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For Bonn Folder

MIPT: LATIN AMERICAN DEBT

1. THE FOLLOWING IS THE TEXT OF PRESIDENT SANGUINETTI'S LETTER TO THE PRIME MINISTER.

BEGINS. I HAVE THE GREAT HONOUR OF ADDRESSING MYSELF TO YOUR EXCELLENCY IN THE NAMES OF THE PRESIDENTS OF ARGENTINA, BOLIVIA, BRAZIL, COLOMBIA, CHILE, ECUADOR, MEXICO, PERU, THE DOMINICAN REPUBLIC, VENEZUELA AND MY OWN COUNTRY, ON THE EVE OF A NEW SUMMIT MEETING OF SEVEN INDUSTRIALISED WESTERN COUNTRIES, TO TAKE PLACE IN BONN NEXT MONTH.

ON EARLIER OCCASIONS LATIN AMERICAN HEADS OF STATE HAVE MADE KNOWN TO POLITICAL LEADERS OF THE INDUSTRIALISED WORLD OUR CONCERN ABOUT THE ACUTE PROBLEMS POSED IN LATIN AMERICA BY THE CRISIS: IN PARTICULAR, THE CURRENT AND PROSPECTIVE STATE OF FOREIGN DEBT, A MATTER WHICH TRANSCENDS THE BOUNDS OF OUR OWN INTERESTS AND AFFECTS THOSE OF THE WHOLE INTERNATIONAL COMMUNITY.

THE RELATIVE IMPROVEMENT IN SOME INDICATORS OF THE LATIN AMERICAN ECONOMY IN 1984, AN IMPROVEMENT WHICH OCCURRED IN INSUFFICIENT AND UNEQUAL FORM, WAS THE PRODUCT OF PARTIAL REACTIVATION IN VARIOUS INDUSTRIALISED COUNTRIES, ABOVE ALL IT WAS DUE TO THE RESPONSIBLE ATTITUDE AND INTERNAL EFFORTS OF LATIN AMERICANS THEMSELVES. WE WISH TO EMPHASISE THAT THE ADJUSTMENT MADE BY OUR COUNTRIES - THE MOST SEVERE IN THE LAST FIFTY YEARS - HAS SO FAR AVOIDED THE PRECIPITATION OF SITUATIONS WHICH WOULD PRESENT A GRAVE RISK TO THE INTERNATIONAL FINANCIAL SYSTEM. THIS ADJUSTMENT CARRIES ITS OWN COST: BASICALLY, A DRASTIC LOWERING OF THE STANDARD OF LIVING IN OUR COUNTRIES, WITH GRAVE ECONOMIC, SOCIAL AND POLITICAL CONSEQUENCES. IN SPITE OF THE FACT THAT RESPONSIBILITY FOR THE CRISIS IN ITS GESTATION WAS CLEARLY SHARED BY FINANCIAL AGENTS AND BY THE INTERNATIONAL ECONOMIC SYSTEM ITSELF, SUCH ADJUSTMENTS HAVE BEEN BORNE EXCLUSIVELY BY THE DEBTOR COUNTRIES.

IT WOULD BE A GRAVE MISTAKE TO THINK THAT THE PROBLEM OF FOREIGN DEBT HAS BEEN OVERCOME OR THAT IT WILL BE CORRECTED AUTOMATICALLY BY THE ECONOMIC DYNAMICS OF THE INDUSTRIALISED COUNTRIES (BOTH ASYMMETRIC AND UNCERTAIN) OR BY A MERE CONTINUATION OF THIS PROCESS OF ADJUSTMENT. FOR THIS REASON, THERE IS ALSO THE GREAT DANGER THAT A HASTY EVALUATION OF THE FACTS COULD LEAD TO A SITUATION OF SELF-SATISFACTION OR IGNORANCE OF THE FRAILTY AND SHORTCOMINGS OF ACHIEVEMENTS SO FAR. **RESTRICTED** /AS

