

A stylized map of the Americas, showing North and South America, rendered in a light blue color against a dark blue background.

XXVII

**Summit of the Americas
Virtual Summit**

ECLAC: 1982

Debt Crisis

Committee Bulletin

Devin Guevara, Chair

Juan C. Venancio, Director of English Committees



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Welcome to HACIA XXVII

Dear delegates of the XXVIIth HACIA Democracy,

It is my pleasure to be the first to welcome you to HACIA's virtual summit for the twenty-seventh meeting of HACIA Democracy. My name is Juan C. Venancio and as the Director of English Committees at HACIA XXVII, it is my job to ensure that all of you have a rewarding experience in committee while substantively debating a series of intriguing topics endemic to Latin-America.

My interest in HACIA and Latin America stems from my own Mexican and Honduran heritage. Born and raised in Houston, Texas, I grew up in a predominantly Latin-American ethnic enclave, and this upbringing has driven my personal interests in government, economics, and law. It was through these influences that I developed a natural passion for the region, having participated in organizations like Model United Nations, since my time in high school. As is the case for many, conferences like Model UN allowed me to explore several world issues, contemporary political struggles, and engage with potential solutions with other brilliant minds throughout the country. Now, as a junior at Harvard, I have continued to explore these interests through my previous participation in HACIA, Harvard's Institute of Politics, and the David Rockefeller Center for Latin-American Studies.

At last year's HACIA, I co-directed the 1948 Costa Crisis Cabinet and was amazed by the talent that HACIA attracts every year. This year, I have worked with our talented team of committee directors to select a thematically and temporally diverse set of committees, ranging from the internal displacement of citizens in El Salvador, to women's rights through the OAS, and even current public health issues across the Latin-American region. We've done our best to focus on issues of heightened pertinence in today's political, economic, and social climates and hope you will relish the chance to debate them.

HACIA is unique because the issues that we discuss are diverse, well-researched, and relevant. Not only that, but all of you, as delegates, derive from a diverse set of countries, schools, and backgrounds, which all serve to provide multiple perspectives on these hot topics. This highly social type of group learning is an invaluable skill to refine, especially in the context of increased socio-political, environmental, and public health dilemmas. As a result, I would like to encourage all of you to come to this year's conference with unique ideas, well-researched arguments, and out-of-the-box proposals throughout the course of the conference.

In conclusion, I can't wait for our conference to begin and to meet all of you in March! I'm also looking forward to the productive conversations that we will facilitate over the course of our conference.

Sincerely,

Juan C. Venancio, Director of English Committees english_committees@hacia-democracy.org

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From your Chair

Welcome to the Twenty-Seventh Summit of the Americas! My name is Devin Guevara, and I am thrilled to serve as your chair for the Economic Commission for Latin America and the Caribbean. I cannot wait to engage with the discourse and solutions you bring forward for the Latin American debt crisis.

For some personal context, I hail from Houston, Texas! My family immigrated to Houston from Guatemala and El Salvador, and I grew up in a bilingual community of first-generation Americans like myself whose families migrated to escape conflict, poverty, violence, and many other reasons. In high school, I heavily participated in Model United Nations and focused on topics of environmental concern. As a first-year undergraduate at Harvard, I study Environmental Science and Engineering but interact heavily with public policy. I am a global environmental policy researcher and a citizenship tutor for the Institute of Politics at the Harvard Kennedy School. Additionally, I serve as an industry analyst for the Harvard Undergraduate Clean Energy Group. In my free time, I very much enjoy catching up with my family back home and organizing with climate-concerned interest groups like Citizens' Climate Lobby.

As you will soon see, this committee will provide you with great insight into the influential global players, enabling structures, and financial challenges involved with Latin American development. For instance, the third wave of democratization heavily influenced the financial status of developing Latin American states in the 1980s as those countries sufficiently demonstrating democratic institutions fit the bill for conditional financial aid from western states and various intergovernmental organizations. The Latin American debt crisis illuminates how such conditional aid was not always complemented by favorable political or structural circumstances. I hope your research and discussion in committee will provide you with a greater understanding of the underlying political causes behind different states' financial outcomes in Latin America.

I am looking forward to receiving your questions and concerns about this committee and topic. See you in March!

Sincerely,
Devin Guevara
Harvard College, Class of 2025
Chair, Economic Commission for Latin America and the Caribbean 1982

Topic:
1982 Debt Crisis

Introduction

The Latin American Debt crisis of 1980 was one of the largest economic catastrophes in Latin American economic history. Although the crisis permeated throughout the 1980s, its origins lie with the expansion of the international banking system which occurred decades earlier. The expansion of international lending led to many Latin American nations borrowing more money than they could repay; this debt accumulation would ultimately culminate in 1982 when Mexico announced it would be unable to repay their debts. Although the crisis began in Mexico, it was not unique to Mexico. Instead, it was an extensive problem that had far reaching consequences on the region as a whole. Shortly after Mexico's announcement, many other nations over the next few years announced that they too could not pay off their debts. The accumulated debt burden became unsustainable and as a result, international banks ceased lending to many nations that had accumulated large debt stockpiles. The inability to borrow had devastating economic effects on the region as economic growth stalled and nations began to have difficulty maintaining spending levels, which led to contraction of social programs and rising unemployment. The decade was marked by stagnant growth and is often referred to as "La Década Perdida" or "The Lost Decade." It was a period of economic strife and rapidly declining living standards all across Latin America.

