

EIR Special Report

How Volcker added \$200 billion to the Ibero-American debt

by Peter Rush

Legend has it that the indebted nations of Ibero-America now pay the price of having spent excessively and imprudently in recent years. But statistics indicate the opposite.

Investigation by *Executive Intelligence Review* reveals that almost all of the total debt burden currently carried by the economies of Ibero-America is the either direct or indirect result of the *high interest rates* initiated by U.S. Federal Reserve Board chairman Paul Volcker and the Carter administration in late 1979, and maintained by the Reagan administration. The direct effect of much higher interest charges was compounded by *worsening terms of trade* caused by the world-wide recession, itself also caused by the high interest rates, and by massive *flight capital* also due to high interest rate-caused economic and financial instability throughout the continent.

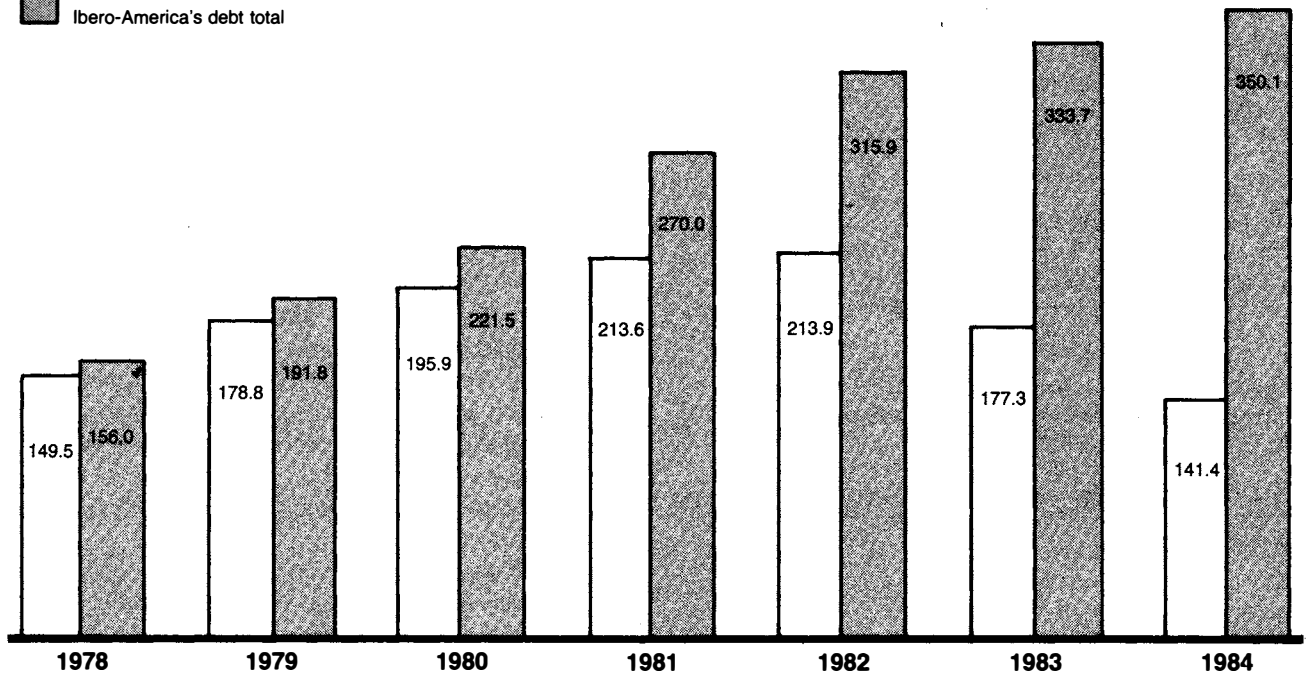
Without these three encumbrances, Ibero-America would not only not have increased its total debt by a single peso, but would have reduced its 1978 debt load of \$156 billion by two-thirds or more. Instead, it has risen to the astronomical sum of \$350.1 billion, which represents for the debtor nations an intolerable burden and a growing danger of non-payment.

The interest rate effect was calculated on the assumption that the rates prevailing in 1978 for each country for each major type of loan had remained constant through 1984. This calculation showed that there would have been a cumulative saving of \$59.1 billion in interest charges (see **Tables 1-3**), which would have lowered the current debt load from \$350.1 to \$291.0 billion.

