971	1,080	2,935	1,134	3,082
1972	1,071	2,678	1,116	2,790
1973	1,786	3,849	1,298	2,797
1974	2,059	3,644	1,690	2,991
1975	1,237	1,970	1,401	2,231
1976	1,401	2,199	1,517	2,381
1977	1,309	1,870	1,451	2,073
1978	1,365	1,696	1,444	1,794
1979	1,985	2,177	2,034	2,230
1980	2,183	2,183	2,257	2,257
1981	1,742	1,733	1,846	1,837
1982	1,480	1,516	1,607	1,647
1983	1,592	1,652	1,716	1,780
1984	1,377	1,454	1,472	

[a]Electrolytic wirebar, settlement price.
[b]Electrolytic wirebar, domestic refinery producer price.

TABLE 7[a]

Latin America: Indicators of Economic Growth

	GNP	GNP PER CAPITA	INVESTMENT RATE (%)	INCREMENTAL CAPITAL OUTPUT RATIO
	(percent variation)			
1951-60[b]	5.1	2.2	21.1	4.1
1961-70[a]	5.7	2.8	20.5	3.6
1971-80[a]	5.6	3.1	22.6	4.0
1981	0.7	-1.5	23.2	33.1
1982	-1.2	-3.4	19.9	--
1983	-2.5	-4.6	15.2	--
1984	3.8	1.6	15.9	4.2
1985	3.7	1.5	16.1	4.4
1986	3.9	1.7	15.9	4.1
1987	2.6	0.4	16.6	6.4

NOTE: Between 1950-1970, the data are in 1970 US dollars.
Between 1971-1987 they are in 1980 US dollars.

[a]Source: CEPAL (1989).
[b]Simple average.

TABLE 8[a]

Latin America: Financing of Gross Capital Formation

	1971-1975	1976-1979	1980	1981	1982	1983	1984
	RATIO TO GNP (in percentage)						
1. Gross Domestic Saving	24.8	22.9	22.3	22.2	22.4	22.3	23.5
2. Net Factor Payments to Exterior[b]	1.8	2.1	2.6	3.7	5.3	5.1	5.2
3. External Saving	3.0	3.5	4.0	5.4	5.4	1.0	0.2
4. Net Transfers of Financial Resources from Exterior (3 - 2)	1.2	1.4	1.4	1.7	0.1	-4.3	-5.0
5. Exchange-rate Conversion Effect	-4.0	-1.2	--	-0.7	-2.6	-3.0	-2.6
6. Gross Capital Formation (1 + 4 + 5)	22.0	23.1	23.7	23.2	19.9	15.2	15.9

[a]Source: CEPAL (1989).
[b]Includes unilateral private transfers from exterior.