This committee will be placed right in the middle of the crisis at the Seventeenth Session of the Committee of the Economic Commission for Latin America (ECLAC), on June 28, 1984. As a committee, you will debate and conduct constructive discourse to determine what types of economic policies to pursue. It will be essential to determine the extent to which you will cooperate with IMF rescheduling programs. As a committee it will be necessary to balance and determine whether as a unified body we can determine whether we will push for a policy of debt rescheduling or debt forgiveness. It will be paramount to not only address spending and debt

repayment, but it will be necessary to consider the effect the crisis will have on the citizens of our region. Fully understanding the global economy is an impossible task, even for those who have studied it for numerous years, and thus the goal of the committee is not to find the perfect solution, but instead to understand the dangers of debt accumulation, to craft a solution to the crisis that is both fair and practical, and most importantly to pass policy decisions to ensure that such a crisis does not occur in the future.

History of the Committee

The Economic Commission for Latin America and the Caribbean (ECLAC) is one of the five regional commissions of the United Nations, that was founded with the purpose of contributing to the economic development of Latin America, coordinating actions directed towards this end, and reinforcing economic ties among countries and with other nations of the world. The ECLAC was first established in 1948 under the name of the Economic Commission for Latin America (ECLA). However, on June 28, 1984 the Economic Council decided to broaden its initiatives to also include the Caribbean and as a result the name was changed to ECLAC accordingly.

The mandates of the ECLAC include providing studies, research and other support activities within the jurisdiction of the Commission; promoting economic and social development through regional and sub-regional cooperation and integration; gathering, organizing, and disseminating information and data relating to the economic and social development of the region; providing advisory services to governments and plans to organize programs of technical economic cooperation; assisting in bringing a regional perspective to global problems; and formulating, promoting and executing economic development and cooperation initiatives across the region. During the 1950s the ECLAC's primary focus was on the industrialization of Latin America, with a particular focus on helping peripheral nations in the region industrialize. Come the 1960s the ECLAC re-focused itself to creating reforms and beneficial trade agreements to continue to facilitate industrialization. During the 1960s the ECLAC was instrumental in the creation of The United Nations Conference on Trade and Development (UNCTAD), which is the United Nations body that deals with trade, investment and development issues. The ECLAC also played a prominent role in the creation of the Latin American Free Trade Association (LAFTA), which had 11 members and served to reduce tariffs between member states and facilitate

economic development. LAFTA ultimately served as an early precursor to the modern MERCOSUR trade bloc. Most importantly during the 1960s the ECLAC served as an open forum for debating critical ideas and proposals for fostering economic development in the region.

In the 1970s the central focus shifted to reorienting economic development away from just industrialization and instead increasing economic diversification and expanding exports. In particular, a central topic of discussion during this time period was the 1973/1974 oil crisis, which increased Latin American debt levels and made many nations reconsider their economic plans and seek to improve their export economies to further integrate with the global economy and strengthen their own development.

The seventeenth session of the Committee of the Economic Commission for Latin America will be held at the United Nations Headquarters, New York, on June 28th 1984. The central topic of the discussion will be to address the global economic crisis with a primary focus on Latin America's external debt burden. The goals of the committee will be both to attempt to renegotiate the current external debt obligations, attempt to minimize the harmful effects of the crisis on the people of Latin America, negotiate and decide whether to participate in the IMF's debt adjustment programs, and most importantly outline a plan to ensure that Latin America does not fall victim to another crisis of this magnitude in the future. The committee will both revolve around constructive discussions surrounding the debt crisis, but will also stress the importance of creating concrete proposals.



Committee Structure

ECLAC, is a United Nations regional commission to encourage economic cooperation. ECLAC sessions are held every two years and ECLAC member states convene to discuss the economic and social development of the region, to review the Commission's activities during the preceding biennium and to determine its programme of work for the next two years. The ECLAC will require a two-thirds majority vote on any resolution it passes. This decision was reached with the appreciation that the measures set out in the resolution could have deep and long-lasting effects on both national and international levels. Each ECLAC Member State will have one vote.

Delegates will be expected to deliver initial working papers throughout the conference, starting at no more than seven working papers in the first round of negotiations. Delegates will be expected to thoroughly engage in the spirit of diplomacy by merging working papers as ideas become more concrete policy proposals and voting blocs align interest. Given that this committee is operating on a two-thirds majority, up to two draft resolutions will be entertained. As such, delegates will need to carefully consider the process by which working papers can be merged to create a final resolution. Working papers will be accepted following the first unmoderated caucus and only towards the end of the first or second session. Delegates are not expected to cover all topics in the first round of working papers. Merged working papers will be accepted during the third session and will be expected to cover a wider range of topics. A third round of working papers may be entertained before draft resolutions are submitted towards the end of fourth or fifth sessions. Note that these expectations may be updated during committee, and will be communicated by the chair.

This committee has a unique focus on the intersection between global diplomacy and domestic policy. Delegates must bear this in mind when engaging in debate and writing policy proposals. Not only will delegates

be required to clearly and politely communicate their policy ideas with other delegates and the chair, but also will have to do so with a concrete substantive framework.

Crisis in ECLAC

HACIA Democracy seeks to simulate international and domestic institutions, create solutions to some of the region's biggest problems, and develop an understanding of the difficulties and necessity of international cooperation. One under-stated difficulty of international cooperation at the United Nations or any other international institution, is the repeated occurrences of continual crisis. While addressing specific crises, international institutions must not lose sight of larger global or regional issues. Accounting for these concerns, the ECLAC this year will have an ongoing crisis element over the course of the conference.

Whether it's the latest breaking news surrounding our topic, an expert witness who comes to deliver new information to the committee, or an economic problem somewhere in the world, delegates will have to adapt the policies they're discussing to address whatever crisis they're faced with. Your working papers should thoughtfully consider the best course of action to resolve the crisis, your speeches should be cognizant of its impact on the topic you're discussing, and a draft resolution should address the underlying issues behind it.