The terms-of-trade effect was derived by assuming that export prices had kept up with import prices from 1978 to 1984, and figuring how much export revenue was in effect lost by the worsening terms of trade, a worsening that amounted to almost 25% by 1982-84. Had the terms of trade remained at 1977 levels, the accumulated additional export revenues would have been \$113.6 billion by the end of this year, for a total saving of \$149.6 billion off the current debt load after compounding the interest payment saving that would also have been realized. Applying both assumptions, the total debt burden would have peaked in 1981-82

The debt with—and without—Volcker

□ Estimated real debt, assuming constant 1978 interest-rate levels and constant terms of trade
 ■ Ibero-America's debt total



at \$214 billion, and fallen to only \$140 billion by this year (see **bar graph** and **Table 4**). Finally, subtracting a conservatively estimated \$100 billion in flight capital leaves only \$41.4 billion as the approximate total debt that would have been presently outstanding from Ibero-America had interest rates not risen after 1978—a reduction of almost 75% from the \$156 billion of 1978 and a mere 11.8% of the present \$350 billion.

This exercise demonstrates that contrary to prevailing opinion, Ibero-America has done an outstanding job in economic terms over the past six years, most particularly in its foreign trade, increasing its exports far in excess of its imports in constant dollar terms, at the same time as, up until 1981-82, most countries continued to maintain a healthy growth in their economies. The entirety of the present debt burden is revealed to be nothing but a mechanism denying the region the fruits of its own commendable economic efforts by annually transferring tens of billions of dollars of real wealth, tantamount to loot, to the United States and the other developed-country creditor nations. The debt was contracted to finance falling relative export prices, usurious interest charges, and speculative flight capital, and is now being used to extort enormous trade surpluses and compel disastrous internal austerity policies.

The effect on the economies of the continent is nothing short of calamitous. Brazil's industrial output is 11% below

its 1975 level, and 33% below its peak in mid-1981. Argentina's economy has been in crisis since 1981; Peru's economy is in its worst recession of this century, and Mexico's industrial output is down almost 12% and still falling. Chile is in a full-fledged depression; Ecuador's economy is in trouble; Colombia's economy has been stagnant for three years, and even oil-rich Venezuela is cutting back development programs and tightening its belt. The smaller economies of Central America and the Caribbean are in general even worse off, as are the economies of Bolivia and Paraguay.

And during this period, the debts haven't even been reduced, but rather have continued to grow, as the interest payments still exceed even the enormous trade surpluses being recorded by Mexico, Brazil, Argentina, Venezuela, and the other countries. And with interest rates rising again, the only prospect for the region is even tighter austerity, to the point of total physical collapse of every economy of the region—all to maintain a huge subsidy from the southern part of the continent to, principally, the United States.

Growth of the debt

Between 1978 and 1984, the external debt of Ibero-America rose by 125%, from \$156 billion to \$350 billion, with the sharpest rates of growth occurring between 1978 and 1982, when the total more than doubled. Argentina's debt more than tripled, from \$13.7 billion to about \$45 billion.

TABLE 1
Total debt of Ibero-American nations, 1978-1984
 (in billions of U.S. dollars)

	1978	1979	1980	1981	1982	1983	1984
Argentina	13.7	19.0	27.1	35.7	43.0	44.0	45.0
Brazil	54.5	62.7	67.6	77.2	86.1	91.9	100.8
Chile	7.1	9.5	11.7	15.5	17.3	19.1	19.2
Colombia	4.2	5.3	6.7	8.3	9.7	10.6	12.0
Mexico	35.5	42.9	48.0	64.0	83.0	88.0	88.0
Peru	7.7	8.0	8.3	8.6	10.4	10.5	10.5
Venezuela	15.0	23.0	26.0	30.0	32.0	35.0	40.0
Others	18.3	21.4	25.9	30.8	34.3	34.6	34.6
TOTAL	156.0	191.8	221.5	270.0	315.9	333.7	350.1

TABLE 2
Hypothetical 'savings' of the Ibero-American nations, assuming constant interest rates since 1978
 (cumulative 1978-84, billions of U.S. dollars)

	1978	1979	1980	1981	1982	1983	1984
Argentina			0.5	1.5	2.8	4.5	6.4
Brazil			0.7	3.7	8.6	15.3	20.4
Chile			0.1	0.6	1.4	2.7	3.9
Colombia			0.0	0.3	0.7	1.1	1.5
Mexico			0.9	3.8	6.5	12.0	15.1
Peru			0.1	0.4	0.7	1.0	1.2
Venezuela			0.0	1.1	3.7	5.8	8.0
Others			0.2	0.5	1.2	2.0	2.6
TOTAL			2.5	11.8	25.5	44.4	59.1

TABLE 3
Hypothetical debt of Ibero-American nations, assuming constant 1978 interest rates, 1978-1984
 (in billions of U.S. dollars)

	1978	1979	1980	1981	1982	1983	1984
Argentina	13.7	19.0	26.7	34.2	40.2	39.5	38.6
Brazil	54.5	62.7	66.9	73.5	77.6	76.6	80.4
Chile	7.1	9.5	11.6	14.9	15.9	16.4	15.3
Colombia	4.2	5.3	6.7	8.0	9.1	9.5	10.5
Mexico	35.5	42.9	47.1	60.3	76.5	76.0	72.9
Peru	7.7	8.0	8.2	8.2	9.7	9.5	9.3
Venezuela	15.0	23.0	26.0	28.9	28.3	29.2	32.0
Others	18.3	21.4	25.7	30.3	33.1	32.6	32.0
TOTAL	156.0	191.8	219.0	258.2	290.4	289.3	291.0

The debts of Venezuela, Colombia, and Chile slightly less than tripled, going from \$15 billion, \$4.2 billion, and \$7.1 billion to \$40 billion, \$12 billion, and \$19 billion, respectively. Mexico more than doubled its debt, from \$35.5 billion to about \$88 billion, while Brazil, the largest debtor, slightly less than doubled its debt, which rose from \$54.4 billion to about \$101 billion.