FIGURE 1: **Latin America: Saving and Investment**

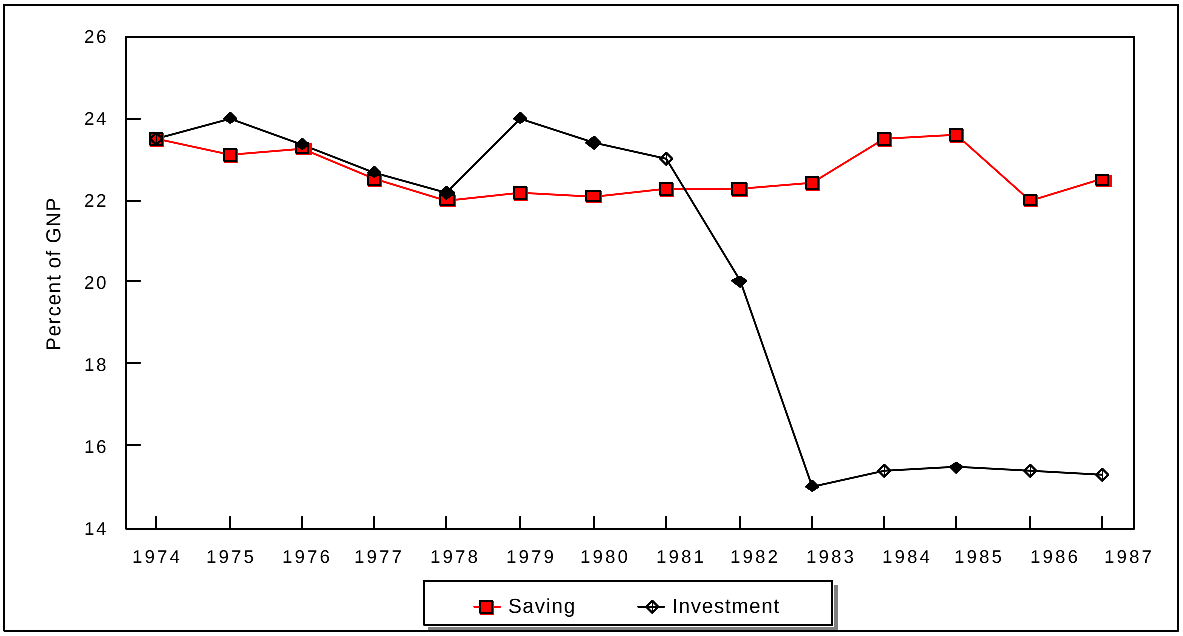
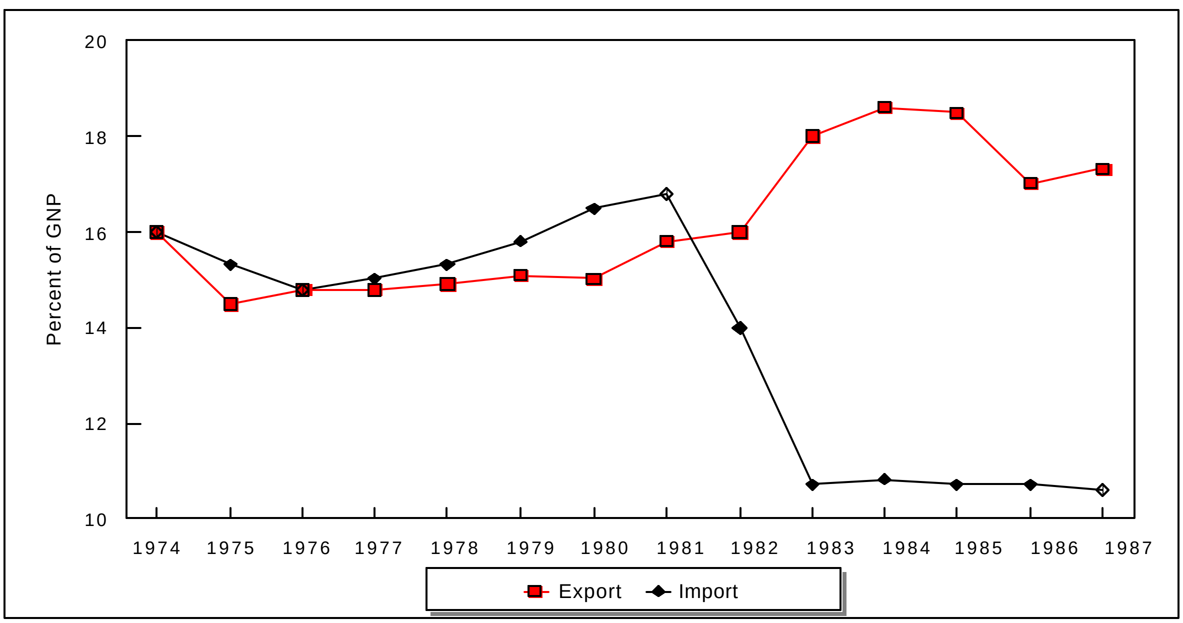


FIGURE 2: Latin America: Exports and Imports



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Sources

Rather than interrupt the narrative throughout I credit in this section those sources from whom substantial information has been drawn for each section.

Description of economy - drawn from Gil (1966).

Macroeconomic developments - drawn from Cortes-Douglas (1989), Moran (1988), Corbo (1985).

External trade and trade policies - drawn from Cortes-Douglas (1989), Moran (1988), Aedo and Lagos (1984) and Edwards (1988). Statistics taken from IMF (1992), World Bank (1987a and 1987b), Economist Intelligence Unit (1989) and CEPAL (1988).

Present Economic Policies - drawn from Moran (1988) and Corbo (1985). The Weintraub quotes are drawn from Weintraub (1984).

The crisis elsewhere in Latin America - drawn from CEPAL (1989) and Sachs (1989).