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STUDY PROJECT

LATIN AMERICAN COUNTRIES' DEBT AND ITS INFLUENCE ON THEIR ARMED FORCES AS THEY ATTEMPT TO MAINTAIN THE STABILITY AND SECURITY OF THE REGION

BY

COLONEL OMAR A. PACHECO, IN

DISTRIBUTION STATEMENT A: Approved for public release; distribution is unlimited.

21 MARCH 1990

U.S. ARMY WAR COLLEGE, CARLISLE BARRACKS, PA 17013-5050

Unclassified
SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

REPORT DOCUMENTATION PAGE

READ INSTRUCTIONS BEFORE COMPLETING FORM

1. REPORT NUMBER

2. GOVT ACCESSION NO.

3. RECIPIENT'S CATALOG NUMBER

4. TITLE (and Subtitle)
Latin American Countries' Debt and Its Influence on their Armed Forces as they attempt to Maintain the Stability of the Region

5. TYPE OF REPORT & PERIOD COVERED
Individual Study Project

6. PERFORMING ORG. REPORT NUMBER

7. AUTHOR(s)
COL Omar A. Pacheco

8. CONTRACT OR GRANT NUMBER(s)

9. PERFORMING ORGANIZATION NAME AND ADDRESS

10. PROGRAM ELEMENT, PROJECT, TASK AREA & WORK UNIT NUMBERS

11. CONTROLLING OFFICE NAME AND ADDRESS

12. REPORT DATE
21 March 1990

13. NUMBER OF PAGES
47

14. MONITORING AGENCY NAME & ADDRESS (if different from Controlling Office)

15. SECURITY CLASS. (of this report)
Unclassified

15a. DECLASSIFICATION/DOWNGRADING SCHEDULE

16. DISTRIBUTION STATEMENT (of this Report)

17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report)

18. SUPPLEMENTARY NOTES

19. KEY WORDS (Continue on reverse side if necessary and identify by block number)
Latin American Countries' Debt, Armed Forces, Stability, Political Science, Economics, Government (Foreign)

(JG)

20. ABSTRACT (Continue on reverse side if necessary and identify by block number)

Latin America and the Caribbean countries have collectively achieved a level of economic development that places the region in an intermediate position between industrialized countries and the rest of the developing world. With a land area of one-sixth of the world's total the region is rich in mineral resources. The area is so vast that the full extent of its resources has not been fully assessed.

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DD FORM 1473, 1 JAN 73 EDITION OF 1 NOV 65 IS OBSOLETE

Unclassified
SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

Despite an apparent abundance of resources, the region's economic and social development has been the subject of considerable attention. This became particularly apparent in late 1982, when Mexico announced to the foreign banks that it was unable to meet the payments of its public sector debt. This pronouncement was later made by other countries in the region. Private banks, world banking institutions and the United States' government began focusing attention on Latin American debt because of the serious consequences that this crisis could have on its financial and economic institutions.

Yet, looking at the social and political problems that Latin American countries are facing today, it is reasonable to say that stability and security remain the main concerns of the regional leaders. The United States government shares this concern because the problem is found in its own backyard.

Today, the armed forces of the Latin American nations are the guarantors of their democratic institutions and as a consequence have become a major factor for maintaining security and stability in the region.

It is the goal of this paper to analyze the debt crisis in the general context and how its disastrous consequences are affecting the economies, people, institutions and particularly the armed forces of Latin American countries. It is not the intention to make the United States appear solely responsible for the Latin American debt. All negative consequences related to this issue should convince the reader that there are common problems and shared responsibilities for which Latin American countries and the United States Government must commit efforts to achieve mutual benefits.

USAWC MILITARY STUDIES PROGRAM PAPER

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AN INDIVIDUAL STUDY PROJECT

by

Colonel Omar A. Pacheco, IN

Colonel John N. Sloan, AR
Project Adviser

DISTRIBUTION STATEMENT A: Approved for public release; distribution is unlimited.

U.S. Army War College
Carlisle Barracks, Pennsylvania 17013
21 March 1990

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AUTHOR: Omar A. Pacheco, COL, IN

TITLE: Latin American Countries' Debt and Its Influence on their Armed Forces as they attempt to Maintain the Stability and Security of the Region

FORMAT: An Individual Study Project

DATE: 21 March 1990 PAGES: 47 CLASSIFICATION: Unclassified

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LATIN AMERICAN COUNTRIES' DEBT AND ITS INFLUENCE ON THEIR ARMED FORCES AS THEY ATTEMPT TO MAINTAIN THE STABILITY AND SECURITY OF THE REGION

CHAPTER I

INTRODUCTION

According to U.N. data, Latin America had a population of 217 million in 1960, 349 million in 1980, 405 million in 1985 (65 percent urban) and it is forecast to be 570 million in 2000. Of its 20 countries only Brazil, with a 1985 population of 135.6 million, is larger in territory than the continental United States. Latin America's proven oil reserves of 84,240 million barrels at the beginning of 1985, are more than twice as much as North America.[1] Mexico and Venezuela account for well over nine-tenths of Latin American oil reserves. Other significant resources include hydroelectric power potential which is estimated to be 300,000 megawatts and extensive uranium resources with 90,000 megawatts of geothermal potential.[2] Two countries, Brazil and Mexico are classified as "Newly industrialized countries." The three largest countries Brazil, Argentina and Mexico, have substantial and diversified industrial bases. These along with Colombia, Chile and Venezuela are important exporters of industrial goods. The region has the largest reserve of potentially productive crop land in the developing world.[3]

Since 1982, when the debt crisis exploded, drastic adjustment measures in 1983-85 resulted in the lowering of living standards and widespread economic insecurity, both of which exacerbated social tensions. Erratic monetary and fiscal policies and inflated currencies, contributed to an acceleration of inflation in the region which increased from 84.5 percent in 1981 to 275 percent in 1985.[4]

Unemployment and underemployment among the region's labor force which numbered about 131 million in 1985, rose substantially.[5]

In earl naving already ceased payments on the principal of its external deb zil announced an indefinite suspension of principal and interest payme s on the $108 billion it owes foreign lenders.[6] Later on, the Argentinian government with a strangled economy was forced to follow the same policy. Other countries in the region, such as Mexico and Venezuela, were facing similar challenges in their own economies.

Because of their inability to accomplish social and developmental programs and because of the high amount of funds diverted from the national budget to service the external , many countries considered taking the same steps.

During the last gnt years, Latin American countries have been facing one of the most dramatic economic crisis of all history.

The actual debt which now exceeds $430 billion[7] has created an unbearable situation that compromises the stability and security of the American continent. United Nations General Secretary, Javier Perez de Cuellar, in his speech before the General Assembly on October 16, 1989, expressed his deep concern for the continuous crisis of the debt and its negative effect upon the growth and development of a great number of underdeveloped countries. He also mentioned that the manner in which these countries conduct adjustment programs to their economies and at the same time service their debt, have produced serious social and political instability.[8] This debt crisis has greatly concerned western bankers and U.S. government officials because of the sheer magnitude of the outstanding loans. Latin American government on the other hand, have described the current situation as a growth crisis, emphasizing the sharp break between the rapid growth of the 1960s and 1970s and the stagnation of the 1980s. However, whether the problem is a debt crisis or a growth crisis, both growth and debt-servicing

capability will have to be considered in Latin America for a full resolution of the serious economic and social problems.

The objective of this essay, without going into specific technical details, is to conduct a macro analysis of the fundamental aspects of the Latin American countries' debt, focusing on how the crisis affects the social and economical status of the Latin American countries institutions to include the armed forces. This will include proposals to address the basic national concerns of stability and security.

ENDNOTES

1. Robin Chapman, "Latin America and the Caribbean: Economic Problems," South America, Central America and the Caribbean, 1988, p. 3.

2. Chapman and Jonathan Hakim, The Economy, "External Debt," The Cambridge Encyclopedia of Latin America and the Caribbean, 1985, p. 122.

3. Chapman, p. 3.

4. Ibid.

5. Ibid.

6. Pierre Etienne Dostert, "Latin America Today," The World Today Series Latin America, 1989, p. 1.

7. Ibid.

8. United Nations, General Assembly, Forty-fourth Session, A/44/628, 16 October 1989, Agenda Item 84, "External Debt Crisis and Development."