These estimates, presented in **Table 1**, were compiled

from numerous published and non-published sources. The fragmentary nature, inconsistency, and unreliability of statistics on Ibero-American debt are notorious, and the figures presented represent our best-guess reconciliation, extrapolation, and interpolation from the most reliable known sources, including the International Monetary Fund, the World Bank, the Bank for International Settlements, the Organization for Economic Cooperation and Development, and the Morgan Guaranty Trust, among published sources, supplemented by the statements of government officials in the major countries as reported in the local press, and by private estimates from the U.S. banking community. Unfortunately, these sources generally do not include figures for interest paid or interest rates in force, nor do they provide breakdowns for short-term (under one-year maturities) versus long-term loans, except for the *World Bank Debt Tables* interest figures for publicly guaranteed debt. To calculate interest savings, the *Debt Tables*' figures were extrapolated to cover the non-publicly guaranteed and the short-term loans by a procedure which undoubtedly underestimates the true interest rate paid, and hence the interest saving. The figures given can be considered very conservative.

The results of maintaining 1978 interest rates constant through 1984 are presented in **Table 2** and **Table 3**. It was assumed that the savings for a given year in interest that would not have had to be paid would have meant that the total debt of the following year would be lower by that amount. Therefore, the "savings" listed in **Table 2** represent interest assumed not to have been paid in the previous year, which shows up as deductions from new principal in the year indicated. **Table 3** shows the resulting new principal outstanding when the "savings" is subtracted from the actual debt figures.

From a savings of \$2.5 billion realized in 1979 and deducted from 1980's principal, the savings grew to a cumulative total of \$59.1 billion by the end of 1983, or a reduction in the total 1984 estimated debt burden of \$350.1 billion to \$291.0 billion. While exact figures for total interest actually paid by each country cannot be determined, the savings indicated in this calculation is in the range of one-third of the total interest paid during the period, such that total interest was probably between \$180 billion and \$200 billion. It can be seen that total interest paid was therefore something above half of the total debt as of this year.

Terms of trade

The "terms of trade" refers to the relative motions of the prices of a nation's imports and exports, weighted according to the mix of specific imports and exports of that country. Given the distorted pattern of North-South trade, in which industrial manufactures still comprise the bulk of advanced country exports to Ibero-America and other developing regions, while primary commodities still constitute the bulk of the region's exports to the developed countries, the relative prices of a nation's imports and its exports can vary quite

widely.

In the case of Ibero-America, very few countries compile their own indices for volumes of imports and exports, which is the basis for making the unit-value indices (a measure of trade-weighted price changes) from which the terms of trade index is compiled. Only Brazil, Colombia, and Peru have such indices up through 1983. However, the International Monetary Fund, using its own private calculations for each country, compiles a published index for the entire continent, which we accordingly used to calculate the effect on the continent of the relative trade-weighted prices of the continent's imports and exports. These figures can therefore be considered conservative.

To calculate lost revenue, we took the reciprocal of the same quotient (the "export multiplier"), and multiplied it by actual value of exports to derive a "real value of exports." This value represents what the continent would have earned in export revenues had trade-weighted export prices risen in proportion to import prices. The difference between this value and the actual export revenues represents the annual loss of funds to the continent.

This calculation yields a cumulative total of \$113.6 billion for the seven-year period in lost revenues to Ibero-America. This means that measured in terms of volume, exports expanded much faster than imports.

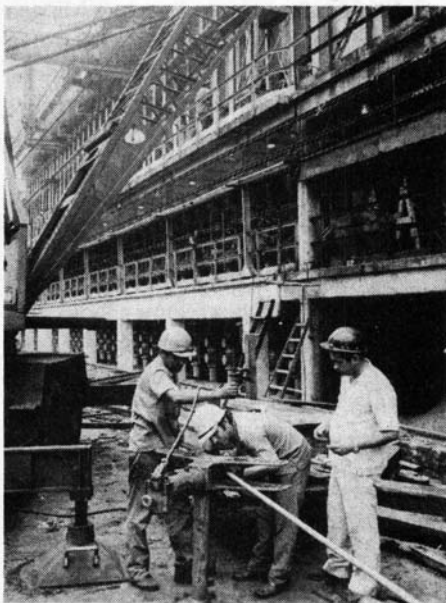
Because the continent is a significant net exporter of petroleum, it might be expected that there would have been a sharp favorable movement in the terms of trade between 1979 and 1980. But in reality the rise in oil prices was much lower than the rise in import prices. While the higher petro-



Sugarcane being harvested in Brazil.

