

## A.I.D.'s ROLE IN CENTRAL AMERICA: OVERVIEW

### I. U. S. Assistance Levels

Current Economic Assistance to the nations of the Central American Isthmus<sup>1/</sup> is at a historical high. Concessional U. S. assistance to the area over the period 1981-1983 is estimated \$1,247.7 million plus a very small amount going to Mexico through a number of private voluntary organizations. Total assistance to the region in the last three years equals almost 80 percent of the U.S. resources directed to the area during the period 1962 - 1980, with the exception of Mexico<sup>2/</sup>

The variety of economic assistance mechanisms has expanded greatly since the late 1970s. These include Development Assistance (DA) Projects, Balance of Payment Programs funded with Economic Support Funds (ESF), commodity import assistance in loans and grants under the various Titles of PL 480, Commodity Import Risk Assurance Programs (CCC), and support to numerous Private Voluntary Organizations (PVO's) working in the area. In addition to the foregoing, the trade component of the Caribbean Basin Initiative will become operative in the very near future, providing additional economic stimulus in the area under consideration.

The bulk of assistance provided is on a country-to-country basis with some resources distributed on a regional basis as shown Table 1:

---

<sup>1/</sup> For the purposes of this paper the Central American Isthmus is defined as including Belize, Guatemala, Honduras, El Salvador, Costa Rica and Panama. Nicaragua, presently receives small amounts of food aid passed through international organizations and so is not treated here.

<sup>2/</sup> Mexico, which had a bilateral assistance program with the U.S. from the late 1940's to 1968, received just under \$240 million in loans and grants during that period. Thereafter relatively low levels of assistance resources have flowed indirectly to Mexico primarily through private sector organizations.

TABLE 1  
THIRTY YEARS OF U.S. ECONOMIC ASSISTANCE

TO  
CENTRAL AMERICAN COUNTRIES

1953 - 1983

(\$ MILLION)

COUNTRY	1953 - 1961				1962 - 1980				1981 - 1983				TOTAL			
	DA*	ESF	FGOD	TOTAL	DA*	ESF	FOOD	TOTAL	DA*	ESF	FOOD	TOTAL	DA*	ESF	FOOD	TOTAL
COSTA RICA	20.1	---	1.1	21.2	150.3	---	18.8	169.1	53.8	160.0	49.1	282.9	224.2	180.0	69.0	473.2
EL SALVADOR	9.9	---	1.1	11.0	156.5	9.1	41.1	206.7	131.5	299.9	114.0	545.4	297.9	309.0	156.2	763.1
GUATEMALA	58.5	31.5	5.1	95.1	205.1	2.2	57.4	264.7	29.8	20.4	18.4	68.6	293.4	54.1	80.9	428.4
HONDURAS	27.8	---	2.7	30.5	231.1	2.4	40.2	273.7	32.2	84.3	33.0	209.5	351.1	86.7	74.9	513.7
NICARAGUA	18.2	---	0.2	18.4	226.4	9.1	43.4	278.9	2.5	61.7	1.9	66.1	247.1	70.8	45.5	363.4
PANAMA	27.6	---	5.7	33.3	251.7	28.2	16.2	296.1	24.3	---	4.9	29.2	303.6	28.2	26.6	358.6
BELIZE	0.5	---	0.9	1.4	1.0	---	2.0	3.0	1.7	10.0	---	11.7	3.2	10.0	2.9	16.1
REGIONAL PROGRAM (ROCAP)	5.0	---	---	5.0	60.7	---	---	60.7	33.4	0.9	---	34.3	99.1	0.9	---	100.0
TOTAL	167.6	31.5	16.8	215.9	1282.8	51.0	219.1	1552.9	369.2	647.2	231.3	1247.7	1819.6	739.7	157.2	3016.5