Although the committee is set in, the collective actions of the committee will directly influence the direction of crisis breaks. Mention of a controversial policy may result in protestors storming the committee room, a seemingly innocuous article in a working paper may spark an event requiring the immediate and undivided attention of all committee members outside normal committee hours, or perhaps a freak natural disaster will trigger an unstoppable chain of events that lead to the collapse of modern civilization as we know it.

Your engagement with these crises should not be nominal – it should affect how you think about the topic. Carefully consider how your country would respond, and what is in its best interest. Your ability to adapt

to crisis and show knowledge of the topic, and craft policies to address it will be a factor in how the chair assesses your performance in committee. More than this though, I want delegates in the ECLAC to learn new skills from these crisis elements – flexibility, quick-thinking, negotiation, and the need for a greater substantive engagement with the committee topics themselves.

The ECLAC will be using elements of crisis to promote and steer discussion. Be prepared to respond to breaking news updates about global events, public reaction to committee action, breakthrough discoveries in diffident technical fields that delegates will need to consider and respond to accordingly. As in any real-world simulation, validity, trustworthiness and contextual information should all be considered when presented with a crisis update. As global citizens of an ever-interconnected world, maintaining a sceptical stance to new non-validated information is an important skill to possess.

Topic in Context

Roots of the Crisis 1950 - 1978:

Although the debt crisis occurred abruptly in the 1980's, its origins lay several decades earlier when the region began to increase its debt levels to fuel economic growth. The origin of the crisis is largely attributed to the international expansion of US banking organizations in the 1950s and 1960s and the rapid growth of the global economy, which led to large levels of international lending. During this time period, the economies of developing nations grew around 6%¹, which encouraged American banks to lend money to these nations because they believed they would be able to easily pay off these debts. American banks saw Latin America's growth as an opportunity to enter new markets for lending and get a better return on their loaned funds. Economists note that this pre-crisis period was defined by new patterns of international lending as many banks sought to expand their footprint internationally². Some argue that banks began to over-lend to many Latin American governments, and influenced many nations to borrow more than was considered a reasonable level at the time. This increase in international lending made money more accessible to the governments of Latin America, who used this money to increase government spending. This policy of using debt to increase government spending is called fiscal expansion, which just means that the government spends more than it collects from taxes. Fiscal expansion is a common tool used by the government to help the economy grow, especially when the economy is not performing well. However, during this time period many Latin American governments used expansionary fiscal policy to further grow their economies even though their economies were performing well.

¹ Beek, David. "COMMERCIAL BANK LENDING TO THE DEVELOPING COUNTRIES." Federal Reserve Bank of New York Quarterly Review, vol. 2, 1977, p. 1.

² Pastor, Manuel. "Latin America, the Debt Crisis, and the International Monetary Fund." Latin American Perspectives, vol. 16, no. 1, 1989, pp. 79-110.

One of the challenges of continually using debt to increase spending for Latin America and many other countries in the past was that this debt plus its interest would have to be repaid in the future. This meant that in the future the government would have to spend more to pay back its debt. An example of how this would look in practice is that if Brazil borrowed \$1 million today from the United States it would agree to pay back the United States \$1.07 million in a year. Therefore, as governments took on more debt, they had to repay more and more each year. This was initially not a problem because Latin American economies were growing very quickly and thus could easily repay their debts, but it did leave them vulnerable if their economies slowed down.

Another reason why Latin American debt levels increased during this time period was due to the rapid rise of oil prices in the 1970s (Figure 1). Since oil was one of Latin America's principal imports, many Latin American nations needed to borrow additional money to continue to finance its imports. Furthermore, growth began to slow in the 1970s to around 5%, as prices on commodities such as agricultural goods and minerals began to decline³. As a result of all of these factors, total outstanding debt in Latin America increased from \$29 billion in 1970 to \$159 billion by 1978 (Figure 2).⁴ Of this \$159 billion debt, nearly 80% was estimated to be government debt.⁵ It is important to note that of this government debt, Mexico and Brazil together accounted for approximately \$89 billion, which was more than half of the total amount⁶.

Prelude to the Crisis: 1979 - 1982

Beginning in the late 1970's it started to become clearer that several Latin American governments would have difficulty repaying their debts. Furthermore, the more impending problem was that a second major oil shock occurred in 1979 (Figure 1), which once again made it necessary to borrow additional money in order to

³ Cline, William R., and Institute for International Economics. *International Debt : Systemic Risk and Policy Response*. Institute for International Economics ; Distributed by the MIT Press, 1984.

⁴ Ibid.

⁵ World Bank, *World Debt Tables* (1990-91 ed.)

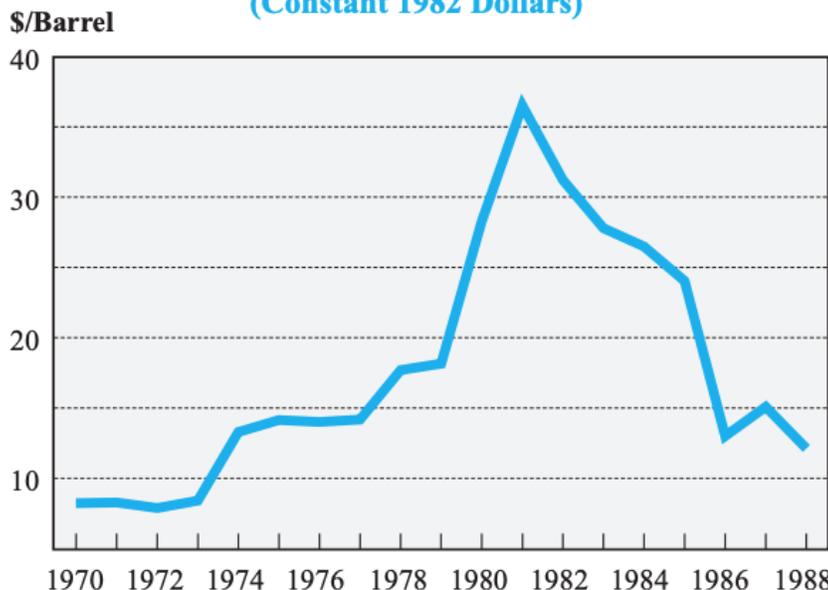
⁶ Cline, 1984.