United Nations

leum prices benefited Venezuela and Mexico, and to a lesser extent several other countries, they hurt Brazil very seriously, partially canceling the effect of the increases. Moreover, most of the remaining countries were either self-sufficient in petroleum, or were minor importers or exporters, such that



A coke furnace being built in Brazil.

United Nations

TABLE 4
Hypothetical debt burden, assuming 'real value' exports and constant 1978 interest rates

(in billions of U.S. dollars)

	1978	1979	1980	1981	1982	1983	1984
Present debt	156.0	191.8	221.5	270.0	315.9	333.7	350.1
Hypothetical interest 'savings'			2.5	11.8	25.5	44.4	59.1
Adjusted debt	156.0	191.8	219.0	258.2	290.4	289.3	291.0
Hypothetical trade 'savings'	6.5	13.0	23.1	44.6	76.4	112.0	149.6
New net debt	149.5	178.8	195.9	213.6	213.9	177.3	141.4
Capital flight							100.0
1984 net debt							41.4

Without the added burden of high interest rates and capital flight, Ibero-America's debt would be quite manageable. This table shows the figures used to calculate the bar graph on page 9.

TABLE 5
Ibero-American imports slashed, 1979-1983
 (in millions of U.S. dollars)

	1979	1980	1981	1982	1983
Imports:					
Brazil	19,804	24,961	24,079	21,069	
Mexico	12,086	19,460	24,068	14,559	
Total	75,530	103,030	109,770	83,560	
Exports:					
Brazil	15,244	20,132	23,293	20,175	21,899
Mexico	8,982	15,570	19,383	21,580	
Total	65,360	84,970	88,810	82,700	
Trade balance:					
Brazil	-4,560	-4,829	-786	-894	5,098
Mexico	-3,104	-3,890	4,685	6,086	13,068
Total	-9,730	-18,430	19,520	-2,020	17,770

Total includes countries not listed separately. Source: International Financial Statistics, IMF

Next to flight capital, the largest drain of the continent's wealth has come from trade surpluses in the accounts of almost every nation. This table shows the dramatic shift of the continent's position from being a net importer of goods in 1979-81 to being a substantial net exporter in 1983. The absolute magnitude of the collapse in imports between 1981 and 1983 was \$46.7 billion. The year 1981 was the last year in which the major countries—especially Brazil and Mexico—expended sizeable sums for large-scale development projects. The main burden of the import cuts has fallen on the all-important capital goods category, goods required to expand industrial and agricultural capacity and to maintain existing levels of production.

the late-1979 price hike had only a minor effect on their terms of trade. But most important, these figures reveal starkly the extent to which the prices of manufactured goods from the industrial countries rose sharply, as a secondary effect of the oil-price hike, so that the net effect canceled the primary benefit of the oil-price hike to the exporting nations of the continent. And, while petroleum prices began falling in 1982, import prices have fallen only nominally since their high of 1981.

In total, between 1977 and 1984, the continent increased its volume of exports by a very substantial 66.7%, a two-thirds improvement, during a period the second half of which saw a major collapse of trade on a world basis. In the same period, imports rose by more than one-third through 1981, and then collapsed to well below the 1977 level, where they are expected to remain through 1984. It is clear that had relative prices remained constant, the huge export growth in excess of imports would have yielded tremendous surpluses, on the order indicated by our calculations. It also demonstrates the extent to which the continent did succeed in fol-

TABLE 6
Declining U.S. trade with Ibero-America, 1979-1983
 (in millions of U.S. dollars)

	1979	1980	1981	1982	1983
U.S. exports to:					
Mexico	9,847	15,145	17,789	11,817	9,082
Brazil	3,442	4,344	3,798	3,423	2,557
Total Ibero-America	28,960	38,718	42,102	33,593	25,107
U.S. imports from:					
Mexico	8,800	12,520	13,765	15,566	16,776
Brazil	3,118	3,715	4,475	4,285	4,946
Total Ibero-America	30,462	37,035	37,585	37,989	41,743
U.S. trade balance with:					
Mexico	1,047	2,625	4,024	-3,749	-7,694
Brazil	324	629	-677	-862	-2,389
Total Ibero-America	-1,502	1,683	4,517	-4,396	-16,636

Source: Highlights of U.S. Export and Import Trade (FT 990), U.S. Department of Commerce.