\*Includes assistance to PVOs and centrally funded Projects

BEST AVAILABLE DOCUMENT

A.I.D.'s Assistance Programs to Central America and Mexico have evolved over the years in response to political and economic events in the area and in response to Congressional mandates and various Administration policies. The basic emphasis of economic assistance to the area over the past thirty years has shifted from the development of capital intensive projects in the public sector (roads, dams, air and seaports and public services) and the private sector (primarily the establishment of lending institutions) in the 1950s and 1960s to more attention to the basic human needs of the poor by working primarily in the public sector in the 1970s. Recently, in response to the growing economic and political crises of the past three years, aid programs have expanded to include PL 480 and ESF in growing amounts, primarily in response to the balance of payments problems in the region. Local currencies generated by those programs are going to help both the public and private sectors to stimulate production and attend to basic human needs. What this means in terms of dollars in FYs 1983, 1984 and 1985 - can be seen in Table 2:

TABLE 2

## US ECONOMIC ASSISTANCE TO CENTRAL AMERICA

FY 1983 - 1985

(in US \$000)

	FY 1983 (OYB, Including Supplemental)				FY 1984 (Congressional Presentation)				FY 1985 (AID Proposed)			
	DA*	ESF	PL 480 Title I	PL 480 Title II	DA*	ESF	PL 480 Title I	PL 480 Title II	DA*	ESF	PL 480 Title I	PL 480 Title II
BELIZE	6650	10000	-	-	4000	-	-	-	4000	-	-	-
COSTA RICA	26958	160000	28000	-	15000	70000	23000	-	20000	110000	24600	-
EL SALVADOR	58540	140000	39000	4000	38000	120000	32000	4000	50000	175000	32000	4400
GUATEMALA	12500	20350	-	4400	13000	40000	7000	3600	18700	20000	7000	4400
HONDURAS	35180	48000	10000	4000	32000	40000	8000	3100	32000	50000	8000	3600
NICARAGUA	-	-	-	-	-	-	-	-	-	-	-	-
PANAMA	4050	-	-	1000	11000	-	-	800	19000	-	-	400
ROCAP	15655	-	-	-	15000	-	-	-	6000	-	-	-
TOTALS	159533	378350	77000	13400	128000	270000	67000	11500	149700	355000	71600	12800

\*Includes assistance to PVOs and centrally funded Projects

## II. Assistance Strategies

Assistance strategies vary from country to country. These are briefly summarized in each of the short country economic assistance papers which follow this overview. However, the economic assistance strategy for the region has two basic goals which are pursued simultaneously: first, to maintain some semblance of macro economic and fiscal stability over the short run either through direct ESF budget support or indirectly through support of IMF policies: second, address underlying structural or exogenous problems which hamper economic and fiscal stability, blunt the growth of economies or prevent equitable access to benefits. To this end (and when politically practical) the U.S. will concentrate assistance in those countries which demonstrate a willingness to undertake serious economic reforms which will encourage diversified private sector productivity and increase the efficiency of public sector programs, in the context of growth with equity.

At present, the U.S. is working with the countries of the Isthmus and Mexico to help them deal with major areas of interest as follows:

### A. Balance of Payments Assistance and PL 480.

As can be seen in the foregoing table, the lion's share of assistance to the region in the last three years has come in the form of ESF monies, which were directed primarily to the alleviation of severe balance of payments problems, principally in El Salvador, Honduras and Costa Rica. Passed to the governments in the form of fast disbursing cash transfers, ESF dollars have significantly helped the three countries by allowing them to import raw materials and other goods necessary to keep the respective productive sectors going and resultant employment and GDP levels from declining further from their depressed states. The local currencies generated by the sale of the ESF dollars are also being put to good use in the various countries, either in the form of credit funds for the private sector or in support of fiscal programs and measures worked out by the host governments in collaboration with the IMF. In all cases of ESF assistance, the Missions have taken the opportunity to engage host governments in dialogues regarding changes in policies or institutions which would improve monetary and fiscal situations in the region.

A.I.D. Missions in a number of the countries including El Salvador, Honduras and Costa Rica are also implementing PL 480 food import programs to help meet basic food commodity needs of the region during this difficult period. Local currencies generated by the sale of PL 480 commodities and ESF Programs are also being employed by the Missions in support of various host government initiatives aimed at improving food and agricultural commodity production and distribution of economic benefits to small farmers.