CHAPTER II

POLITICAL AND ECONOMICAL HISTORY OF THE LATIN AMERICAN EXTERNAL DEBT

By the end of the 1970s, commercial banks accounted for 70 percent of net capital inflow to the Latin American region, against seven percent in the 1960s. By the end of 1984, about two-thirds of the region's total external debt of U.S. $360 billion was owed to these banks.[1] It was specifically in the 1970s when commercial loans were viewed as a vehicle for financing the economic growth of underdeveloped countries. These countries were growing quickly during the 70s period, in part because of high prices for commodities and in part as a consequence of the lower base level of their economies compared to industrial countries. This situation allowed the commercial banks to see many of the countries that supplied primary commodities as solidly credit-worthy and assessed their economies as fundamentally good investments.

The boom of the oil industry created an abundance of funds deposited in commercial banks to be recycled to various borrowers, including to the developing countries. Between 1974 and 1978, with the growth of world trade still healthy, expansionary economic policies in the organization of Oil Producer Exporters Countries (OPEC) kept interest rates low, frequently negative in real terms. Thus, the countries in the region had few problems in servicing their external debt commitments. However, at the same time they sought to avoid reducing total public and private expenditures to the levels of available resources, as external balances began to emerge necessitating internal adjustment measures.[2]

By 1978 the OPEC cash surplus had disappeared by a combination of rapid growth in organization of oil exporter countries, imports and a sharp reduction in the real price of petroleum. Commercial banks found reduced resources at their disposal for lending purposes. This resulted in a build up

of short-term debt. Particularly from 1980, borrowers found that low interest rates and a larger volume of borrowing could only be obtained from the banks by taking short-term loans for one year or less.[3]

Following the second petroleum price shock in 1979 and the subsequent world recession, declining export earnings in depressed world markets, together with higher import costs, increased the current account deficits in nonpetroleum developing countries, and also in major petroleum producers, such as Mexico. This swelled the demand for foreign loans. Simultaneously unprecedented levels of interest rates, which were a by-product of tight monetary policies in the major industrial countries (particularly the U.S.A.), raised debt-service costs to unsustainable levels.[4]

The combination of these factors led to a panic exodus of funds from major debtor countries and a cessation of new international lending to them by the banks and export credit agencies. As a consequence, net external borrowings in the region declined from $41,000 million in 1981 to $7,000 million in 1982, and debt servicing was equivalent to 47 percent of regional exports in 1983.[5]

The debt problem reached a critical stage when on August 30, 1982, Mexico stunned the world with its announcement that it was unable to meet the payments on the principal of almost $20 billion of its public sector debt which was owed to about fourteen hundred foreign banks.[6] By year's end, 35 countries, including Latin American countries, were in arrears in their debt payments, and a record number of debt renegotiations were under way.[7] In 1982 and 1983 the world bank reported "almost as many developing countries have had to reschedule loans . . . as in the previous twenty-five years."[8] Countries of the region were forced to renegotiate their debt commitments to commercial bank creditors and a precondition for settlement was normally an

agreement with the International Monetary Fund (IMF). By the end of 1983, 15 countries had made some kind of agreement with the IMF programs envisaging domestic and external adjustment. In 1984, only Colombia and Paraguay among Latin American countries were servicing external commitments normally.[9]

During 1984 Argentina, Brazil, Mexico and Venezuela undertook negotiations with international commercial banks on major debt-restructuring programs, which covered only part of their debts.[10] In 1984 and 1985 Chile, Costa Rica, Cuba, Guatemala, Honduras, Nicaragua, Panama and Uruguay were involved in negotiations to reschedule debt for 1985. At the same time, Chile requested substantial amounts of new money,[11] and surprisingly, the additional money resulted in a 180 degree turn in its economy. At the present time Chile is one of the most stable economies in South America. IMF agreements were included in the rescheduling accords. All these negotiations involved concessions in payments of debt principal, but very few in those of interest.[12] The debt crisis, starting in the 1970s throughout the 1980s, is part of the Latin American countries' economic history that cannot be forgotten. Commodity prices and export earnings peaked in 1980, but subsequently fell sharply in the face of global recession. Organization of oil producer countries currency surpluses dropped, reducing the volume of funds for recycling and at the same time interest rates and the cost of servicing existing debts rose dramatically. Of course, developing countries and especially Latin American countries were not prepared for these events.

Many of the nations of the region did not properly invest the financing they had received. A significant portion of commercial bank lending had gone to boost consumption and inefficient production. The governments were deeply involved in the economy and finally the capital flow out of the countries.

Ineffective, unresponsive and inappropriate macroeconomic policies in the borrowing countries allowed much of this to happen. Later in 1987, the major debtors, Brazil and Argentina among others, decided to suspend principal and interest payments because of their economic and social problems. Since interest rates declined significantly in 1983-1986, they resented having to pay at the higher rates, arguing that their loans should be readjusted to the current lower rates. Later, Mexico and Venezuela announced that they intended to follow Brazil's example. The situation became even more difficult since the four are the most deeply indebted of the Latin American nations.

Between 1984 and 1989, U.S. banks have been loaning money to Latin American nations to enable them to pay the interest back to the banks on loans which were past due. This, in effect, enabled the debtor nations to dig themselves (and the United States banks) in even deeper. Besides all the arguments, discussions or recommendations proposed by the borrowers to develop a comprehensive solution, social explosions of discontent were erupting in Brazil, Argentina, Mexico and especially Venezuela, where in February 1989, more than 250 people died during riots following the increase of the gasoline prices by the government. Declining and limited domestic savings, and excessive vulnerability to conditions abroad, are the fundamental weaknesses at present of the region's economic development. (Chart 1)[13]

ENDNOTES

1. Chapman and Hakim, p. 124.
2. Chapman, p. 3.
3. Ibid.
4. Chapman, pp. 3-4.
5. Ibid., p. 4.

6. Robert E. Wood, "From Marshal Plan to Debt Crisis, Foreign Aid and Development Choices in the World Economy," Chapter 6, Aid, Debt, and the Crisis of State Capitalism, p. 232.