The collapse of Ibero-American imports has hit the United States the hardest. Between 1979 and 1981 U.S. exports to Ibero-America grew by 45% from \$28,960 to \$42,102 million, and then fell to \$25,107, a 40% decline. Mexico, which accounts for half of the U.S. exports to Ibero-America, displays the same pattern as the region as a whole, with its imports falling almost 50% between 1981 and 1983.

The figures in Tables 5 and 6 cannot be directly compared, due to incompatibilities in statistics-gathering, although they do show the relative magnitude of the decline. There are great discrepancies between trade figures assembled by the United States and by its trading partners in the rest of the Western hemisphere. The largest discrepancy is between U.S. and Mexican figures of mutual trade, in which the United States lists as exports to Mexico more than Mexico's total imports from the entire world in 1983. To estimate the decline in the volume of exports, a 30% inflation in the average export price must be factored in, yielding a decline in real value, that is, of volume, of exactly 33.3%.

Following the stock advice of the World Bank, the International Monetary Fund, the governments of the creditor nations, and the lending banks, namely, to expand exports and limit imports. But the fruits of their labors were stolen by the plunging terms of trade, and instead of improving their financial and economic situations, every single nation without exception wound up with fantastically high debts and collapsing economies.

Flight capital

Flight capital is the shadowiest category in international financial statistics, but also one of the most important. In some cases, it is constituted of trade earnings which were not

TABLE 7
Mexico's foreign trade, 1978-1984
 (in billions of U.S. dollars)

	1978	1979	1980	1981	1982	1983	1984
Exports	6.06	8.82	15.13	19.42	21.23	21.40	24.13*
Imports	7.92	11.98	18.83	23.93	14.44	7.72	8.46*
Balance	-1.86	-3.16	-3.70	-4.51	6.79	13.38	15.67*
Exports:							
Petroleum	1.86	3.98	10.44	14.57	16.48	16.00	17.00*
Agricultural	1.50	1.78	1.53	1.48	1.23	1.28	2.27*
Extractive	0.21	0.33	0.51	0.68	0.50	0.47	0.60*
Manufac.	2.49	2.73	2.65	2.69	3.02	3.67	4.26*
Imports:							
Consumer	.65	1.00	2.25	2.81	1.52	.55	.70*
Intermed.	5.29	7.40	11.21	13.54	8.42	5.35	6.09*
Capital	1.98	3.57	5.17	7.58	4.50	1.82	1.67*

*1984 estimate derived by multiplying first 4 month figure by 3. Source: Banco de Mexico

TABLE 8
Mexican imports, 1980-1983
 (in millions of U.S. dollars)

	1980	1981	1982	1983
Agricultural	1,871	2,166	927	1,619
Livestock	130	215	172	76
Extractive industry	256	257	221	105
Manufactures	16,003	20,259	12,956	5,832
Food, beverages	1,175	1,060	691	419
Textiles, apparel	262	398	270	32
Paper & wood	705	783	523	280
Petro. & petrochem.	827	870	863	596
Chemical & rubber	1,733	2,081	1,466	911
Non-metallic minerals	163	199	117	36
Steel products	1,824	2,126	1,071	386
Other metals	385	574	269	83
Machinery & metallic products	8,826	12,032	7,610	2,971
Agricultural	380	425	204	72
Railroad equipment	313	343	221	184
Other transport	2,365	3,295	1,757	682
Machinery	4,189	5,896	3,875	1,890
Professional equipment	300	429	327	143
Electrical	1,098	1,406	1,088	454
Other	181	237	138	47
Miscellaneous	102	134	75	13

Source: Subdirección general de planeación, investigación y desarrollo, Government of Mexico

This table provides a detailed picture of the devastation of Mexico's economy, utilizing Mexican figures. Mexico shows an astounding shift from net imports in 1981 of \$4.5 billion, to a net export surplus of \$15.7 billion estimated for 1984 and a recorded \$13.4 billion surplus in 1983. The largest part of this stemmed from a decline in imports between 1981 and 1983 by more than two-thirds.

Although more than half of the export increase between 1981 and 1984 was in increased sale of petroleum, steady increases in the exports of manufactured goods have been recorded since 1980. On the import side, consumer imports, relatively small in magnitude, have fallen to one-quarter of their former size. Capital goods imports fell more than 75% from 1981 to 1983, with a further decline indicated for 1984.