Agriculture, Rural Development and Natural Resource

Management: These areas account for over half of the U.S. development assistance program in the region. FY 1983 calls for over \$101 million to be placed in new or on-going projects in the region. Major activities in the region include:

- Support for the Salvadoran Agrarian Reform program in the form of credit, technical assistance and training;
- Financing of crop diversification projects for small farmers in Guatemala
- Support to small farmer credit unions and assistance in receiving land titles in Costa Rica
- Assistance to natural resource management activities in Honduras
- Support for expansion of small farmer livestock businesses in Honduras and Belize.

Population and Family Planning: Assistance in this very important area will be provided to all of the countries in the region (excluding Belize), either directly to host governments or indirectly through private voluntary organizations. Assistance is provided in a variety of methods, the primary ones being contraceptive commodity shipments and technical training in the management of family planning and contraceptive distribution programs both with host governments and private voluntary organizations.

Health and Nutrition: A.I.D. is working with all countries in the region (except Belize, where the bi-lateral assistance program is just starting) in a variety of activities ranging from provision of medicines and medical equipment in El Salvador and Costa Rica to the implementation of potable water and oral rehydration projects in Guatemala and Honduras.

Refugee Programs: The A.I.D. Missions in El Salvador and Honduras have been administering amounts of emergency assistance money to provide food, shelter and employment to refugees from civil strife in the area. Finally, food assistance is being provided in most of the countries under the Title II of PL 480, either through host governments or private voluntary organizations.

Education and Human Resources: Economic assistance to education and human resources related activities is being provided or is being planned for all countries in the region except Belize. Assistance has taken two major forms: construction of educational facilities, notably in Honduras, Guatemala and El Salvador, and development of skills training programs and overseas training, both long and short term.

Housing and Urbanization: A.I.D. has initiated a series of Housing Guaranty (HIG) Programs or other types of housing assistance aimed at providing low cost housing through the efforts of the private sector, throughout the region. (HIG Programs themselves are non-appropriated funds which support U.S. capital loans to developing countries. They are discussed in greater detail in a separate section in this Briefing Book). Many projects have been initiated and are being successfully implemented - in all countries save Mexico. Assistance includes technical assistance and training for savings and loan and government housing institutions, the promotion of private housing cooperatives and increased private sector involvement.

Infrastructure and Industrial Development: A.I.D. has been employing large amounts of development assistance and ESF dollars and local currencies, particularly in El Salvador, Honduras and Costa Rica to stimulate private sector production and provide the infrastructure necessary to allow increased flow of trade and commerce. This has meant development of private sector credit funds as in El Salvador, technical assistance and training to private sector members and public sector institutions serving the business community as in Honduras, Panama, El Salvador and Costa Rica, and the provision of infrastructure such as roads, in all countries in the region, or emergency repair of roads, bridges, power lines damaged by civil violence as in El Salvador and to a lesser extent in Honduras.

Housing Investment Guarantees

As indicated, the Housing Guarantee (HIG) program is a non appropriated source of funding. It draws its resources from U.S. Investors who make loans to countries which are guaranteed by A.I.D. The purpose of these loans is to promote the development of shelter institutions and low cost housing projects and neighborhood upgrading for the urban poor. Since housing is purchased in local economies, most loans are untied and can be used for foreign exchange requirements.

Beginning in 1962 until the early 1970's, this AID assistance program was instrumental in establishing the savings and loan system in Central America and supporting private housing cooperatives. Since then the AID housing program has sought to strengthen the ability of public shelter institutions to provide new and improved housing for the urban poor. The HIG experience in Central America is as follows:

	<u>Lending Authorized</u> <u>1962-1983</u>	<u>Projects Authorized</u> <u>Not Yet Disbursed</u>	<u>ABS</u>	
			<u>FY 1984</u>	<u>FY 1985</u>
Belize	2.0	2.0		5.0
Costa Rica	38.0	28.4		10.0
El Salvador	35.9	15.6		5.0
Guatemala	22.5	10.0	10.0	-
Honduras	52.9	28.7	10.0	-
Nicaragua	15.9	-	-	-
Panama	96.5	18.1	-	20.0
CABEI	106.9	18.0	-	-
Totals	<u>370.6</u>	<u>120.8</u>	<u>20.0</u>	<u>40.0</u>

Note: Figures are in \$millions as of July 30, 1983 and Mexico has borrowed \$10.8 million in HIG loans during the early 1960s.