7. Ibid.

8. World Bank, Annual Report 1983, p. 34.

9. Chapman, p. 4.

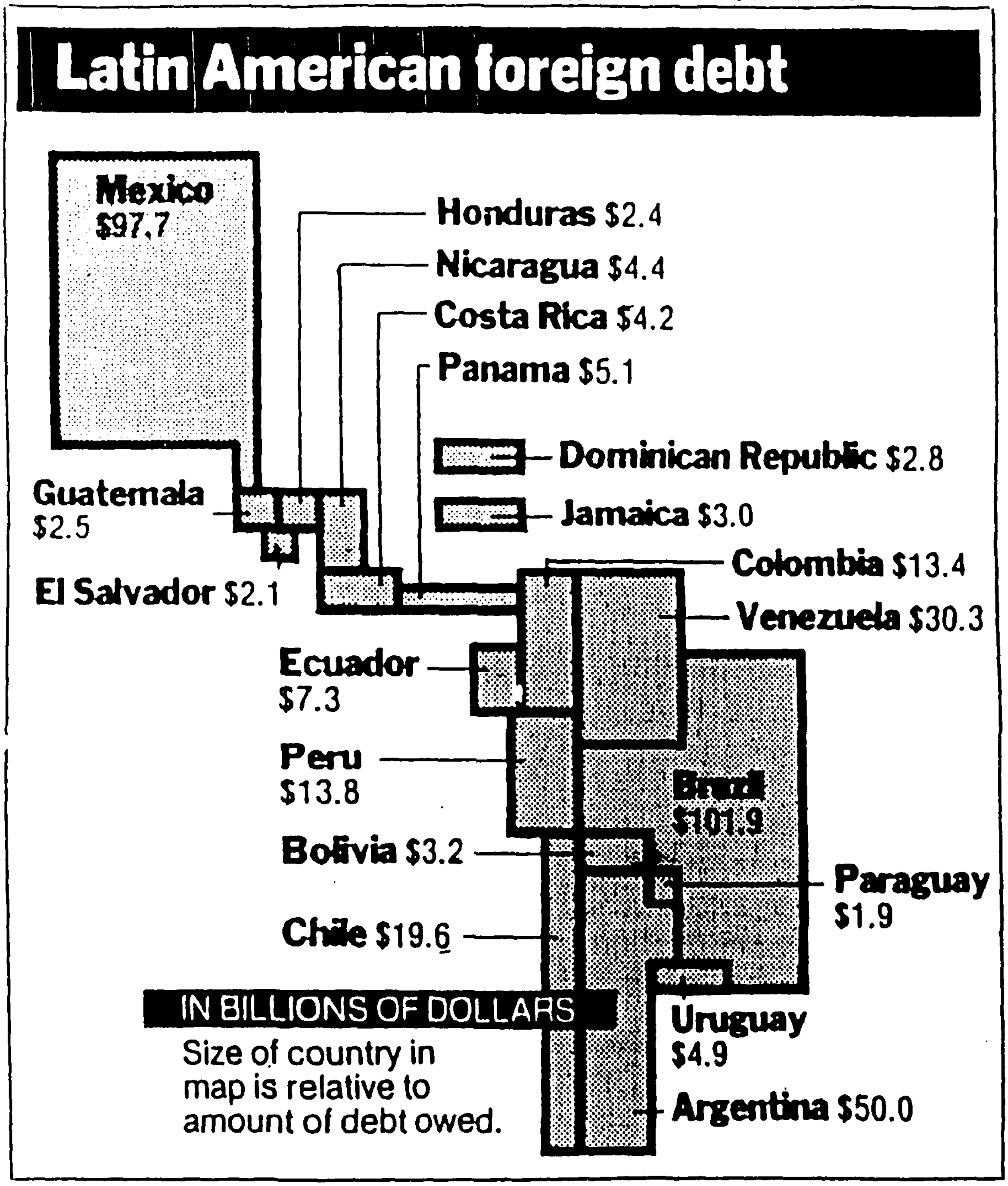
10. Ibid.

11. Ibid.

12. Ibid.

13. Robert Wesson and Jon Basil Utley, Economics in America, Chapter 6, How Can the U.S. Ease the World Debt Crisis?, View Point 6, "The U.S. Should Encourage Innovative Methods of Repayment," p. 243.

CHART 1



Latin American foreign debt
Mexico
$97.7
Honduras $2.4
Nicaragua $4.4
Costa Rica $4.2
Panama $5.1
Dominican Republic $2.8
Jamaica $3.0
Guatemala
$2.5
El Salvador $2.1
Colombia $13.4
Venezuela $30.3
Ecuador
$7.3
Peru
$13.8
Brazil
$101.9
Bolivia $3.2
Paraguay
$1.9
Chile $19.6
IN BILLIONS OF DOLLARS
Size of country in
map is relative to
amount of debt owed.
Uruguay
$4.9
Argentina $50.0

CHAPTER III

THE "BAKER PLAN"

In October 1985, the U.S. Treasury Secretary, James Baker, presented a "program for sustained growth" to the IMF--World Bank meeting at Seoul, South Korea. The program aimed to encourage less developed countries with debt servicing problems to pursue market-oriented policies, as well as IMF-sponsored fiscal, monetary and exchange rate policies. He acknowledged that something new had to be done to pump more money into the major "debtor" nations, especially, those in Latin America.[1] In Latin America the target countries were Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay, and Venezuela. In return, countries would be eligible for enhanced financial assistance from international financial institutions.[2]

The stated goal was reducing the net outflow from the debtor countries in order to spur growth in their economies. Secretary Baker called on the banks to renew loans of 20 billion over three years to the debtor countries, through country-by-country negotiations. Since these countries owed around $80 billion in interest to the banks, in those three years, the $20 billion in new loans would have reduced the net outflow by about one-fourth.[3]

Meeting in Montevideo in December of 1985 the Latin American economic ministers addressed Secretary Baker's proposal for an increase in loans to the area. The ministers considered it important, but hardly sufficient. Significantly, they affirmed that growth was a higher priority than repayment. The Latin American dilemma stems from hard realities. First, there is no money. Most of the countries can not pay, even if they desire to. Second, as new democracies, the political dimensions of the problem are life-threatening. They can not ask new voters to bear the burden of the necessary adjustment indefinitely and hope to survive. Third, adding more loans and increasing the

debt load are not solutions for countries that are now remitting abroad in interest payments a greater proportion of their Growth National Product than any nation in modern history. Proposed solutions that address only the cash flow aspect, as does Secretary Baker's, are as nonresponsive as Fidel Castro's advocacy of default or moratoria. They may help overcome today's crunch, but will exacerbate tomorrow's crisis.[4]

In 1986, the plunge in oil prices, coupled with the decline in the prices of most other commodities, made the three-year $20 billion Baker Plan appear far too small to most debtors.[5] One Latin American official said in Montevideo, December, 1985:

> We all want economies that grow, but not all countries can or want to make the same types of economic changes. If conditions attached to the Baker Plan are too tough, they will become an obstacle to its use.[6]

Although it may be surprising to some, throughout the debt crunch Latin America has been paying back to its lenders about $30 billion to $40 billion a year in net-resource transfers, or an amount equivalent to six percent of their GNP's. The Baker Plan is, therefore, viewed as a failure, but it benefited the banks by providing a political context to press the debtor countries to keep paying the interest.[7]

ENDNOTES

1. Hobart Rowen, The Washington Post, Sunday, Jan. 12, 1986, p. C-15.

2. Chapman, p. 4.

3. Jeffrey Sachs, "Making the Brady Plan Work," Regional Strategic Appraisal: Americas, U.S. Army War College, 1990, p. 157.

4. L. Ronald Scheman, "Latin Debt - The Global Problem," Executive Director of the Center for Advanced Studies of the America, The Washington Post, Jan. 6, A13a.

5. James L. Rowe, Jr., The Washington Post, Staff Writer, February 26, 1986, p. G-1.

6. Hobart Rowan, "Nothing Has Happened with the Baker Plan," *The Washington Post*, Sunday, 12 January 1986, p. C-15.

7. Sachs, p. 158.

CHAPTER IV

THE BRADY PLAN

Jeffrey Sachs in his "Making the Brady Plan Work" explained that the Brady Plan was unveiled in a speech by Treasury Secretary Nicholas F. Brady to the Brookings Institution and the Bretton Woods Committee Conference on the Third World debt, March 10, 1989, in Washington, D.C. The new initiative announced by Secretary Brady calls on U.S. commercial banks to accept an orderly process of debt reduction, and calls on the International Financial Institutions - The International Monetary Fund (IMF) and the World Bank (WB), to support this process through changes in their lending policies.[1]

This plan implicitly recognized that many debtor countries will be unable to repay their commercial bank debts in full, even if repayment is stretched out over time. The general mechanism for achieving debt reduction called for in the new plan is for creditors' banks to agree voluntarily to reduce the value of their claims (either through a cut in principal or interest) in return for guarantees on the remaining portion of the debt. In the treasury's view of the negotiations between the banks and the debtor countries, the banks are to be presented with a "Menu of Options" of debt reductions mechanisms. The banks will be free to choose one of these, but they may decide to hold on to the existing debt in the belief that they will be repaid eventually.

The IMF and the World Bank are called upon to help finance the guarantees. These International Institutions have agreed to provide up to $25 billion over three years, and Japan has committed $4.5 billion.[2]

Although, the Treasury has avoided precise targets for debt reduction, the Treasury is informally promoting four countries, Costa Rica, Mexico, the Philippines and Venezuela as the first for early negotiations with the banks under the Brady Plan, the Treasury has stated that any of 39 countries could

eventually qualify to participate.[3] To qualify for debt reduction, the plan stipulates that debtor countries should be undertaking sound economic policies aimed at encouraging domestic savings and foreign investment and promoting the return of flight capital.