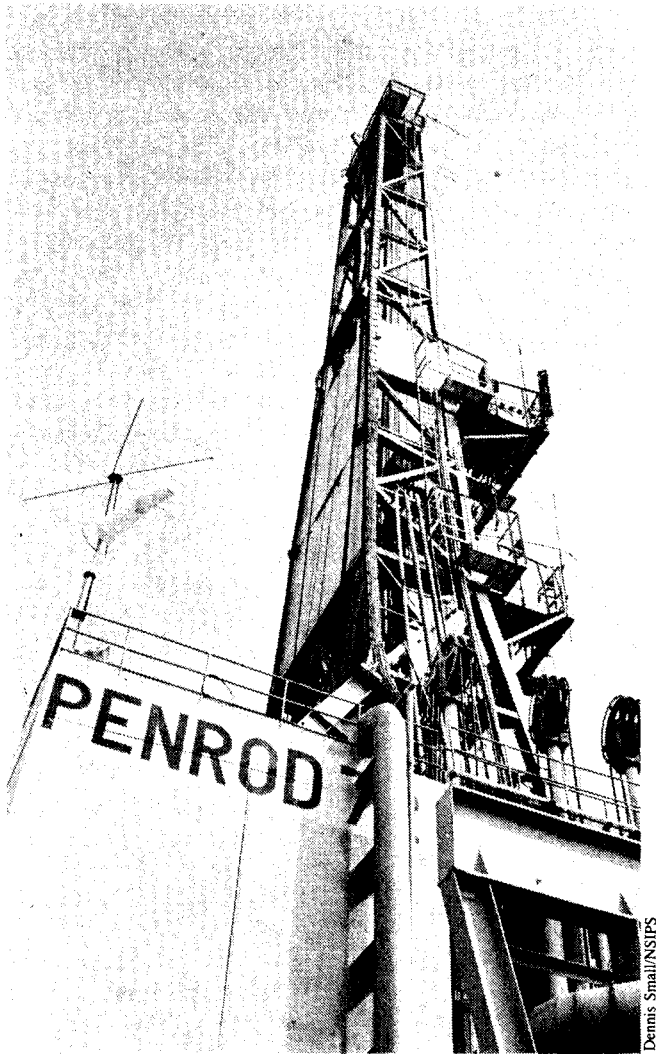
Children playing in a Mexican slum.

This table details the sectors of the Mexican economy hardest hit by the import cuts. Manufactured goods were hit relatively harder than primary goods, and within manufacturing, machinery and metallic products declined the fastest—falling in 1983 to just one-third of the 1980 level. The 1983 figure was less than one-quarter of the 1981 high, in current dollar terms. Machinery imports fell to \$1.9 billion from a high of \$5.9 billion. Imports of steel products fell to 18% of the 1981 high, and non-ferrous metals declined to less than one-seventh of the 1981 peak. These figures reveal the gutting of the core of the industrial economy.

reported, through under-invoicing and other mechanisms, and which were then exported, or which in some cases never left the country of origin, being merely credited to the foreign account of the receiving party. Such funds never enter the country's balance of payments accounts at all. Other flight capital is in the form of dollar withdrawals from the country's

banking system, and shows up in the "services" category of the balance of payments.

General magnitudes are therefore all that can be estimated. In June of 1982, the Organization for Economic Cooperation and Development (OECD) published a study detailing an important anomaly in the 1980 world current accounts



PENROD 7, a U.S. oil company in Brazil.

This table is based on calculating a constant dollar value for imports and exports; the resulting cumulative "savings" line shows a deterioration of terms of trade of \$51.3 billion (value of exports minus value of imports). Brazil held its imports constant in 1979-80, after which the country registered a yearly decrease in this value, down to \$8.1 billion or a 42.6% decrease. Exports exactly doubled between 1979 and 1984, from \$15.1 billion to \$30 billion. This would have yielded an astounding trade surplus of \$21.9 billion in 1984, a "saving" of \$9 billion over the actual anticipated surplus. The bottom two lines show the same picture, in the form of the direct volume index, by which exports almost doubled in volume through 1983 while imports fell to less than three-quarters of the 1977 level.

statistics. On a global basis, listed world exports of goods surpassed world imports by \$39 billion, while official "imports of services" were \$75 billion in excess of exports of same. In its 1983 edition of the *World Economic Outlook*, the International Monetary Fund discussed at length what it called the "asymmetry" in global current account balances. The net world deficit in services and private transfers rose from the \$20 billion range in the mid-1970s to more than \$80 billion in 1982 and 1983, i.e., in the same range as the OECD estimate. Despite efforts to find explanations for this discrepancy without mentioning flight capital by name, the IMF presented evidence that suggests the possibility of very large flows of such capital. In effect, the balance of payments statistics have become almost useless, according to this evidence. First of all, the net deficit in world payments balances on services and private transfers disguises an even larger gross discrepancy, i.e., the net deficit is composed of even larger gross deficits on different categories, partly counterbalanced by gross surpluses on other categories. Both deficits and surpluses can represent hidden flows of capital. Second, hiding and under- and mis-reporting of payments received for tax reasons has become endemic in the developed countries. Third, many countries, emphatically including some of the leading industrialized countries in their own national figures, show huge quantities in the "errors and omissions" column, with the United States being the most egregious case, showing \$42 billion in 1982, 11% of U.S. receipts on current account.