In the last decade, HIG resources have been allocated largely through the Central American Bank for Economic Integration (CABEI) in support of lower cost housing development and the establishment of regional secondary mortgage facility. More recently, the HIG program has emphasized bilateral programs to expand the role of the private sector, to enhance shelter policy impact and to serve even poorer urban families. In the last three years approximately \$86 million have been disbursed

Commodity Credit Corporation  
Guaranties of Commercial Credit  
(\$000)

<u>Country</u>	<u>1982</u>	<u>1983</u>	<u>Proposed</u> <u>1984</u>
Belize	-	2,000	*
Costa Rica	12,000	3,000	*
El Salvador	21,060	24,000	25,000
Guatemala	10,000	43,200	50,000
Honduras	-	4,300	*
	65,000	1,200,000	*
	-	7,200	*
	<hr/>	<hr/>	<hr/>
Total	108,060	1,203,700	75,000

\*Not available

BELIZE

Summary of U.S. Assistance (\$ thousands)

	<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1984</u>
	(Actual)	(Estimate)	<u>CP Request</u>
Development Assistance (DA)	--	6,650 a/	4,000
Economic Support Funds (ESF)	--	10,000 b/	--
PL 480, Title I/III	--	--	--
PL 480, Title II	--	--	--
Total Economic Assistance	<hr/> --	<hr/> 16,650	<hr/> 4,000
Military Assistance	26	75	600
Total U.S. Assistance	<hr/> 26	<hr/> 16,725	<hr/> 4,600
Housing Guarantees	2,000	--	--

a/ \$5 million included in the Senate version of the Supplemental request currently before the Congress.

b/ FY 1982 CBI Supplemental Appropriation; \$5 million Credit Rediscount Fund; \$4.6 million balance-of-payments support; \$400,000 Technical Assistance for Housing Guaranty.

Basic Economic Data:

1 Population - (mid-1982) 150,000  
 Population growth rate - (1982) 1.3%  
 Total GNP (1981) - \$184.5 million  
 Per capita GNP - (1981) \$1,200  
 Average annual per capita real GNP growth rate - (1980) 3.1%; (1981) 1.0%

Foreign Trade:  
 Major exports (1980) - sugar, clothing, mahogany, citrus, fruit, and fish  
 Exports to U.S. (FOB) - (1981) \$41 million (about 28%)  
 Major imports (1980) - machinery, transport equipment, foodstuffs  
 Imports from U.S. (CIF) - (1981) \$76 million (about 47%)  
 Trade balance - (1981) minus \$44.4 million  
 External public debt (1981) - \$54.5 million (30% of GNP); per capita external debt (1981) - \$363

Literacy (1980) - 91%  
 Life Expectancy - NA

U.S. Interests and AID Program Strategy and Objectives:

**BEST AVAILABLE DOCUMENT**

U.S. Interests:

- Overall objective is to maintain friendly relations with Belize.
- Assure a democratic, independent, economically viable country, supportive of U.S. policies and capable of maintaining its territorial integrity.

Program Strategy:

Over short term emphasize economic stabilization support.  
 Over medium/long-term provide economic development assistance to both public and private sectors to assist Belize to achieve some measure of sustainable growth.

1/1

How Program Objectives and Strategy to be Supported:

- A. Program strategy is yet to be developed in detail. We are now in the process of gathering data as a basis for putting together a CDSS. We anticipate that the CDSS will be completed by early August 1983.
- B. Stabilization of the Economy
  - Economic Support Funds of \$4.6 million under the CBI obligated in FY 1983 provide balance-of-payments support. It is anticipated that additional ESF will be required in both the FY 1984 and FY 1985.
- C. Support for the Private Sector
  - \$5.0 million of CBI funds for a credit rediscount fund provide a resource for private entrepreneurs to draw on to initiate/expand agriculture or agriculture-related activities. Planning includes funding for Private Voluntary Organization (PVO) projects as well.
- D. Support for the Public Sector
  - It is anticipated that our major thrust with the GOB will be in the agriculture sector. Our strategy review will determine what other areas we might become involved in.