The new U.S. focus on debt reduction is rooted in the changing U.S. interests in the developing country debt crisis. Since the early 1980s, the debt crisis has actually presented U.S. policymakers with two crisis: A crisis of U.S. banks, which had lent too much to the developing countries, and a crisis of the developing countries, which had borrowed too much.[4] The developing countries, squeezed their economies sharply to meet the interest bills. Latin America alone paid about $25 billion more in interest and principal each year than it received in new loans, which slowed to a trickle.[5] The Brady Plan carries forward two key precepts of its predecessor, the Baker Plan. First, it calls for the debt problem to be handled on a case-by-case basis, in which each debtor country negotiates separately with its creditor. Second, it envisions that any easing of the terms of the debt must be linked to economic reforms under the supervision of the IMF and the World Bank. The Brady Plan differs from the Baker Plan, of course, in its stress on the need for debt reduction.[6]

The Baker Policy had raised two objections to debt reduction. First, it maintained that debt reduction would slow the return of the debtor countries to credit worthiness, because banks would be unwilling to lend to countries that had failed to repay their debt. Second, stretching out the debt repayments was deemed sufficient to restore prosperity. Opposition to debt reduction came not only from the Treasury but from the banks, given the continuing weakness of their balance sheets.[7] Secretary Brady has now

rejected these arguments. He has recognized that when a debt burden is too high to be repaid, it must be reduced before credit worthiness can be regained.[8]

The Brady Department of Treasury has also recognized that a further stretching out of the debt payments without debt reduction is unlikely to restore prosperity, because of the continuing crisis engendered by the large stock of bad debt. As for the debt itself, the Treasury has pointed to several ways to reduce it: Buy backs, conversion of debts into bonds with lower principal or interest, and exchanging debt for equity in the debtor countries.[9]

How much debt reducing is needed, and what will it cost? This depends on the terms in which the debt will be reduced and which debtor countries participate.[10] Debt reduction is a necessary condition for renewed economic growth in the debtor world, but it is surely not a sufficient condition. Without appropriate economic reform measures, most debtor economies would remain in difficulty even after a substantial reduction of debt.[11] Still Latin America has languished, Peter Truell explains in his article "The Outlook," "The Brady debt-reduction strategy, the main U.S. policy effort aimed at that region, is dying."[12] Indeed, in order to complete the first major transaction under that strategy, the Treasury has to pump in as much as $350 million of taxpayers' money, which anyway will be for the benefit of the taxpayer itself. "Latin America is in deep trouble. It is every man for himself" says Alan Stuga, a consultant at Kissinger Associates. The news from the Soviet Bloc does not help, he says. Commanding Western attention, and resources, he remarks, "Eastern Europe is horrendous for them."[13]

The Latins aren't a priority with financiers, either. Oil-rich Venezuela has spent months trying to negotiate "A Brady Debt" with its main bank

creditors. Finally controlling government spending and cutting inflation, and even suggesting an array of possible transactions to its bank creditors, Venezuela has reached a pact. Last March 20th Venezuelan officials and the country's principal bank lenders agreed on the basic features of the new debt accord following talks in New York.[14]

The larger Latin nations, like Brazil, Mexico, Argentina and Venezuela, need access to the International Credit Markets if they are to develop. Unfortunately for Latin America, there doesn't seem to be the energy or inclination in Washington to overhaul the debt strategy.

Despite the opinions of Mr. Sachs and Mr. Truell, there is no question that today more than ever, consensus between debtor countries, commercial banks and the Washington administration is necessary in order to find concrete solutions to the debt problem in Latin America. This is particularly true today, when almost the whole American hemisphere has become part of the Democratic System after the recent results of the Nicaraguan elections. Cuba probably has only a short time to follow in these steps. Reduction of the huge Latin American debt is one of the best solutions ever expressed by U.S. officials and must be supported. The consequences will be satisfactorily seen in a matter of years for the benefit of the Democratic governments of the region, the stability and security of the American base and definitely for the success of U.S. foreign policy toward Latin America.

ENDNOTES

1. Sachs, p. 158.
2. _Ibid._, p. 159.
3. _Ibid._
4. _Ibid._

5. *Ibid*., p. 160.

6. *Ibid*., p. 163.

7. *Ibid*.

8. *Ibid*.

9. *Ibid*., p. 164.

10. *Ibid*., p. 169.

11. *Ibid*., p. 173.

12. Peter Truell, The Wall Street Journal, Monday, January 22, 1990, p. 1.

13. *Ibid*.

14. Truell, March 21, 1990, p. A-3.

CHAPTER V

INTERNATIONAL MONETARY FUND (IMF), WORLD BANK (WB), INTERNATIONAL DEVELOPMENT BANK (IDB) AND PRIVATE BANKS, ITS ECONOMIC REFORMS AND THE SOCIAL AND POLITICAL CONSEQUENCES

"Without relief, the present opening to democracy in Latin America could easily abort, as it did in the 1960s" according to Latin American specialist Ronald Scheman at his article "Latin Debt: The Global Problem."[1] He also noted that the issue is not debt alone. Debt is a problem because of the nature of the world economy on which it must be carried. The reality is that the agony of Latin America is a result of specific economic policies that have acutely contracted the world economy.[2] He also established three inseparable issues: First, the restrictive economic policies mandated by the Reagan administration in the early 1980s which have dramatically changed the patterns of world trade; second, the adjustments that have to be made in the Latin American economies as a result of inefficient, protected economies that acquired bad habits during the easy money years of the 70s; and third, the severe drain on world liquidity caused by the current deficit plagued U.S. economy.[3] (The writer is executive director of the Center for Advanced Studies of the Americas.)

Economic reforms must be taken by Latin American countries in order to solve their national and international economic constraints. Some of the measures already underway have definitely favored the recovery of some of these economies. As Dr. John Harrington from the State Department expressed, measures such as tax policy reforms, new fiscal programs, liberalization of regulations governing foreign investment, freeing up rigidities, policies to liberalize trade, reform labor markets, develop financial markets, and privatizing government enterprises must be taken by debtor countries in order to overcome the crisis.[4] The question is, what will be the social cost

among the population of such measures? The answer is definitely very high and in some cases very painful. In Venezuela, while President Lusinchi announced another moratorium on debt principal repayment on December 31, 1988, the newly elected President Carlos A. Perez was negotiating in Washington for additional loans. The needed foreign assistance was obtained, but with conditions set by the International Monetary Fund. Gasoline increased 90 percent (from 15 cents to 25 cents a gallon) as part of the IMF recommended returns, bus fares doubled, prices were unfrozen on everything and numerous subsidies were ended.[5] As a consequence of those measures riots erupted in Caracas and quickly spread to other cities. The president called out the army and proclaimed Martial Law. Approximately 300 people were killed and more than a thousand seriously wounded.[6] Similar situations have been seen all around Latin America, especially in Brazil, Argentina, Peru and Mexico. Pierre E. Dostert, in his report for "Latin America Today," sharply explained,

> In many countries the drop of employment and real wages is nearing the critical limits of social tolerance. Observers have been amazed at the ability of the people of the region to endure lower incomes and service levels. The crisis has in large part been a product of austerity programs forced on Latin American governments by the International Monetary Fund and the World Bank. This was the price of continued credit.[7]

ENDNOTES

1. Ronald Scheman, "Latin Debt: The Global Problem," The Washington Post, January 6, 1986, p. A13a.

2. Ibid.

3. Ibid.

4. John Harrington, Head of Office for Economic Matters, Estate Department, Conference at U.S. Army War College, February 1990.

5. Joseph A. Mann, "Venezuela Caught in the IMF Crunch," The Times of the Americas, January 24, 1990, p. 15.

6. *Ibid*.