finance more expensive imports. Another additional challenge was that the value of the US dollar increased by 11% in 1981 and 17% in 1982⁷. When Latin American nations received loans they usually received loans in dollar amounts, because most lending banks were confident that the American dollar was a stable currency and the United States was unlikely to default. The problem with the value of the dollar increasing in price was that it made Latin American debt more expensive, because they would have to pay their debts in their own currency.

An example of how this works in practice is: imagine \$1 equals 1 peso in year 1980, but next year (1981) the dollar becomes more valuable so \$1 then equals 2 pesos. If a country borrowed \$1 dollars today and agreed to pay \$1.05 dollars next year, it would no longer pay 1.05 pesos, but rather would have to pay 2.1 pesos

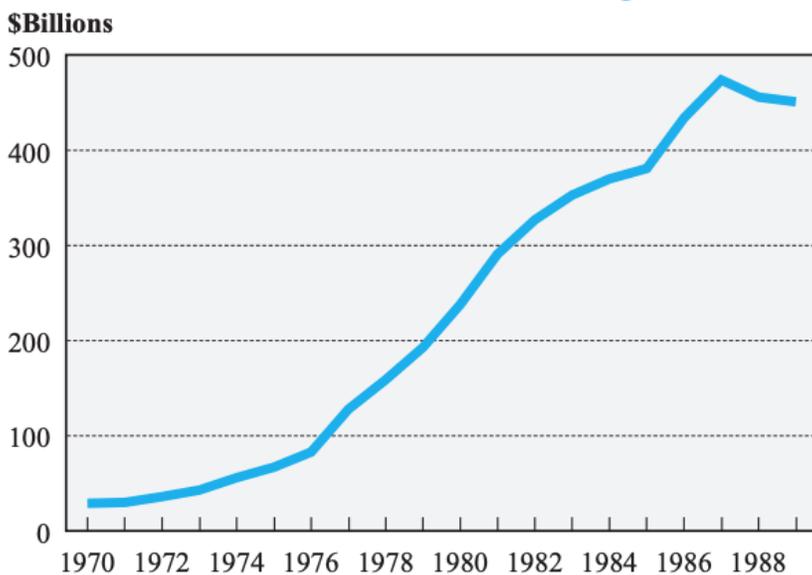
⁷ Ibid.

U.S. Crude-Oil Refiner Acquisition Cost, 1970–1988 (Constant 1982 Dollars)



Source: Energy Information Administration, *Annual Energy Review* (1988).
U.S. Crude-Oil refiner acquisition cost (Measured in Constant 1982 Dollars), 1970 -1988

Total Latin American Debt Outstanding, 1970–1989



Source: World Bank, *World Bank Debt Tables* (1990–91 ed.).
Total Latin American Debt outstanding between 1970 and 1989

because the dollar's increased strength. Thus, since the exchange rate increased for the dollar and the dollar became more valuable, Latin American countries needed to pay much larger amounts on their debt. Despite the fact that it became more expensive to borrow from American banks, between 1979 and 1982, Latin American debt nearly doubled from \$159 to \$327 billion (Figure 2).

The Crisis Unfolding: August 1982

Rapidly rising interest rates in the United States in the early 1980s increased the cost of borrowing and servicing (paying off) debt. This caused the US to decrease its consumption, which many exporter nations were dependent on to fuel their economic growth. Shortly after, global economic growth slowed and the global economy halted to an international recession. The decline in economic growth and another drop in commodity prices, reduced Latin American exports, which in turn made it ever harder for them to pay their previous debts. It is important to note that many scholars believe that the majority of all debt that Latin American governments took on between 1979 and 1982 was used to repay older debt and to maintain government spending, rather than had become productive investments⁸. Thus, by the summer of 1982 it had become even more certain that several Latin American nations would be unable to repay their debts. In August of 1982, Mexico was the first nation to announce that it would fail to repay its debt obligations. By the end of 1982, 40 developing nations across the world were late on their payments, and by 1983, 27 nations were in negotiations to restructure their loans.⁹ These nations were unable to repay what they owed and thus sought a way to either reduce the amount they needed to pay back or push back their debts into the future at a lower percentage. This is a common practice when nations are on the verge of defaulting and many American banks were willing to restructure loans because it was better than the nations defaulting and not being able to pay anything. Of these 27 nations, 4 of

⁸ Seidman, Lewis William. *Full Faith and Credit : the Great S & L Debacle and Other Washington Sagas*. 1st ed., Times Books, 1993.

⁹ Curry, Timothy. "The LDC Debt Crisis." *History of the Eighties: Lessons for the Future, an Examination of the Banking Crises of the 1980s and Early 1990s*, Federal Deposit Insurance Corporation, 1997, pp. 189.

Mexico Sets Talks On Its Debt

By ALAN RIDING

Special to The New York Times

MEXICO CITY, Aug. 18 — After borrowing \$2 billion from the United States Government last weekend, senior Mexican officials are expected to propose renegotiation of an estimated \$17 billion of short-term foreign debt at a meeting with its bankers on Friday.