Key Issues Facing the Program:

- Belize's key industry, sugar, which accounts for 60% of the nation's export earnings, is in financial trouble and Tate and Lyle, the British firm that owns the industry, wants to close one of the two sugar mills in the country. They are willing to sell the industry to the Belize Government (GOB), however, but the GOB does not have the funds for the purchase. The GOB has asked the USG for assistance. Key issue relates to how we can assist the GOB to resolve this major economic/political problem.
- The budget level of \$4.0 million DA for each of FY 1984 and FY 1985 will probably not be sufficient. We are projecting a need for \$5.0 million of ESF for each of these fiscal years to address important, expected balance-of-payments and fiscal problems, as well as economic structural difficulties within the economy (such as the sugar situation outlined above).
- Although the Belize program is not, nor will it become, a large one, a staff of at least three USDH will be needed. Currently one USDH (A.I.D. Representative) is in the field and a second position, an agriculture project manager, has been approved and recruitment is underway. A third position in the program area will be required within the next year.

COSTA RICASummary of U.S. Assistance: (\$ Thousands)

	FY 1982 (Actual)	FY 1983 (Estimate)	FY 1984 (CP Request)
Development Assistance	11,540	26,958	15,000
Economic Support Funds	20,000	160,000 <sup>1/</sup>	70,000
PL 480, Title I/III	18,000	28,000	20,000
PL 480, Title II	1,092	226	38
Total Economic Assistance	50,632	215,184	105,038
Military Assistance	2,058	2,625	2,150
Total U.S. Assistance	52,690	217,809	107,188
Housing Guaranties	20,000	--	--

<sup>1/</sup> Includes \$75 million FY 82 CBI Supplemental Appropriations, \$50 million FY 83 Continuing Resolution, and \$35 million FY 83 Supplemental Request.

Basic Economic Data:

Total population - (mid-1982) 2,534,000

Population growth rate - (1982) 2.7%

Total GNP (1981) - \$3.7 billion

Per Capita GNP - (1981) \$1,480

Average annual per capita real GNP growth rate - (1960-1980) 3.2%; (1982) minus 5.9%

Foreign trade:

Major exports - (1981) coffee, bananas, meat

Exports to U.S. (FOB) - (1981) \$313 million (33% of total)

Major imports - (1981) manufactures, machinery, transport equipment

Imports from U.S. (CIF) - (1981) \$403 million (35% of total)

Trade balance - (1980) minus \$452 million

External public debt \$2.6 billion (78% of GNP); per capita external debt - \$1,030

Literacy - 90%

Life Expectancy - 70 years

AID Program Strategy:

-Immediate U.S. interest is to help Costa Rica achieve economic stabilization.

--Support is provided to stabilize the economy and to improve fiscal management and public sector activities.

-During the current economic crisis, assist Costa Rica to minimize the social effects of negative economic growth.

-Over medium the term, our strategy is to initiate a program of economic recovery and development by promoting new investment and production for export.

How Program Objectives and Strategy are Supported:

A. Stabilization of the Economy

- Economic Support Funds of \$160 million in FY 1983, and \$70 million in FY 1984. Dollars finance U.S. imports and local currency provides credit for private sector to maintain production and employment. Local currency is also provided to strengthen private voluntary organizations and cooperatives.
- Economic stabilization and planning for eventual recovery supported by economic policy dialogue. Assistance provided in Policy, Planning and Administrative Improvement Project.
- PL 480 Title I program will contribute to stabilization via balance-of-payments support to cover essential food imports.

B. Improve Public Sector

- Major instrument supporting policy dialogue concerning the public sector is new Policy, Planning and Administrative Reform project (\$3.5 million).
- Self-help measures included in PL 480 Title I agreements promote policy dialogue concerning reforms to improve productivity and efficiency of the agricultural sector.