7. Dostert, June 1989, p. 2.

CHAPTER VI

THE LATIN AMERICAN ARMED FORCES AND THE CRISIS

The armed forces in the Latin American region are considered the guarantors of the states by preserving the security of their territories and in many cases form the backbone of the democratic governments by maintaining internal stability in those cases of internal unrest created by radical groups or internal security when the state is been threatened by extreme Left or Right subversion. The debt crisis which has been negatively affecting all sectors of the Latin American society such as the political institutions, the high and low industry, the educational, health and commercial sectors and even worse, the population itself, which forms the basis of any state, has also greatly affected the institution of the armed forces. The armed forces are sensibly affected not only because its members are suffering directly the consequences of the debt crisis, but much more, the institutions as whole, are facing dramatic economic restraints that jeopardize their effectiveness. General Carl E. Vuono, U.S. Army Chief of Staff, expressed in his work, "A Strategic Force for the 1990s and Beyond,"

> Not only does the United States have a wide range of economic and political interests it can pursue with developing countries, it also has a considerable potential for enhancing mutual security. Security assistance and army-to-army initiatives provide ideal vehicles for advancing host country and U.S. interests. The continuing challenge will be the need to reconcile economic and defense concerns.[1]

General Vuono, who is trying to portray a U.S. Army performance beyond the 1990s, has a clear idea of how well-equipped, organized and tuned the Army has to be in order to be successful. But beside his own army, he is also convinced that the developing world requires an organized, equipped and trained armies as well. For the past five years Latin American armed forces

organizations have seen adjusted defense budgets which are not compatible with inflation rate increases. Some of them have faced drastic defense expenditure reductions as part of governmental economic adjustments which in some cases were imposed by the IMF and the WB. As has been explained in previous chapters, the debt crisis has required extreme economic adjustments and governmental expenditure reductions including defense. Countries like Brazil have faced a defense expenditure reduction from $1,731 million in 1985 to $1,318 million in 1987 and $809 million in 1988.[2] (See Chart No. 2)[3] The Brazilian armed forces are expecting with the new government economic readjustments a defense budget cut of 50 percent, expressed Lieutenant Colonel Clovis Bandeira, a Brazilian officer of the 1990 Class of the U.S. Army War College.[4] Bolivia, a country that requires a well-trained and well-equipped force capable of conducting an effective war on drugs, has faced a defense expenditure reduction of $198 million in 1987 to $93 million in 1988.[5] Colombia, a Latin American country involved in the same war on drugs, had a defense cut of $317 million in 1987 to $269 million in 1988.[6] Peru reduced its defense expenditures from $641 million in 1985 to $217 million in 1987.[7] How effective can the armed forces of all these Andean countries be in accomplishing their missions in the war on drugs when their defense budgets are reduced in comparison with the huge amount of U.S. dollars invested by the drug people in conducting business. Even with the high inflation rates, the military is required to execute a reduced budget that negatively affects operational performance, acquisitions programs, development, training and important personnel programs. These conditions create extreme moral and ethical dilemmas for military professionals.

It is important that readers of this paper understand that this discussion of the issues is based on Latin American armed forces management procedures.

To understand this discussion, one should be careful not to analyze it from a U.S. point of view.

ACQUISITION PROGRAMS

The majority of the Latin American armed forces have been forced to reduce considerably or cancel the acquisition of new equipment programmed previously to modernize the Army, Navy, and Air Force. In many cases these forces are equipped with old generation equipment. The possibility of acquiring new weapon systems or logistical equipment, will be more difficult because of inflated economies and reduced budgets. Today emphasis has shifted from acquisition programs toward maintenance programs of the equipment already on hand. The lack of enough monetary funds even hampers these initiatives.

DEVELOPMENT

Acquisition and development are closely related so the problems mentioned above relate to development as well. It will be virtually impossible for Latin American armed forces to accomplish, even gradually, their "Five-year Development Programs." There will be no possibility of equipping and manning new units, or even filling those already created because of critical fiscal short falls. Countries like Brazil, Venezuela, Colombia, Peru and Ecuador will face serious challenges because of the vast territories that need to be secured and developed. Brazil is the best example related to this issue.

TRAINING

Training programs have been seriously affected because of the critical economic problems. A successful training program requires daily activity, good equipment, large amounts of supplies such as fuel, ammunitions and repair

parts, and adequate numbers of motivated personnel. Training programs must be planned and executed in the most realistic way possible in order to maintain appropriate readiness standards to meet the requirements of today's battlefields.

PERSONNEL MANAGEMENT

Finally I will address the impact of economic constraints on personnel. For any armed forces in any part of the world, the human force, its officers, its enlisted man and its civilian support component are critical and must be properly motivated to perform their duties. There is no question about the difficult times members of the armed forces in Latin America are facing because of the economic restrictions in the region. Most of the professional members of the armed forces have seen how dramatically their quality of life has deteriorated because of economic restrictions and inflation. This kind of environment is the breeding ground for inefficiency and corruption in the armed forces. The temptation of becoming involved in illegal activities to generate additional income is very real because of extremely low monthly income. In some cases the amount of military pay is not even enough to cover the basic care and feeding of their families.

At the present time, senior leaders are not seriously affected because they have been able to save adequate amounts to provide a comfortable middle class standard of living for themselves and their families. As the economic conditions of the military deteriorate further, the senior personnel will experience the same problems as the junior personnel are facing today. This could exacerbate corruption within the military. However, on the other hand, the lower level professionals, ranking from Second Lieutenant to Captain and noncommissioned officers, have already seen a deterioration of their salaries

to the point where they can no longer achieve a middle-class standard of living. It is almost impossible for them to start a new family.

Money coming from drugs can easily find customers in this kind of environment. The Colombian armed forces, in one hand, have been accused of being infiltrated by the Cartel. Colombian Attorney General Alfonso Gomez Mendez, in statements to the press, has reported the infiltration of organized crime into the armed forces. He said, that the infiltration is at all levels. He also said that the drug traffickers' enormous capacity to corrupt is what led to the infiltration, noting that "to place the Colombian army in contact with criminals who have an enormous capacity to corrupt is really wrong."[8] Later on February 14, 1990 two officers and ten noncommissioned officers of the National Army were dismissed from active service and will be brought before a court-martial for having exchanged four tons of cocaine they had seized during a raid for 110 bags of salt.[9] Next day, the same TV station announced a court-martial for a group of officers and noncommissioned officers charged with following orders from El Mexicano in the raid on the Altos Del Portal apartment in Bogota. Gonzalo Rodriguez Gacha, Alias El Mexicano, apparently paid 500 million pesos to the military for the operation in which five apartments were raided from which carved emeralds, 1.5 million pesos, $2,900 and 50 pounds of sterling were taken.[10]

On 22 January 1990 El Tiempo announced that 15 army members will be tried in a court-martial and two disciplinary courts for criminal breaches of conduct while carrying out their duties. Army Commander, General Jesus Arando Arias, said that three officers, eight noncommissioned officers and one civilian are being tried because they apparently gave drug traffickers a large quantity of cocaine and material to process the alkaloid after it had been confiscated.[11]

All the cases mentioned before are obviously related to the economic constrains have been faced by the Colombian government and its capacity to furnish the members of the armed forces with better standards of life. Fortunately for the professional sector of the armed forces, moral and ethical issues are emphasized during attendance at the military academies, making the officers less susceptible to this temptation.

In five years, the standard of living of any professional member of the armed forces in the region, especially those facing extreme economic difficulties, will be displaced from middle-class level to low middle-class or even lower. Under these circumstances it is difficult for any commander to keep high morale among his soldiers with inflation, rising costs for the purchase of food for the daily diet of the enlisted man and proper clothes and uniforms.

Today's commander has to demonstrate creativity in order to execute a budget similar to the one employed two years before and be successful. A total disproportion of price increases in these areas and defense expenditure cuts, requires the commander having less resources to deal with critical issues such as quality of life, job satisfaction, loyalty and morale.

PERFORMANCE

A diminished and ineffective performance deteriorate any organization when negative factors are combined to create such a situation. The previous analysis of all factors that could affect the organization of the armed forces in Latin America allows us to conclude that the economic crisis related to the debt and all of its repercussions directly affect the performance of the military organizations. The armed forces of the Latin American region are facing major challenges in order to overcome those deficiencies already

affecting their ability to guarantee stability and security in their respective countries and the entire region.

ENDNOTES

1. Carl E. Vuono, General, U.S. Army Chief of Staff, "A Strategic Force for the 1990s and Beyond," January 1990, pp. 8-9.

2. The Military Balance 1989-1990, International Institute for Strategic Studies, p. 211.

3. Ibid.

4. Lieutenant Colonel Clovis Bandeira, International Fellow, U.S. Army War College, Class 1990, In-depth Interview, January 1990.