Foreign bankers expressed some relief at the Government's success in raising new credits. "I'm very impressed by how much clout Mexico still has," said one banker, who asked not to be identified.

Finance Minister Jesus Silva Herzog said Tuesday night that the initial response of foreign banks to "voluntary" restructuring of the debt was "one of understanding." The chairmen of 100 of Mexico's principal creditors have been invited to Friday's meeting, which will be held in the Federal Reserve Bank of New York. About 60 percent of Mexico's \$80 billion foreign debt, the largest in the world, is owed to American banks.

New York Times article headline regarding the start of Mexico's debt negotiations in August of 1982.

the largest to engage in these restructuring negotiations were Mexico, Brazil, Venezuela, and Argentina¹⁰.

Resolution: 1983 - Present

In response to this growing number of Latin American nations that were unable to repay their loans, American banks began to decrease the amount they lent to these nations. Scholars estimate that between 1983 to 1989 the amount of Latin American debt will drop over 20% from \$56 billion to \$44 billion¹¹. Scholars fear that this next decade has the potential to be considered the most serious international financial crisis since the 1930s and although it has originated in Latin America, it is likely to spread globally. Given the extent of the debt crisis it is essential to restructure existing loans and restructure the Latin American economic system in order to place new risk measures to prevent such a crisis from occurring.

One of the primary organizations that orchestrates many restructuring negotiations between nations is the International Monetary Fund. Originally created to stabilize the global economy's interest rates and currency exchange rates, by the 1980s, the IMF was morphing into a mediator between debtors and lenders. Many international banks that have lent money to Latin American

¹⁰ Ibid.

¹¹ Ibid.

governments are advocating that they will only consider restructuring loans if governments abide to IMF programs. Therefore, many nations are considering to follow IMF programs, because otherwise it is likely that they would not be able to pay off their debt and in turn would no longer be able to import essential goods. The IMF has stated that it will recommend strict austerity programs that will cut spending and reduce deficits. These austerity programs will likely include higher taxes on the citizens of Latin America in order to pay off existing debt, and it is believed that these policies will likely cause some backlash. This IMF program is being colloquially labeled as the “band-aid model” because it is an ad hoc solution to the problem that focuses on rescheduling current debt balances and reducing the amount of debt Latin America, without really focusing on a concrete way to prevent a crisis of this nature in the future.

A few of the key policies the IMF has promised to Latin American governments is that it will provide initial loans to pay off current debt and allow nations to delay their payments, but only if nations meet specific metrics. Initially the IMF promises to return each member’s IMF contribution. Each nation pays a small quota

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Latin American debt crisis eats away at region’s standard of living

By James Nelson Goodsell
 Staff writer of The Christian Science Monitor

Latin America’s economic distress is worsening. Virtually every indicator points to such a decline. But the focus of concern over the problem may be shifting.

While the region’s inability to pay off its \$360 billion foreign debt has drawn world attention over the past two years, there is now a new worry: the dramatic fall in standards of living in most countries of the hemisphere to early 1970 levels.

“What this implies for the political and social peace of Latin America,” said a United States banker attending the annual meeting of the Inter-American Development Bank (IADB), “can only be suggested. But it is likely to mean more unrest, for people in Latin America are being pinched.”

Two examples of that pinch:

- Gross domestic product fell by 3 percent in 1983.
- Per capita income slipped 6 percent during the same year.

Both statistics are included in an IADB report issued just before the annual gathering last week in Punta del Este, the Uruguayan beach resort that so often has been host to IADB sessions.



Men chat in a park in Sao Paulo, where unemployment rate may be 35 percent

ade, experienced a 2 percent drop in 1983, according to preliminary estimates.

Personal incomes were off in both those nations: in Argentina by 8 percent per capita, and in Brazil by 7 percent.

In addition, traditionally high underemployment rates in most of hemisphere countries have now been compounded by ominous increases in unemployment, particularly in urban areas.

In Brazil, according to government estimates released almost simultaneously with the IADB report, unemployment is now raging at 20 percent, although some Brazilians put the figure at 35 percent. There are heavy concentrations of the jobless people in the slums of big cities like Belo Horizonte, Rio de Janeiro, and Sao Paulo.

Unemployment is also taking a toll on Mexicans. A report issued by the Mexican government in early March said 14 percent of Mexicans are jobless. Unofficial estimates, however, suggest unemployment could be closer to 20 percent.

As ominous as these statistics may prove, they are an indication of the downward trend in the hemisphere’s economy, which the IADB report emphasizes. Those attending the IADB meeting agree

Please see CRISIS next page

Newspaper headline from 1984 from *The Christian Science Monitor*, that highlights the declining living standards in Latin America.

to the IMF each year as a form of insurance. Thus, member states have the ability to withdraw their quota without any restrictions. Although this does provide a certain amount of additional capital, it will not be anywhere near enough to cover debts. Thus, the IMF has promised to provide loans to distressed economies if they meet certain metrics each year for reducing their debt levels. Usually the IMF deals with distressed nations individually, but given the severity of the crisis, we hope to be able to possibly negotiate a favorable deal as a region, or seek another possible alternative to get out of the crisis.

Other scholars have proposed that it will be necessary for Latin America to become less reliant on foreign imports and instead develop its own export market. Brazil has already begun to make strides in reducing its deficit and has thus far been able to flip a US \$6 billion deficit into a US \$13 billion surplus from 1981-1984.¹² In addition, over the course of the decade several Latin American nations such as Mexico have begun to liberalize their economies and allow more private ownership of certain industries. This has allowed for the growth of important industries such as manufacturing within the country, which are expected to become large economic contributors over the next few years.