C. Promote New Investment for Export

- Assistance to, and policy dialogue about, the private sector advanced by new Cooperative Banking Services and Credit Project (\$1.6 million) and ongoing Private Sector Productivity II project (\$6 million).
- Private sector to benefit from AID OPGs to PVOs for development activities in agriculture, marketing, credit, and labor organization.

D. Minimize Social Effect

- Through Health Supplies Management project, maintain drug and medical supply imports during foreign exchange shortage.
- Agricultural expansion in northern region fostered via road construction and extension services of new Northern Zone Infrastructure Development project (\$14.2 million).

Key Issues Facing the Program:

--IMF Agreement: In response to a strong bipartisan call last year from Congress to increase assistance to Costa Rica economic assistance, including Housing Guaranties, has been increased from \$19.8 million in FY 1981 to \$70.6 million in FY 1982 and \$215.1 million in FY 1983. Assistance was conditioned on Costa Rica negotiating a standby arrangement with the IMF designed to stabilize the economy. A one-year standby arrangement was approved by the IMF board on December 20, 1982 equivalent to SDR 92.25 million (approximately \$99.6 million) and is now being implemented. Recurrent problems are expected to result from GOCR efforts to meet IMF targets and negotiate continuing agreements.

EL SALVADOR

Summary of U.S. Assistance: (\$ Thousands)

	<u>FY 1982</u> <u>(Actual)</u>	<u>FY 1983</u> <u>Request</u>	<u>FY 1984</u> <u>CP Request</u>
Development Assistance	39,573	58,540	38,000
Economic Support Fund	115,000	140,000	120,000
PL 480 Title I	27,200	39,000	32,000
PL 480 Title II	7,687	6,195	5,478
Total Economic Asst.	<u>189,460</u>	<u>243,735</u>	<u>195,478</u>
Military Assistance	82,000	136,300	86,300
Total U.S. Assistance	<u>271,460</u>	<u>380,035</u>	<u>281,778</u>
Housing Guaranties	5,000	5,000	-
CCC	21,070	24,000	-

Basic Economic Data:

Total population - (mid-1982) 5.0 million

Population growth rate - (1982) 1.6%

Total GNP - (1982) \$3.6 billion

Per capita GNP - (1982) \$720

Average annual per capita real GNP growth rate - (1960-1980) 1.7%; (1981) minus 9.5%, (1982) minus 5.4%

Foreign trade:

Major exports - (1981) coffee, cotton, shrimp, sugar

Exports to U.S. - (FOB) - (1981) \$246 million (31% of total)

Major imports - (1981) machinery, motor vehicles, petroleum, fertilizers

Imports from U.S. (CIF) - (1981) \$339 million (34% of total)

Trade balance - (1982) minus \$183 million

External public debt\* - (1981) \$664 million (23% of GNP); per capita external debt \$144

Literacy - (1977) 62%

Life Expectancy - (1981) 63.9 years

AID Program Strategy:

- AID's strategy is to assist in halting economic decline, to promote recovery, and to support economic and social programs which address the country's basic developmental problems.

How Program Objectives and Strategy Are Supported:

A. Stabilization of the Economy

Economic Support Funds of \$100 million in FY 1982, \$120 million proposed for FY 1983, and \$103 million requested for FY 1984 address the country's balance of payments problem. These funds make possible imports from the U.S. of raw

\* World Bank Methodology

materials, intermediate goods, parts and equipment, etc., needed to maintain private business activity and employment.

B. Economic Development

Some \$84.5 million in FYs 80-83 have been used to support El Salvador's agrarian reform program, and an additional \$25 million is budgeted for FY 84. These funds make possible rural credit programs and a variety of extension services to help maintain and improve production. More than 20% of the country's farmland has been redistributed to 83,000 small farmers who were previously renters or day laborers. To address the country's severe unemployment problem, over eight million person days of labor-intensive jobs in community projects have been made possible with AID funds.