5. The Military Balance, 1989-1990, p. 211.

6. Ibid.

7. Ibid.

8. Foreign Broadcast Information Service, Daily Report, Latin America, PA 1211212389, Paris AFP in Spanish 1617 GMT, 12 November 1989.

9. Ibid., PA 1902185690, Bogota Inravision Television Cadena 1 in Spanish 0000GMT, 14 February 1990.

10. Ibid., PA 1902192290, Bogota Inravision Television Cadena 1 in Spanish 0000GMT, 15 February 1990.

11. Ibid., PA 3001014290, Bogota, El Tiempo in Spanish, 22 January 1990, P8-a.

CHART 2

COMPARISONS OF DEFENCE EXPENDITURE AND MILITARY MANPOWER 1985–1988[a]

Country	Defence Expenditure: $ million[b] (1985 prices & exchange rates)			$ per capita (1985 prices & exchange rates)			% of Government spending[c]			% of GDP/GNP[d]		Numbers in armed forces (000)	Est. reservists[e] (000)	Para-military[f] (000)
	1985	1987	1988	1985	1987	1988	1985	1987	1988	1985	1987	1988	1988	1988
Latin America														
Argentina	1,889	993	1,192	62	32	37	12.1	9.2	n.k.	2.9	1.5	95.0	377.0	28.0
Belize	4	11	8	22	64	49	6.4	10.0	10.0	1.8	4.9	0.7	0.3	0
Bolivia	127	198	93	20	29	13	24.9	n.k.	9.5	2.0	3.0	27.6	0	21.0
Brazil	1,731	1,318	809	13	9	6	3.1	11.2	n.k.	0.8	0.3	319.0	1,115.0	243.0
Chile[h]	1,242	816	621	102	65	49	24.8	18.4	15.5	7.8	4.5	101.0	100.0	27.0
Colombia	274	317	269	10	11	9	5.3	5.5	n.k.	0.8	0.8	86.0	117.0	94.0
Costa Rica	29	40	31	12	14	11	3.4	3.6	2.8	0.7	0.9	0	0	9.5
Cuba	1,597	1,344	1,677	157	131	162	13.0	n.k.	n.k.	0.9	0.5	180.0	130.0	19.0
Dominican Republic	51	74	n.k.	8	11	n.k.	8.1	11.1	n.k.	1.1	1.4	21.0	0	1.0
Ecuador	284	289	n.k.	30	29	n.k.	11.8	n.k.	n.k.	1.8	1.8	40.0	n.k.	0.2
El Salvador	252	253	n.k.	52	50	n.k.	23.6	36.4	n.k.	4.4	4.5	55.0	n.k.	12.6
Guatemala	197	173	n.k.	25	20	n.k.	16.6	13.0	n.k.	1.8	1.5	42	5.0	11.6
Guyana	45	n.k.	n.k.	46	n.k.	n.k.	12.2	n.k.	n.k.	9.7	n.k.	5.5	2.0	1.5
Haiti	31	n.k.	n.k.	6	n.k.	n.k.	n.k.	n.k.	n.k.	1.5	n.k.	7.6	0	0
Honduras[h]	72	63	67	16	14	14	4.7	6.7	6.9	2.1	1.7	18.7	50.0	5.0
Jamaica	18	20	n.k.	8	8	n.k.	2.0	2.0	n.k.	0.9	0.9	2.5	0.7	0
Mexico	1,241	568	619	16	7	7	2.7	n.k.	1.4	0.7	0.3	138.0	300.0	n.k.
Panama	97	104	n.k.	44	46	n.k.	6.2	8.5	n.k.	2.0	2.0	7.3	0	12.3
Paraguay	60	79	76	16	20	20	14.1	21.2	18.5	1.3	1.6	16	36.0	7.5
Peru[h]	641	217	n.k.	33	10	n.k.	25.2	n.k.	n.k.	4.5	1.4	118.0	188.0	71.0
Suriname	23	n.k.	32	59	n.k.	82	5.1	n.k.	n.k.	2.4	n.k.	3.0	0	0.9
Trinidad & Tobago	73	n.k.	n.k.	62	n.k.	n.k.	2.3	n.k.	n.k.	1.0	n.k.	2.7	0	4.0
Uruguay	128	n.k.	n.k.	44	n.k.	n.k.	10.9	n.k.	n.k.	2.5	n.k.	24.0	0	2.7
Venezuela	824	n.k.	933	48	n.k.	48	6.5	n.k.	10.2	1.3	n.k.	49.0	0	20.0

[a] In this edition total defence expenditures and per capita defence expenditures are given in 1985 prices and in 1985 dollars. Where possible exchange rates have been taken from the IMF, otherwise posted average annual exchange rates have been calculated. The consumer price indices have been taken from the IMF where possible, or, where necessary, constructed from known inflation rates.

[b] Some military expenditures include internal security expenditures; in other cases these and research costs are born by other ministries' budgets.

[c] Calculation based on local currency. This series is designed to show national trends only. International trends may be invalidated by differences in the scope of the government sector and in budgetary definitions. Where possible, total government outlays (including development or capital expenditure) have been used.

[d] Based on local currency. See country entries. For most countries, GDP figures are used. For WP countries, GNP figures are derived from NMP. In some cases commercial bank estimates have been used.

[e] Normally, only men within 5 years of their active service period are included, unless a country entry specifies a different parameter. Home Guard manpower has not been included.

[f] Part-time and reserve para-military forces are not included.

[g] The difficulty in calculating suitable exchange rates makes conversion to dollars and international comparison imprecise and unreliable. It is importan to refer to individual country entries and to the *local-currency* figures for defence expenditures and the size of the economy. Bulgaria's defence expenditures, never published, have been estimated.

[h] See country entry.

[i] Defence expenditures are based on NATO definition.

[j] Excl aid to West Berlin (DM 16.3 bn in 1987, DM 16.7 bn in 1988).

[k] Central government spending is the total of Federal Government budget, plus state and regional government budgets. Gross Material Product is used instead of GDP.

CHAPTER VII

IT IS A MATTER OF SECURITY AND STABILITY OF THE REGION

Dr. Gabriel Marcella, U.S. Army War College stated in his paper "Latin American Military Participation in the Democratic Process": "As redemocratization proceeds, the armed forces will have a decisive role to play in helping to nurture the institutional bases to strengthen it.[1] He mentioned that democratization is compatible with professionally strong military establishment and such compatibility is also congenial with the strategic requirements of the United States.[2] At the same time he emphasizes that professionally capable, self-confident, and politically responsible military institutions provide a better security shield for the survival of democracy than do poorly organized, insecure and at the extreme (such as the extinct Panamanian Defense Forces) corrupt institutions distanced from and at times in conflict with the larger civilian society.[3] Such institutions are incapable of carrying out their professional responsibility of defeating eternal threats, and provide little defense against . . . and indeed can facilitate the victory of . . . the new totalitarian revolutionaries."[4] How close can Dr. Marcella be in his appreciation of the influence of economic issues in the performance of the armed forces in Latin America. Observing the problem as an endless chain of events it is not difficult to appreciate that the main link of the chain is economics as related to political, social and security issues.

The Latin American region has been facing one of the most critical periods in its history during the last ten years. The whole region from Mexico to Argentina and Chile has been experiencing a series of events that have affected considerably the stability and security of the entire hemisphere. Countries like Mexico, Brazil, Argentina, Peru and in the worst of the cases,

Venezuela, have seen the increase in social discontent because of economical measures taken by its governments in the search of solutions for the problems related to their debts.

In Venezuela, last year after President Carlos A. Perez assumed office on February 2, the government initiated a tough economic adjustment program supported by the IMF that provoked a sharp decline in gross domestic product (-8.1 percent), while spurring inflation (over 80 percent) and unemployment to record highs. Price increases in gasoline sparked a wave of protest and rioting, causing 276 deaths and $150 million in property damage.[5]

The potential for social disturbance is high with unemployment, inflation and crime hitting hard. Recent increases in the prices of essential foods and public services has created fears of renewed violence.[6]

The armed forces, even with its primarily mission of external security, have to assume the role of government mediator in internal security issues. This gives the appearance of a repressive organism with the majority of the people oppose. On one hand, the credibility of the armed forces is questioned by the people, but on the other hand, the stability of the democratic system has to be maintained. Unfortunately there is sometimes a regrettable loss of lives.

