1 An Introductory Overview

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During the last few years, the countries comprising Latin America and the Caribbean, as a region, have experienced severe economic distress. As a result of the deteriorating economic conditions, which offer bleak prospects for renewed growth in the near future, a re-evaluation of the need for foreign investment to augment the forces of economic growth has taken place. This volume addresses the role that foreign investment can play in the reactivation of the economies of this region, through a mixture of papers that explore this issue in general, on a country-by-country basis, and those that are regional in approach.

It opens with two brief remarks, the former by Barbara Newell, who focuses on the increased significance of the international component to the economic growth of Florida, and the latter by J. A. Yañes, who emphasises the important role that direct foreign investment can play in restoring health to the Latin American economies.

The first paper by Felipe Pazos, 'Foreign Investment Revisited', discusses the course of foreign investment (in particular US) in Latin America since 1950, with the objective of analysing the contribution that an increase in foreign investment could have on the alleviation of the debt crisis in Latin America. He points out that, for the period 1950–83, US foreign investment would have proceeded at the healthy rate of 4.6 per cent per annum had it not been for disinvestment which was caused by the unprofitability of public utility holdings, the expropriations in Cuba and the nationalisation of the copper and petroleum industries in Chile and Venezuela. This would seem to indicate that, although government policies did not substantially discourage new foreign investment in Latin America, apparently foreign investment was, in part, discouraged as economic growth proceeded at a rate of 5.5 per cent per annum, higher than that for foreign investment. None the less, Pazos indicates that it is unlikely that increased amounts of foreign investment would have significantly augmented the rate of growth in Latin America for this time period, as it was very near the maximum average that could have been
attained. In conclusion, he argues that the liberalisation of current regulations governing foreign investment would probably not significantly increase foreign investment, and as such would contribute little to the alleviation of the foreign debt burden of Latin America.

Markos Mamalakis, in his contribution ‘Foreign Investment and Unilateral Transfers’, offers a largely unexplored line of analysis in regard to long-term economic development in Latin America. He argues that unilateral transfers have been received, in the main, by the privileged and semiprivileged rather than the underprivileged poor, causing distortions that are inimical to sustained economic growth. Since 1973, foreign banks have played a major role by providing loans to national customers. This seemed to be an unlimited source for unilateral transfers in Latin American nations, as they could absorb and distribute the funds that banks were willing to lend. However, ultimately they lacked the capacity to repay them. Mamalakis notes that in this era of very limited lending on the part of foreign banks, Latin American nations are being forced to curtail what had become an uncontrolled distribution of unilateral transfers. By reducing unilateral transfers to their original and proper function, that is, to assist the neediest, a major and an important necessary step will be taken in restoring incentives and the optimal use of resources to the Latin American economies.

Richard Bernal, in his paper ‘Default as a Negotiating Tactic in Debt Rescheduling Strategies of Developing Countries: A Preliminary Note’, focuses on deliberate default, which is a suspension of repayment of the loan, leaving open the possibility of repayment at some time in the future, as a legitimate debt policy option open to debtor nations. The objectives of default are to either force creditors to commence refinancing and/or rescheduling negotiations in a meaningful fashion, or to force an improvement in the terms of refinancing and/or rescheduling. He then discusses the costs and benefits of the policy of deliberate default and in the final section analyses the experience of three developing nations that pursued such a strategy. He reaches two conclusions. First, deliberate default by developing countries has proved successful in accelerating the process of debt negotiation and in obtaining more favourable terms for the rescheduled debt and, secondly, given the appropriate circumstances and effective implementation, deliberate default can be used as an effective tactic to bring about more purposeful negotiations and better terms.

Florencio Ballestero and Francisco Thoumi, in their paper ‘The Instability of Intra-Latin American and Caribbean Exports and