C. Social Development

Health is El Salvador's most important social service, but the Salvadoran Government is hard pressed to maintain public health because of shrinking budget resources. In FYs 83-84, \$25 million in AID assistance is being provided for medical supplies and equipment, and emergency health services. AID is also assisting with education, judicial reform, improvements in the electoral system, and human rights efforts aimed at social development.

D. Humanitarian Assistance

AID assists Salvadoran Government efforts to care for the 250,000 displaced persons registered with the government. AID provides funds and food commodities to support health services, food, employment, and as necessary in establishment of housing and sanitation.

Key Issues Facing the Program:

- The economic consequences of the insurgency are concerns of the first order. The guerrillas acknowledge that economic deterioration through sabotage and intimidation is a key element in their strategy. Attacks on basic infrastructure, especially the transportation and electric energy distribution systems, have been persistent, successful, and extremely costly.
- El Salvador is well into the fourth year of guerrilla warfare which is externally supported.
- Political violence, compounded by external factors such as the world recession and attendant declining prices for the country's main exports, have brought El Salvador to an unparalleled economic crisis. Economic activity declined in 1982 for the fourth year in a row, this time by 5.4 percent. Despite an increase in emigration, per capita product declined by almost one-third between 1978 and 1982, which represents a return to levels of about two decades ago. Over one-third of the work force is unemployed.
- Substantial external economic assistance is needed to help promote stabilization, maintain and increase private business activity and employment, support production by small farmers who have gained land through the agrarian reform program, and continue advances within a democratic framework.

15  
TUT

Access to land and problems of tenure have been historic sources of unrest in El Salvador. Moderate Salvadoran leaders recognized that change was imperative to provide for more equitable land tenureship and to prevent the seizure of power by the far left. The process of change began with a coup in mid-October 1979 by a group of reform-minded military officers. Among the first of a series of proclamations of new economic and social opportunities was announcement of an agrarian reform program. This program allows landless farm laborers and tenant farmers to buy the land they tilled through government-backed mortgages, with compensation paid to former owners by the Salvadoran government.

In the three years since the reform began, much has been accomplished, despite efforts of obstruction by extremists of both the left and the right. More than 20% of the country's farmland has been redistributed. By the end of June, 1983, some 83,183 farmers had gained land through agrarian reform. Including the families, more than 500,000 people are now benefiting from the program. Compensation to former owners now totals \$100 million, including \$9.7 million in cash payments and \$90.3 million in interest-bearing bonds. Production on land redistributed compares favorably with current national yields and with production per unit of land for the five year period before the land reform began.

At the request of the Government of El Salvador, the U.S. Government provides assistance to small farmers who participate in the reform. By the end of Fiscal Year 1983, U.S. support for the program will total \$84.5 million. The largest single form of assistance is \$51.5 million in loans for rural credit. U.S. funds also make possible a variety of extension services to help farmers maintain and improve production.

Major current problems faced by the agrarian reform include credit and evictions of farmers who have claimed land under Phase III of the program. Timely access to credit is a problem throughout the agricultural sector because of the country's economic crisis, and will be relieved only with overall economic recovery. Evictions of farmers who have obtained land through the reform have increased, due in part to the lack of unambiguous endorsement for the reform by the newly appointed military command. Some peasant organizations maintain that thousands of farmers are being evicted. AIFLD (an AFL-CIO affiliate which works with overseas labor and rural organizations) believes that the Salvadoran government should interpret the law as liberally as possible to extend the benefits of the reform. Early in May, AIFLD, leaders of rural organizations, and Colonel Torres who heads the agency in charge of Phase III, met in Costa Rica to discuss agrarian reform issues. A field study of the eviction problem was completed July 15. Preliminary findings indicate the numbers of evictions are higher than reported to and by the Salvadoran Government, but that the problem is not as severe as some critics have charged.