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AS YOUR EXCELLENCY IS AWARE, HIGH INTEREST RATES, A DRAMATIC DROP IN MANY OF THE PRICES OF OUR BASIC EXPORT GOODS, DIFFICULTIES IN PENETRATING OVERSEAS MARKETS AND A DANGEROUS INCREASE IN COMMERCIAL PROTECTIONISM PERSIST IN THE INTERNATIONAL ECONOMY. THE RENEWAL OF NEW AND ADDITIONAL FLOWS OF PUBLIC AND PRIVATE CAPITAL IS UNCERTAIN AND NOT AT ALL ENCOURAGING THEY REMAIN AT A LOW AND INSUFFICIENT LEVEL WHICH DOES NOT COMPENSATE FOR THE TRANSFER OF RESOURCES FROM LATIN AMERICA TO FOREIGN MARKETS, ESPECIALLY THOSE RELEVANT TO THE SERVICING OF FOREIGN DEBT. THESE FACTS AFFECT OUR PAYMENT CAPACITY AND, SINCE THEY COMPEL US TO REDUCE IMPORTS, THEY EMPHASISE RECESSION AND WEAKEN THE CREATION OF DOMESTIC CAPITAL.

THESE CONSIDERATIONS ARE OF GREATER SIGNIFICANCE WHEN THE HIGH TRANSFERS WHICH THE REGION WILL HAVE TO MAKE TO SERVICE THE DEBT, IF PRESENT MARKET RATES ARE MAINTAINED, ARE VIEWED ON A LONG TERM PROJECTION.

IN THIS CONTEXT, AND DESPITE OUR EXPECTATIONS, WE MUST POINT OUT THAT IN THE RECENT DELIBERATIONS OF THE INTERIM COMMITTEE AND DEVELOPMENT COMMITTEE OF THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK, NO SIGNIFICANT PROGRESS WAS RECORDED ON THE ISSUES RAISED BY DEVELOPING COUNTRIES: IN PARTICULAR ON THOSE CONNECTED WITH EXTERNAL DEBT AND INTERRELATED QUESTIONS OF FINANCING AND COMMERCE.

ON THE OTHER HAND, THE ANNOUNCED INITIATIVE ON A NEW ROUND OF COMMERCIAL TALKS, AS WELL AS STEPS TOWARDS REFORM OF THE INTERNATIONAL MONETARY SYSTEM - WHICH WE CONSIDER TO BE OF TOP AND URGENT PRIORITY - ARE BEING OUTLINED IN ACCORDANCE WITH NEGOTIATING CRITERIA WHICH IN SOME CASES EXCLUDE, AND IN OTHERS DO NOT ENSURE, ADEQUATE PARTICIPATION BY DEVELOPING COUNTRIES. WE THINK IT IS FUNDAMENTAL THAT PROGRESS IN THE FIELD OF COMMERCIAL LIBERALISATION SHOULD BE ACCOMPANIED BY PROGRESS IN THE MONETARY AND FINANCIAL FIELDS, BY VIRTUE OF THE CLEAR INTERRELATION BETWEEN BOTH CONCEPTS.

WITHOUT AVOIDING RESPONSIBILITIES WHICH EACH COUNTRY HAS ASSUMED AND WILL CONTINUE TO ASSUME IN THEIR PROCESSES OF ECONOMIC ADJUSTMENT AND REORGANISATION - INCLUDING INDIVIDUAL RENEGOTIATIONS - WE ARE CONVINCED THAT THE LACK OF SUPPORT FOR OUR EFFORTS TO DEVELOP REDUCES THE EFFECTIVE CONTRIBUTION WHICH OUR ECONOMIES ARE ABLE AND WISH TO MAKE TO THE DYNAMICS OF WORLD TRADE AND ECONOMICS. THIS DETERMINATION OF THE REGION, CONFIRMED BY ITS HAVING FACED UP TO ITS EXTERNAL COMMITMENTS, MUST BE SUPPORTED BY THE SUSTAINED GROWTH OF ITS ECONOMIES AND NOT BY THE UNREMITTING REDUCTION OF DOMESTIC STANDARDS OF LIVING. ⁻²⁻ **RESTRICTED** /THAT