Although many of these IMF policies are likely to help prevent a large scale global depression and allow for Latin America to effectively restructure its debt, they are likely to spark a lot of internal resentment. Due to the IMF's austere policy implementation governments had to increase taxes on their populations and decreased spending, which led to rising unemployment and ultimately contributed to the low growth rates in the region for the next decade. In 1983 alone GDP per Capita dropped 5.3% for the region¹³. It is believed that these IMF programs are especially harsh on the people of Latin America and will result in higher levels of unemployment, higher taxes and lower standards of living. Some believe that the IMF's policy will unfairly punished Latin America with almost the entirety of the burden falling upon Latin American governments, while American

¹² O'Brien, P. "THE DEBT CANNOT BE PAID: CASTRO AND THE LATIN AMERICAN DEBT." BULLETIN OF LATIN AMERICAN RESEARCH, vol. 5, no. 1, 1986, pp. 45.

¹³Ibid, pp. 47.

creditors who overlended to these governments would not experience large losses. These IMF policies are likely to be beneficial in ensuring that the region could service its debt and establish a more stable economy and budget, but they did have consequences on the people of the region, who saw their living standards decline as the economy barely grew for nearly a decade.



The Crux of Debate

It is important to note that blocs during committee discussions will be more fluid than other present-day committees, but should to a certain extent align with the values and goals of underlying member states. While you may find a key ally within one block regarding one topic, you may take a competing stance on another. This should be a consideration when joining a bloc. Broadly, some divisions may be drawn as follows:

Borrowers vs. Lenders

The ECLAC is made up of members that played an instrumental role in the Latin American debt crisis, both as lenders and borrowers. Thus, it is unlikely that borrowers such as many Latin American countries would agree with lending countries such as those in Europe. For example, many Latin American countries such as Brazil, Mexico, Argentina, and Venezuela, who had large debt stockpiles would favor a debt forgiveness program that would allow a portion of their debt to be cleared. However, such a policy would likely not be favored by most European nations and the US, who would push for programs that they would be repaid as much of the debt as possible. It is important to note that private banks in the United States held nearly 31% of Latin American debt and Japan held nearly 16%.¹⁴ Thus the nations that held significant amounts of Latin American American debt would likely align on the economic policies that would ensure that their banks would be repaid.

Regional Blocs:

Given that the ECLAC is comprised of a diverse set of nations around the globe it is logical that blocs may form around regional groups. It is likely that several European nations may bloc together on many topics

¹⁴ Stallings, Barbara. "The Reluctant Giant: Japan and the Latin American Debt Crisis." *Journal of Latin American Studies*, vol. 22, 1990, pp. 7.

because their economies are highly integrated with other neighbors and thus would likely bloc on certain issues with their neighbors. Likewise, Caribbean nations may have similar viewpoints on certain topics given their reliance on tourism and the fact that close integration would mean that decisions that affect one nation may have spillover effects into another. That is to say, if for example if one bloc of Latin American nations decided to sanction a large neighbor, there would be a certain degree of negative consequences to the region as a whole given that these nations trade with one another. Thus, certain blocs may form around regional lines, because often regional neighbors are collectively impacted by certain economic decisions and policies.

Democracy vs. Dictatorships:

The late 1970's and early 1980's were a period of drastic change in Latin America's political climate, as authoritarian regimes and dictatorships began moving towards democracy. Several Latin American nations transitioned toward democracy during this time period such as Peru, Bolivia, El Salvador, Argentina and several others. Since this decade was a period of great political change in Latin America, it created a stark divide between democracy and authoritarianism in the region. Thus, it is important to note that political structure is likely to play a role in the blocs that form as well. It is likely that authoritarian regimes of the time such as Nicaragua, Cuba, Chile, Suriname, Paraguay, Guyana and several others will have similar incentives to preserve their power and align on certain policies that may preserve their power, while established democratic regimes may seek to align themselves with other democratic regimes.

Communism vs. Capitalism

Another consideration when forming blocs is to consider the economic systems of the nations. During the 1980's, the divide between capitalism and communism played an important role in the global political climate. Certain nations such as the United States and Western Europe were stark opponents of the communist

system and attempted to foster capitalism globally. On the other hand, several Latin American nations such as Cuba, Nicaragua, and several others employed communist or socialist governments. Given the incredibly intense divide between these two economic systems during this time period, this shall serve as an additional factor to consider when forming blocs.

Questions a Resolution Paper Must Answer

As you begin the task of negotiating a comprehensive resolution that addresses areas of great geopolitical uncertainty and economic controversy, you may find it hard to achieve concrete proposals and substantive reforms across all stakeholders. This difficulty is inherent in the nature of this committee: balancing the immediate problems against the long-term ones that may still require action, and navigating the different goals of states, notwithstanding the fact that the document needs to be grounded in sound economic and development principles in order to have some kind of an impact, all contribute to this. Understanding the challenges and taking unified, decisive action in the face of an uncertain future will ensure the credibility of the ECLAC, while uniting the countries of the Americas in a heretofore unseen way.

All this is not to say that you are expected to achieve radical and unprecedented reform in foreign diplomacy and internal economics within each nation. Part of the art of diplomacy and negotiation is to recognize when to accept incremental reform for the sake of greater change elsewhere, and gracefully maneuver yourself around such barriers. If during negotiations, an impasse is reached, nations may be forced to accept concessions to achieve more substantive change in other areas, perhaps with a statement of intent to return to the topic included in the final draft resolution. Giving ground can be better than nothing – although foregoing progress for the sake of it is unproductive – to achieve something rather than nothing. Substantive, detailed resolutions are more impactful than hand-wavy and poorly researched documents.