Social discomfort and rioting are not the only implications of the Latin American debt crisis. Other important problems related to this situation include drugs, internal subversion and external threats from countries such as Cuba. Countries in the region such as Colombia, Peru, Ecuador, Bolivia and Mexico have been facing the drug offensive for the past ten years. Without going into a detailed analysis, the drug problem in those countries, especially Colombia, Peru and Bolivia, is a direct consequence of

deterioration of their internal economies. A large number of people are benefiting from the cultivation, processing and distribution of marijuana and cocaine. There is no question about the importance of reactivating the economy of those countries in order to reduce the dependence of marijuana and cocaine as the main source of income. At the same time that economic recovery is being achieved, those countries require well-equipped, trained and prepared armed forces to combat the production and distribution of drugs. The present economical restrictions in the Latin American countries do not allow their governments to keep and maintain highly ready armed forces that could conduct a more effective program against drugs. Mexico is considered extremely important in this matter for U.S. interests. Dr. Marcella stated: "Looming over these is the new warfare waged by the international drug traffickers against the moral and ethical fabrics of societies."[7] He also explained in his analysis over Peru that President Alan Garcia Perez and the Peruvian armed forces jointly face formidable and seemingly intractable problems.[8] He establishes that a high external debt and an economic recession have brought crushing austerity to the welfare and defense sectors of the economy.[9] He ends saying that the slow growth in the world's economy has caused serious economic and social dislocations to Peru.[10] Personally I am convinced that Peru, a country with so much tradition and rich historical culture, has unfortunately fallen into the abyss of anarchy, social injustice and political violence, created by the external debt and the isolation provoked by the international bank community.

The political violence in Center America mainly relates to economic incapacity of their governments to accomplish proper social programs. This has created an unprecedented exodus of people looking for a much better way of

life in the United States of America, creating a sensitive security issue related to the enormous amount of illegal immigrants.

Subversion, certainly is one of the most delicate issues to be considered in the Latin American region. Dr. Marcella explains:

> the diffuse and unconventional threat posed by Sandinista subversion and the differentiated Soviet-Cuban strategy of alliance with new revolutionaries of the 1970s and 1980s, even with the changes taking place in East Europe, remains a challenge for the Latin American Military.[11]

Do not forget that even with the unsuspected changes in Europe, the world stability still is having a radical Communist system in China, a recalcitrant Communist system in North Korea, an unpredictable pro-terrorism system in Libya, and finally in our own Caribbean base, an inflexible totalitarian Castro-Communist system in Cuba. Even with the victory of Violeta Chamorro as new President of Nicaragua the designation of Daniel Ortega's brother as new ministry of defense makes the Sandinista Army continue a threat to stability in the region, so the subversion issue is not over yet. Unfortunately, today it is possible to appraise how favorable for the subversion process in Latin America have been the current economic difficulties of the countries in the region. Perhaps the issue that concerns me most, is the issue of internal economic instability that could be easily exploited by radical leftists groups in search of benefits for their causes. One simple example considered a preoccupation for most South American countries is the success achieved by Sendero Luminoso in Peru. However, this is just one case in the region. Other revolutionary groups have achieved some success in their countries such as the Farabundo Marti National Liberation Front in El Salvador, Armed Forces of the Colombian Revolution - M-19 - Armed Forces of National Liberation -Army of Popular Revolution in Colombia, Alfaro Vive Carajo in Ecuador, Chinchoneros

in Honduras, Manuel Rodriguez Patriotic Front in Chile and some have a latent cell as is the case of Red Flag in Venezuela.

Dr. Marcella explained in his work that the new revolutionaries have adopted a more sophisticated strategy than their predecessors of the 1960s. They have chosen a strategy of protracted warfare to take advantage of the vulnerabilities of Latin American societies and of the inconsistencies and discontinuities of the principal external support element, U.S. policy. Encouraged by the Sandinista example of taking power in 1979 with logistical support from Cuba and socialist bloc, and even non-Communist sources, they target beleaguered governments.[12]

It is also necessary to consider how important modern and well-trained small forces are to deter external aggression and to maintain military balance. Stability of the region is at extreme risk.

Venezuela must be considered a key country for U.S. national interests in the region because it has been one of its main oil suppliers. Venezuela with 32 years of democracy, great economic potential, non-Communist traditions and an active democracy must lead the way in the region. Venezuela must solve its economic problems in order to maintain a well-equipped, modern and well-trained armed forces to counter external aggression coming from non-democratic regimes in the area.

Finally Dr. Marcella emphasized that the challenge of the Latin American armed forces is intensified by the economic crisis and by natural disasters, such as earthquakes and floods (El Salvador 1986, Colombia 1985, Peru 1982, Ecuador 1987 and Chile 1985) and the new threat of drugs.[13] He explains that internal political violence, economic mismanagement and other waves of insurgency could create an attractive environment for some military officers and civilian supporters to plan a coup to solve the countries' problems.[14]

He explained that in the case of Argentina, the military has intervened to prevent political disintegration and the danger of Marxist takeover. Brazil, Guatemala, Salvador and Honduras are other countries facing this problem.

In any case even when it has been proven that military governments have not been successful in the Latin American region with the exception of Chile, it is clear that internal political violence, corruption, inefficient governments and economic difficulties create the proper environment for right or left adventures.

ENDNOTES

1. Gabriel Marcella, "Latin American Military Participation in the Democratic Process," U.S. Army War College, October 1989, p. 2.

2. _Ibid_.

3. _Ibid_.

4. _Ibid_.

5. Joseph A. Mann, _The Times of the Americas_, January 24, 1990, p. 15.

6. Venpres Report, Caracas, January 1990.

7. Marcella, p. 2.

8. _Ibid_., p. 20.

9. _Ibid_.

10. _Ibid_.

11. _Ibid_., p. 2.

12. _Ibid_., p. 10.

13. _Ibid_., p. 11.

14. _Ibid_.

CHAPTER VIII

CONCLUSIONS: THE QUEST FOR A FAVORABLE SOLUTION

There are many challenges that Latin America must face in order to overcome its economic, political and social problems. But there is one factor that must prevail among the debtor countries, the creditors and the United States government. This is the desire to find a quick and favorable solution to the problems in the region.

All experts in this matter conclude that achieving a substantial increase in employment opportunities, reactivating idle and underutilized industrial capacity, fostering investment in productive industrial and commercial activities, improving agricultural efficiency, stimulating foreign trade expansion, increasing the scope of domestic savings and social welfare programs, and reforming and rationalizing internal public finance mechanisms are some of the steps that Latin American governments must take in order to solve their internal economic difficulties.[1] However, the "theoretical solutions" to these problems cannot be achieved if the main difficulty, the external debt, is not solved. A strong and decisive position by the United States government is necessary. Hobart Rowan in a Washington Post editorial concluded in his article titled "Nothing has Happened with the Baker Plan." "It's not always well understood that the economic crisis in Latin America means that the United States loses business and American workers lose jobs."[2] In the same article he expresses the views of Alfred J. Watkins of the Roosevelt Center for American Policy Studies in a helpful little section titled "Till Debt Do Us Part." "The debt crisis in Latin America was as much of a factor in the United States trade deficit as the bulge in imports from Japan."[3]

On the other hand, the social and political costs of servicing the debt must be analyzed in order to become a responsible customer. When a country is still paying its debt and its financial system does not receive fresh money, the internal economy crashes, especially in those cases where the service of the debt is over 50 percent of the GNP. Such is the case of Venezuela.[4]

Exaggerated increase of interest rates from 5 percent in 1976 to 15 percent only a few years later has made the debt virtually impossible to pay. Unfortunately for Latin America, there does not seem to be energy or inclination in Washington to overhaul the debt strategy.[5] The debt crisis is definitively a shared responsibility of debtor countries, creditors and one of the main members of the International Monetary Fund and the World Bank, the United States government. The administration of President Bush in its vehement and plausible attempt for achieving stability in the new democratic governments in the region has a major challenge to overcome. Especially after the results of the Nicaraguan electoral process with the election of Violeta Chamorro as a new democratic president of Nicaragua. It is definitely important for the United States government to support those democratic governments in Latin American. To guarantee success, Nicaragua, Panama, Chile, with new democracies, require appropriate economic measures to satisfy the minimum necessities of its population and keep their economies running.