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THAT IS WHY THERE IS AN URGENT REQUIREMENT FOR AN INTEGRAL STUDY OF THE DEBT PROBLEM, PLACING IT WITHIN THE FRAMEWORK OF THE FUNDAMENTAL AIM: TO ACCELERATE THE PROCESSES OF ECONOMIC DEVELOPMENT AND SOCIAL PROGRESS. TO THESE ENDS IT IS NECESSARY TO TAKE POLITICAL DECISIONS THAT WILL ENABLE US TO OVERCOME THE OBSTACLES WHICH STILL PERSIST TODAY, AND WHICH DISTRIBUTE IN SUCH AN UNEQUAL MANNER THE SACRIFICES IMPOSED BY THESE PROCESSES OF ADJUSTMENT. SUCH POLITICAL DECISIONS CAN ONLY BE AGREED UPON BY MEANS OF MECHANISMS FOR DIALOGUE AND CONCERTED EFFORT AT THE HIGHEST LEVEL, TRANSFORMING INTO EFFECTIVE DEEDS THE WORDS SO OFTEN SPOKEN ABOUT WORKING TOGETHER FOR A FAIRER INTERNATIONAL SYSTEM.

THE AIM OF THE DIALOGUE AND THE COOPERATION WE ARE PROPOSING IS TO MAKE REAL PROGRESS TOWARDS LASTING SOLUTIONS. IT IS NECESSARY TO SKETCH A PLAN OF CONCERTED ACTION WHICH WILL GO BEYOND MERELY RELIEVING THE BURDEN OF THE DEBT DUE TO RENEGOTIATION OPERATIONS, AND WHICH WILL TAKE EFFECT THROUGH COMPLEMENTARY MEASURES IN THE FIELDS OF DEBT, TRADE AND FINANCING IN ORDER TO PERMIT A RAPID RESTORATION OF THE CONDITIONS NECESSARY FOR SUSTAINED GROWTH IN DEVELOPING COUNTRIES.

AS WELL AS CALLING YOUR ATTENTION TO THE NEED FOR POLITICAL DIALOGUE WITH A SENSE OF RESPONSIBILITY AND AN EMINENTLY CONSTRUCTIVE ATTITUDE, WE WISH TO SHARE WITH YOU OUR PREOCCUPATION ABOUT THE RISKS TO THE WHOLE INTERNATIONAL ECONOMY IF THERE IS NO RESPONSE. THE CONTINUATION OF SITUATIONS WHICH MAKE CURRENT PROCESSES OF INTERNAL ADJUSTMENT SO BURDENSOME, COULD LEAD TO UNFORESEEABLE CIRCUMSTANCES FOR THE ENTIRE INTERNATIONAL COMMUNITY.

YOUR EXCELLENCY MUST BE AWARE THAT THE SOCIAL AND POLITICAL CONSEQUENCES OF THIS STATE OF AFFAIRS AFFECT OUR CLIMATE OF INTERNAL LIVING CONDITIONS. BUT THESE CONSEQUENCES BECOME ALL THE MORE DRAMATIC WHEN THEY ARE CONVERTED INTO SERIOUS OBSTACLES TO THE STABILITY OF THE INTERNATIONAL POLITICAL SYSTEM AND THE STRENGTHENING AND CONSOLIDATION OF OUR DEMOCRACIES, ESPECIALLY THOSE THAT HAVE ARISEN FROM COSTLY PROCESSES OF CHANGE IMPELLED BY THE WILL OF OUR PEOPLE AND SUPPORTED BY THE SOLIDARITY OF FRIENDLY COUNTRIES.

IN THE ASSURANCE THAT THESE VIEWS WILL CONTRIBUTE TO A REALISTIC AND PRAGMATIC VISION OF THE PROBLEMS OF THE WORLD ECONOMY IN RELATION TO THE SITUATION OF OUR COUNTRIES, I TAKE THE OPPORTUNITY TO RENEW TO YOUR EXCELLENCY THE ASSURANCES OF MY HIGHEST CONSIDERATION. ENDS.

2. FCO PLEASE COPY AS APPROPRIATE.

WALLACE

FINANCIAL

ERB

SAMB

RID

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WIAD.

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