You should also not feel obliged to comprehensively address all areas in early working papers. Rather, it is fully expected and encouraged that early on in negotiations, you will propose working papers that tackle one – maybe two – aspects of the committee that are of your nation's interest. Over the course of the committee, you will be expected to thoroughly engage in the spirit of diplomacy to negotiate the merging of working papers into up to two – potentially three – comprehensive draft resolutions that address the committee's brief some shape or

form, and hopefully does so with the support of a majority of nations. Draft resolutions will undergo the normal amendment procedure.

There are some open-ended questions that you may consider during negotiations while drafting a resolution. Due to the complexity of dealing with an economic crisis of this magnitude, this is by no means exhaustive, and you are encouraged to explore the subtleties of other questions as well.

- To what extent do we wish to cooperate with the IMF's rescheduling programs?
- How do we balance reducing debt levels by reducing spending, while also acknowledging the effects it will have on citizens of affected nations?
- What measures should we put in place to minimize the impact the financial crisis will have on the citizens of Latin America?
- Should the burden of the debt crisis be placed on the international lenders or should it be placed on the Latin American governments that overborrowed?
- Are we able to find a unified policy or program that will appease both lenders and borrowers?
- Should we push for a program of debt forgiveness or debt rescheduling?
- Should we as a region focus more on short term goals or long term goals such as increasing investment in certain industries that could help make the Latin American economy more diverse and robust in the future?
- What measures can we take as a region and international community to ensure that such a crisis does not happen again?

Position Papers

When researching the issues this committee will be addressing, delegates must bear in mind that governments' policies are affected by their national political and economic situation. You will have to weigh these often-competing pressures when you formulate your country's position.

Writing your position paper will help you understand and frame the topics being discussed, forcing you to think creatively about complex problems that may not have been mentioned in this guide and how your country would position itself within that debate. You are unlikely to find a concise summary of your country's position on the above topics, but we encourage you to think logically and rationally about what would be in your nation's best interests, and indeed for the international community at large. I will not penalize delegates for taking a different approach than their assigned country has in the past, given that this committee is being held in over two years from now. Providing you can justify a change in policy by pointing out political developments at a national level, we would view such a change very favorably, as better reflecting the actual purpose of the committee.

Position papers should provide an explanation of how your nation is affected by some of the topics up for discussion in this committee, providing an opportunity for you to justify and provide context to the policy approach you will take in the committee. This should be both from your nation's domestic perspective and from a sweeping, regional perspective.

You should outline your nation's general policy on contentious areas in the position paper: what your key priorities in negotiations will be, the areas you are willing to concede ground on, potential areas of conflict with other nations. You should also propose original ideas for addressing the issues that will be discussed. These

should be specific, in your nation and the region's interest, and geared towards addressing the nuances of the issues presented in this guide – as well as considering how to deal with potential opposition, and possible compromises you would be willing to make on its implementation.

These position papers are representation of a nation's position and not a statement of your personal opinion. Therefore, they should be written formally and in third person. For example, a paper written from the perspective of Mexico should read, "Mexico believes that...". Position papers should be at least one and a half double-spaced US letter (8.5" x 11") or A4 pages in size 12 Times New Roman font, with one-inch (2.54cm) margins. Please see the guidelines on haciademocracy.org for more information.

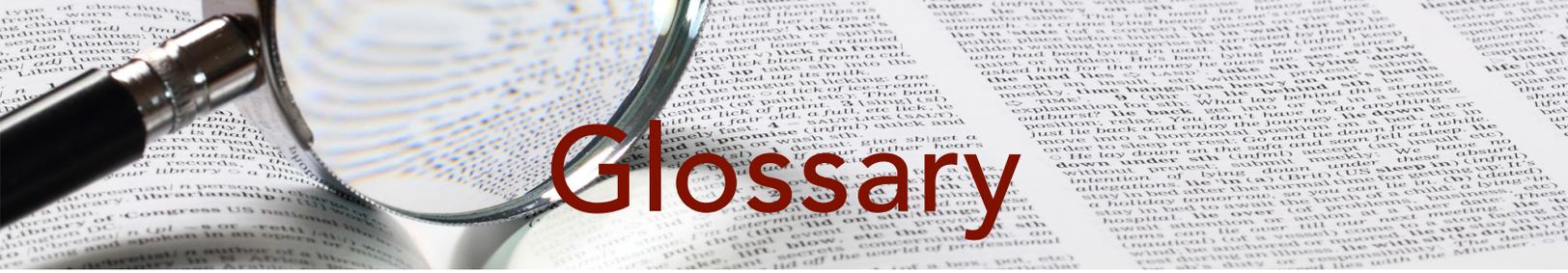
Closing Remarks and Research Recommendations

I would to thank you all for taking the time to read the bulletin. Although this is a complex topic, I hope that it has given you a useful insight into the various factors that affect the global economy. I hope that you will take the guide as a starting point and do further research and formulate your own beliefs and policies. The articles and websites references serve as a good starting point. They contain information that we are naturally unable to include in this bulletin.

While it is important that you attempt to represent your country's position in the HACIA Democracy framework, the goal of running this committee is to hopefully develop a greater understanding of the global economy and form new insights and perspectives as to how economic decisions made today can affect the world of tomorrow, and to provide a slightly different HACIA Democracy experience than what you may be used to. Given the complexity of the global economy and the Latin American debt crisis as a whole, the primary purpose is not to find the perfect economic solution, but to engage with the situation and better understand why the crisis occurred and what can be done to ensure that it will not occur again.

We believe that the international framework of the United Nations and goodwill of nations is robust enough to withstand this tumultuous time in recent history. While the very way the world works changes rapidly and irreversibly, international organizations must adapt with equal agility. You all are capable of showing that this is possible, and I could not be more excited to have the honor of chairing the ECLAC for the first time, where I hope you explore new or old interests and forge lifelong international friendships.