For established democratic governments in regions with extreme economic difficulties, a precise support plan is required as well. In countries where drug dealers have taken advantage of social and economic problems and have attempted to infiltrate or corrupt the armed forces, solutions to these problems are even more difficult. Short-term recovery should be a shared responsibility of the United States government and the countries themselves.

Such programs as crop alternatives and improved U.S. market share for legal crops must be explored.

A major challenge for all the governments in the American continent is the Peruvian case. The guerrilla front Sendero Luminoso is achieving daily success in the Ayacucho area, said Major General of Peruvian Army Carlos Mauricio.[6] He explained that the circumstances in Peru have made it almost impossible to successfully wage war against the Sendero Luminoso. The circumstances are related to the internal economic constraints that have made the drug business a major political issue in this crisis.[7] In this case he mentioned how difficult it is for the government to conduct an effective strategy against Sendero Luminoso and the drug dealers when the economy of the country is based mainly on the sale of drugs. The country's GNP is based on $2,500 million in sales of legal products in comparison to $100,000 million for drug sales.[8] Like other cocaine producing countries, some members of Peru's armed forces have been charged by U.S. officials with being involved with drug dealers.[9] In any case, the Peruvian army is facing economic restraints that limit its ability to accomplish it security and stability missions more effectively.

In the case of Venezuela, Major General Carlos J. Penaloza Zambrano expressed in his speech before the audience of the XVIII Conference of the American Armies:

> We are convinced that strong and institutional armies, capable of securing sovereignty of the states, are the major guarantee to achieve the security of the nations.[10]

He also expressed:

> Ideological pluralisms, and respect for human rights are sustaintive elements of the ideology that support our political systems . . . and the military institutions have to be the guarantors of the harmonious development of the political process, neutralizing and confronting each

violent action that threat it. Any political groups that attempt to disrupt state institutions are immediately considered adversaries, and the armed forces will confront them until they change their attitudes.[11]

However, Latin American armed forces require, as previously mentioned, well-organized, properly trained and adequately equipped services that can accomplish with equity and efficiency their duties. Such duties cannot be effectively accomplished if the government, responsible for furnishing an adequate budget to the armed forces, is unable to provide the resources because of the unavailability of funds caused by the requirement to service external debt.

Representatives of "almost all countries" around the world have agreed in the General Assembly of the United Nations to express deep concern that the debt crisis remains unabated, that indebted developing countries are still unable to grow and develop and their economic and social prospects remain bleak and recognize that such a weak growth aggravated by the external debt crisis can pose a threat to their social and political stability. General Assemblies of 16 October 1989, 20 November 1989, 1 December 1989 and 3 January 1990 have supported this statement, but it is necessary that support come from "ALL COUNTRIES," especially those with the resources to assist. Political and economical interests must be overcome in order to find immediate solutions.[12]

Brazilian armed forces' geopolitical development plans will be seriously affected as a consequence of major cuts in the defense budget expected for the Fiscal Year 1990. Development of new civilian/military settlements on the borders with Peru and Colombia to more effectively control the movement of drug traffickers through Brazilian territory will be seriously affected. In conclusion the Latin American countries' external debt directly affects its

armed forces and as a consequence the stability and security of the whole region are seriously threatened. In order to solve this critical problem some alternatives must be considered:

- American continent countries must understand and accept as a common problem that external debt of the region is a shared responsibility.

- Creditors should be prepared to accept losses related to external factors that could affect the ability of a country to properly service its debt. They should not involve the Federal Government of the United States in order to ensure the recovery of those losses.

- Develop plans to reduce the external debt with new strong economic policies in accordance with agreements between all parties.

- The Latin American states and the United States of America and Canada must ensure the security and stability of the American continent by the way of understanding, cooperation and support.

- The creation of a strong American economy capable of competing in the new commercial market of the emerging multipolar world.

- Insure the proper use of new loans as part of the agreements between creditors and borrowers.

- Conduct an educational campaign as a common goal for every country in order to create awareness of the terrible consequences of external debt.

- Adequate reviews of the mutual security programs have to be made in order to locate the proper amount of funds for Latin American countries.

- Stabilize a legal system approved by all nations that allows the control and subsequent recovery of capital which illegally leaves the country.

- In lieu of increasing foreign aid or aid from other international agencies, investigate comprehensive debt reduction/debt forgiveness measures that allow countries to use their own funds freed from debt payment to finance

internal development. Debt reduction measures would be tied to agreements that caused debtor nations to restructure their economies, promote social justice, human rights, and strengthen democracy. Debt forgiveness provisions between debtor nations and financial institutions must be structured to ensure that mismanagement, corruption, and unappropriate expenditures of available monies do not occur.

If the world leaders, especially those representing industrialized countries, raise their level of concern and interest about the events taking place today in Latin America, to fully analyze the problem and then cooperate, solutions to the problems in the region, especially those related to social injustice, should be realized. These solutions will ultimately be for the good of the American continent and for the good of the world.

The creditors' banks and the industrialized countries with major economic stability are obligated to support any favorable solutions. This will contribute to the recovery of Latin American countries as well as improve the economic conditions in the industrialized countries.

Finally, I would like to refer to one part of the speech made by Major General Carlos Julio Penaloza Zambrano during his appearance April 1990 before the faculty, staff, and students of the Inter-American Defense College in Washington, D. C.,

> The Marxist ideology as a common threat for the Latin American countries has dramatically weakened, however that does not imply in any case the total disappearance of conflicts and tensions in the region.

He clearly emphasized:

> We need to build an unique posture for the 1990s before the common threats of poverty, ignorance, dictatorship, environmental destruction, narco-trafficking and the remnants of Communist subversion, as a means of strengthening the framework of inter-American collective security.[13]

ENDNOTES

1. Chapman, p. 11.

2. Hobart Rowan, "Nothing Has Happened with the Baker Plan, The Washington Post, Sunday, 12 January 1986, p. C-15.

3. Ibid.

4. Inter-American Development Bank, Report, Latin America, 1988.

5. Truell, "The Outlook: Brady Strategy Rest in Peace," Wall Street Journal, Monday, 22 January 1990, p. 1.

6. Speech at the Army War College on March 13, 1990 titled "Peruvian National Strategy against Terrorism and Subversion," MG Carlos Mauricio, Head of the Delegation of Peru to the Inter-American Defense Board.

7. Ibid.

8. Ibid.

9. ABC News, "A Special Report on Drugs," by Diane Sawyer, produced in Peru, January 1990.

10. Carlos Penaloza Zambrano, Major General, Venezuelan Army Chief of Staff, XVIII Conference of the American Armies, Guatemala City, Guatemala, 11-18 November 1989.

11. Ibid.

12. General Assembly A/44/861, 3 January 1990, Forty-Fourth Session Agenda, Item 84 "External Debt Crisis and Development" Report of the Second Committee, Stablishes Chapter I: Introduction, Chapter II: Consideration of Proposals and Chapter III: Recommendations of the Second Committee.

In that meeting the committee adopted Draft Resolution A/C.2/44/L.47 Rev 1 which recorded a vote of 120 to 1.

The voting was:

IN FAVOR: 120 countries of the 121 represented;

AGAINST: United States of America.

13. Penaloza, "Inter-American Collective Security in the Decade of the 1990s," Speech made before the Inter-American Defense College, Washington, 23 April 1990.

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18. Vuono, General Carl E., U.S. Army Chief of Staff. "A Strategic Force for the 1990s and Beyond." Washington: January 1990.

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21. The World Today Series, Latin America 1989. 23rd Annual Edition. Washington: Stryker-Post Publications, 1989.