TABLE 9
Terms of trade and revenue loss, Brazil,
1978-1984

(in billions of U.S. dollars) 1977 = 100

	1978	1979	1980	1981	1982	1983	1984
Value Total Exports	12.7	15.2	20.1	23.3	20.2	21.9	26.4*
Value Total Imports	13.7	18.1	23.0	22.1	19.4	15.4	13.5*
Trade Balance	-1.0	-2.9	-2.95	1.2	0.8	5.5	12.9*
Export Value 1977 Prices	13.9	15.1	18.8	23.1	21.4	24.9	30.0*
Import Value 1977 Prices	12.9	14.1	14.1	12.2	11.0	9.3*	8.1*
Trade Balance 1977 Prices	1.0	1.0	4.7	10.9	10.4	15.6	21.9*
"Saving" 1977-Current Prices	2.0	3.9	7.0	9.7	9.6	10.1	9.0
Cumulative "Savings"	2.0	5.9	12.9	22.6	32.2	42.3	51.3
Volume Index of Imports	110.9	114.1	114.1	98.9	91.3	71.7	
Volume Index of Exports	112.7	123.5	152.0	182.4	166.7	185.3	

*Extrapolated
Sources: Volume, Unit Value, *International Financial Statistics*, IMF; trade figures, *ibid.*, Brazilian Government; remainder: own elaboration

In October of 1982, then President of Mexico José López Portillo published documentation of \$54 billion in flight capital from Mexico alone between 1980 and 1982. In 1983, Venezuela stated that it had lost \$16 billion in flight capital in 1982. To these \$70 billion we have added an assumed \$30

TABLE 10
Foreign trade of Brazil, 1979-1984, quarterly
(in millions of U.S. dollars)

	Exports	Imports	Balance	Petrol. Imports	Imports Net of Petrol.
1979					
1Q	3,125	3,559	-434	1,187	2,372
2Q	3,677	3,976	-299	1,503	2,473
3Q	4,178	5,033	-855	1,935	3,098
4Q	4,264	5,393	-1,129	2,293	3,100
1980					
1Q	4,114	5,483	-1,369	2,293	2,965
2Q	5,079	5,750	-671	2,747	3,003
3Q	5,207	6,043	-836	2,685	3,358
4Q	5,732	5,679	53	2,387	3,292
1981					
1Q	5,186	5,606	-420	2,913	2,693
2Q	5,660	5,565	95	2,821	2,744
3Q	6,141	5,610	531	2,971	2,639
4Q	6,289	5,310	979	3,018	2,292
1982					
1Q	4,853	4,804	49	2,682	2,190
2Q	4,972	4,872	100	2,833	2,239
3Q	5,276	5,072	204	2,833	2,239
4Q	5,072	4,647	447	2,664	1,983
1983					
1Q	4,653	3,825	828	2,270	1,555
2Q	5,747	3,652	2,095	2,234	1,418
3Q	5,890	3,940	1,950	2,277	1,663
4Q	5,610	4,030	1,580	2,102	1,928
1984					
1Q	5,670	3,230	2,440	1,716*	1,514
2Q	6,705**	3,405**	3,300	1,716*	1,689

*Half year figure divided in half

**April-May figure extrapolated through June

Source: *International Financial Statistics*, IMF and Brazilian Economic Indicators, Brasília, Brazil

From the trend of trade performance seen here it is likely that the second quarter 1984 export level will be exactly double the first quarter of 1979, and the highest quarter in Brazil's history. The value of imports is exactly the same as in early 1979. The balance in the second quarter of 1984 will practically equal the value of total imports.

A more revealing measure is imports net of petroleum expenditures, i.e., the value of imports going for all other purposes, including capital goods. These imports rose to an all-time peak in the third quarter of 1980 and have been falling since, reaching a low of \$1.42 billion in the second quarter of 1983, a 55% decline. While the estimated second quarter of 1984 shows a slight increase back to \$1.69 billion, this represents a renewed decline from the \$1.93 billion of the third quarter of 1983.

TABLE 11
Falling output in Mexico's manufacturing industries, 1977-1984

Index: 1977 = 100

	1978	1979	1980	1981	1982	1983	1984
Total	110.1	121.6	131.1	140.8	136.2	125.2	124.6*
Consumer	107.7	118.4	126.5	135.0	132.9	123.9	126.9**
Intermed.	110.8	122.3	132.3	141.8	137.6	128.0	128.4**
Capital	118.6	135.4	150.9	170.0	145.6	109.1	108.0**
Auto	133.8	156.6	178.9	219.3	162.2	96.3	105.3**
Machinery	118.0	136.5	152.4	169.9	146.2	106.5	98.3*

*January and February average

**Average of January-April

Source: Banco de Mexico

From a peak in 1981, Mexico's output has fallen a steep 11.5%, and is still going down. The sharpest drop took place in 1983, following the devaluation in late 1982. Figured in output per capita terms, the decline is almost 18%. We have singled out here the machinery and auto industries, which show the trend most dramatically. The machinery industry, which includes both consumer machinery and capital goods, fell a devastating 42%, including a 7.7% fall so far in 1984 alone. In the auto industry, the figures reveal the critical situation facing one of the most important industries in the country. From a high of 219% of 1977 levels, production is now barely above 1977 levels at 105%, and fell as low as 96% in 1983, rates of decline of 52% and 56%, respectively.