I cannot wait to meet you all in Ecuador and, if in the meantime you have any questions about this committee, please do not hesitate to get in touch.



Glossary

Austerity - In economics, austerity is defined as a set of economic policies a government implements to control public debt. Austerity measures are the response of a government whose public debt is so large that the risk of default, or the inability to service the required payments on its debt obligations, becomes a real possibility. Broadly, there are three primary types of austerity measures. The first is focused on revenue generation (higher taxes), which will allow spending to remain the same or possibly increase depending on how high taxes are increased. The goal is to stimulate growth with spending and capturing the benefits through taxation. Another type of Austerity policy focuses on raising taxes while cutting non-essential government functions. The last type, features lower taxes, and lower government spending. This last type functions on the premise that lower taxes will boost the economy and in turn lead to higher overall tax revenue as the economy grows.

Bond - A bond is a fixed income investment in which an investor loans money to an entity (typically corporate or governmental) that borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds are used by companies, municipalities, states and sovereign governments to raise money and finance a variety of projects and activities.

Debt - Debt is an amount of money borrowed by one party from another. Debt is used by many corporations and individuals as a way of making large purchases that they could not afford under normal circumstances. A debt arrangement gives the borrowing party permission to borrow money under the condition that it is to be paid back at a later date, usually with interest.

Debt Restructure - Debt restructuring is a process used by companies to avoid the risk of default on existing debt or to take advantage of lower available interest rates. One form of debt restructuring that is very common is to push back debt payments to a later date. For example, if one nation is unable to pay off all of their debt due today, they will negotiate to move the debt to later so they can repay. Many lenders are willing to push back debt payments, because they would rather receive their money back later than not at all. Other debt restructuring examples include negotiating lower interest rates if a nation believes it will default, in order to make repayment more likely.

Default - Default is the failure to repay a debt including interest or principal on a loan or bond. A default can occur when a borrower is unable to make timely payments, misses payments, or avoids or stops making payments. Individuals, businesses, and even countries can fall prey to default if they cannot keep up with their debt obligations. If a nation defaults that means it is unable to repay the loan to a bank and the bank will lose the money that was not repaid. Once a nation defaults it becomes more difficult to receive loans in the future and all loans that are offered are far more expensive and have higher interest rates.

Deficit - a deficit is an amount by which a resource, especially money, falls short of what is required. A fiscal deficit, also called government budget deficit, occurs when expenses are greater than government revenue. A way to reduce a deficit is to either reduce spending, or increase taxes which increases tax revenue. The

importance of a fiscal deficit is that when spending exceeds revenue, a government must borrow money either from citizens or from other nations.

Export - Exports are goods that are produced in one country and are shipped to another country for future sale or trade. The ability to export goods helps an economy grow, and most of the largest companies operating in advanced economies derive a substantial portion of their annual revenues from exports to other countries. Countries can increase their GDP by increasing exports.

Fiscal Expansion - Fiscal expansion, also known as fiscal stimulus, is one common way a government can affect economic growth. During times of economic stagnation, fiscal expansion enables the government to encourage growth by changing the levels of spending or taxation.

The government might lower tax rates, because as taxes decrease people have more money to spend or invest, which fuels higher spending. That spending leads firms to hire more, decreasing unemployment. In turn, this serves to raise wages and provide consumers with more income to spend and invest. The government may seek economic expansion through increases in spending as well. By building more roads, for example, it could increase employment, pushing up demand and growth. Expansionary fiscal policy is usually characterized by deficit spending, when government expenditures exceed revenue from taxes and other sources.

Fiscal Surplus - a fiscal surplus, also called a budget surplus, occurs when a nation's revenue exceeds its spending.

Gross Domestic Product (GDP) - is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Import - An import is a good or service brought into one country from another. Countries are most likely to import goods or services that their domestic industries cannot produce as efficiently or cheaply as the exporting country. Countries may also import raw materials or commodities that are not available within their borders. For example, many countries import oil because they cannot produce it domestically or cannot produce enough to meet demand.

Interest - a charge for borrowed money generally a percentage of the amount borrowed. An example of interest, is if a nation borrows a \$100 million dollars today, they will have to pay \$100 million dollars multiplied by a certain interest rate. So if the interest rate is 2% then in a year the nation would have to repay

The International Monetary Fund (IMF) - The International Monetary Fund (IMF) is an international organization that aims to promote global economic growth and financial stability, encourage international trade, and reduce poverty. The International Monetary Fund (IMF) is based in Washington, D.C., and currently consists of 189 member countries, each of which has representation on the IMF's executive board in proportion to its financial importance, so that the most powerful countries in the global economy have the most voting

power. The IMF assists nations by collecting data and creating forecasts of economic growth, by training and assisting nations develop economic plans and structures, and by providing nations with loans during times of economic distress. Member states provide a certain quota of funds to the IMF each year and these funds are used to help nations who become economically distressed.

Lending - the action of allowing a person or organization to use a sum of money under an agreement to pay it back later, usually with interest.

Loan - a thing that is borrowed, especially a sum of money that is expected to be paid back with interest.

Recession - A recession is a period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters. Recessions are often accompanied with rising rates of unemployment and falling living standards.

Revenue - Income either obtained by a company from selling a good or service, or from a government collecting taxes from citizens, corporations or tariffs.

Servicing Debt - Servicing debt means that a company or nation is repaying the balance of their loan and interest payment. When a nation repays the amount it owes another government or bank, it is servicing its debt. It is important to payoff or service debt in order to be able to borrow money in the future. If a country has a history of failing to repay its debt, they will likely not receive loans or they will have to pay more on interest.



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