An experimental irrigation project in Brazil.



An instructor and trainee at lathe in the machine shop of the Ford Motor Company's assembly plant in Mexico City.

TABLE 12
Mexican manufacturing employment, 1977-1984
Index: 1977 = 100

	1978	1979	1980	1981	1982	1983	1984
Manufacturing Employment	104.9	112.8	121.2	127.9	124.8	114.4	109.6
Manufacturing Man-hours worked	106.2	114.8	123.5	129.5	122.9	113.6	106.9

Source: Banco de Mexico

Mexico's employment in 1984 was a devastating 14.3% below the 1981 level. In terms of man-hours worked, the situation is worse still, showing a decline of 17.5%, indicating that average hours worked per worker have also fallen, reducing the average income per worker as well.

billion more to cover flight capital from Brazil, Argentina, and the remainder of the continent, and from Venezuela and Mexico subsequent to 1982. This estimate is extremely conservative. In Argentina alone, the foreign debt was run up from \$12 billion in 1977 to \$45 billion in 1984, an increase of \$33 billion.

Thus, our rounded estimate of \$100 billion over the past five years is certainly a substantial understatement of the real figure. In other words, it is quite possible that had there been no flight capital, and applying the hypothetical case developed above concerning interest rates and terms of trade, the total present debt of the continent would be approaching zero.

TABLE 13
Employment and industrial output in Brazil, 1981-1984, quarterly

	Output**	Industrial Employ.**
1981 1Q	131.38	108.72
2Q	129.05	104.36
3Q	132.00	98.74
4Q	122.77	95.86
1982 1Q	118.36	95.22
2Q	131.01	96.36
3Q	137.21	95.22
4Q	126.80	93.17
1983 1Q	85.77	91.00
2Q	91.17	89.73
3Q	98.43	86.93
4Q	96.20	85.03
1984 1Q	89.27	83.63

* 1975 = 100

**1976 = 100

Source: Brazilian Economic Indicators, Brasilia, Brazil

These figures show the shocking state of collapse of Brazilian industry, the most developed industrial plant in Ibero-America. The decline between the third quarter of 1982 and the first quarter of 1984 is equal to the entire collapse of U.S. industry between 1929 and 1933 in the Great Depression. And the total decline from 1979 is significantly greater than this. Manufacturing employment has fallen almost one-quarter.

The Kra Canal

and the

Industrialization of Thailand

A Conference Sponsored by

The Communications Ministry of Thailand

The Fusion Energy Foundation, U.S.A.

Executive Intelligence Review Limited Partnership, Bangkok

Oct. 31–Nov. 1, 1984

Dusit Thani Hotel Bangkok, Thailand

Wednesday, October 31

Thursday, November 1

9:00 a.m.

Opening and Keynote Address

His Excellency Minister Samak Sundaravej, *Minister of Communications, Thailand*

9:45 a.m.

The Economic Feasibility of The Kra Canal

PANEL CHAIRMAN:

Dr. Chitti Wacharasindhu, *Deputy Permanent Secretary of the Communications Ministry of Thailand*

PANELISTS:

Dr. Nimit Nontapunthawat, *Vice-President, Chief Economist, and Manager, Economic and Marketing Research Center, Bangkok Bank*

Sattaporn Tavitanun, *Deputy Secretary General of the Board of Investments of the Office of Prime Minister*

Dr. Uwe Henke v. Parpart, *Director of Research, Fusion Energy Foundation*

2:00 p.m.

Advanced Technologies For Canal Construction

Dr. Milo Nordyke, *Lawrence Livermore Laboratories, California*

Harry Ekizian, *T.A.M.S., New York*

Pongpol Adireksarn, *Member of Parliament, Thailand*

9:00 a.m.

High-Technology Industrial Development in the Canal Zone

Dr. Svasti Srisukh, *Former Secretary General of the Office of Atomic Energy for Peace, Thailand*

Ramtanu Maitra, *Editor, Fusion Asia*

Douglas Headley, *Engineering specialist, Pacific Engineers and Constructors, Taiwan*

Scott Morrison, *President, Dorwood Industries; past executive vice-president, Sealand*

2:00 p.m.

International Policy—Regional Development and Cooperation

Pacifico Castro, *Deputy Foreign Minister of the Philippines*

General Saiyud Kerdpol, *former Supreme Commander, Thai Armed Forces*

R.K. Hazari, *economist, Bombay, India*

K.L. Dalal, *former Ambassador of India to Thailand*

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