**BEST AVAILABLE DOCUMENT**

**BASIC INFORMATION  
ON  
EL SALVADOR'S AGRARIAN REFORM**

	<u>Phase I</u>	(not implemented) <u>Phase II</u>	<u>Phase III</u>	<u>Total</u>
1. Size of ownership holding subject to redistribution (hectares)	500+	100-500	all rented land	
2. Estimated number of holdings to be affected by the agrarian reform	426	1,700	30,000	
3. Estimated amount of land to be redistributed (hectares)	220,000	125,500	up to 200,000	545,500
As a % of the country's 1,455,000 hectares of land in farms	15.1%	8.6%	13.7%	37.
4. Amount of land actually redistributed through March, 1983 (hectares)	219,832	0	80,544	300,376
As a % of the country's 1,455,000 hectares of land in farms	15.1%	0	5.5%	20.6
5. Estimated number of small farmers to benefit from the reform	60,000	N.A.	117,000	177,000
6. Actual number of farmers who have claimed land under the reform	32,317	0	50,866	83,183
As a % of the estimated target	53.9%	0	43.5%	47.0
7. Number of provisional titles issued	0	0	42,415	
8. Number of final titles issued	23	0	2,453	

Update on the Agrarian Reform Program in El Salvador

PHASE I deals with properties of 500 hectares (1,235 acres) and over, and with smaller properties voluntarily offered for sale.

- Some 426 properties are now included in Phase I. This is a total of 219,832 hectares or 15.1% of the country's land in farms.
- The land claimed is turned over to farmer cooperatives, formed with government assistance. There are 317 functioning production cooperatives, most of which are completing their third year of operation.
- The operating farms have 32,317 cooperative members, who with their families are estimated to total 194,000 rural people.
- As of the end of June 1983, compensation to former owners by the Salvadoran Government totaled \$94 million, including \$6.7 million in cash, and \$87.3 million in agrarian reform bonds.

PHASE II deals with properties of 100-500 hectares, or 247-1,235 acres.

- Because of administrative and budgetary constraints, the Salvadoran Government has postponed this category of reform indefinitely.

PHASE III allows former renters and share-croppers to claim the land they worked under those arrangements, as of May 6, 1980, up to a maximum of 7 hectares, or 17.3 acres.

- As of the end of June 1983, some 50,866 farmers had filed claims for the land they had rented. A total of 80,544 hectares, or 5.5% of the country's land in farms, had been claimed. Including family members, approximately 305,000 rural people now benefit from owning the land they till.
- 42,415 provisional titles to land have been issued.
- 2,453 final titles have been issued.
- Compensation to former owners now totals \$6 million; of which one-half (\$3 million) is in cash, and one-half is in agrarian reform bonds.

EL SALVADOR - AGRARIAN REFORM  
ILLEGAL EVICTIONS IN PHASE III

sharecroppers to buy the land they worked as of May 7, 1980, up to a maximum of 17 acres (7 hectares). Payment to owners of land affected by Phase III is the responsibility of the Salvadoran Government. For most properties, half of the payment is in cash and half is in interest bearing agrarian reform bonds. When compensation has been paid, FINATA (the Salvadoran Government agency in charge of Phase III) can issue a final land title to the new small farmer owner who then begins repayment to the government through a 30 year mortgage.

Payment to former owners has lagged. The government is hardpressed to provide the necessary funds, because of other heavy demands against its budget in a time of economic crisis. There is also strong resistance to the reform program by many of the landowners affected. Some are using both legal and illegal means to obstruct the program's implementation. A few have even refused to accept payment from the government in the hope that they could retain their land. And, some landowners have illegally evicted farmers from land claimed under Phase III.

Illegal evictions of small farmers have been a problem since the reform program began. The Salvadoran Government bears the responsibility for controlling evictions, restoring farmers to lands to which they have legitimate claims, punishing offenders, and maintaining credibility in the government's commitment to agrarian reform. Of the 50,866 farmers who have registered claims for land with FINATA, some 4,651 have also filed complaints that they had been evicted. Of these, 3,656 farmers have been reinstated on their land, and the remaining 995 cases of eviction are pending action by FINATA. However, it is generally believed, including by FINATA itself, that the number of evictions is higher than the figures reported to and by the Salvadoran Government. Some observers have suggested that the actual number of evictions is several thousand higher than recorded by FINATA.

In an attempt to clarify the extent and nature of the eviction problem, the Government of El Salvador is conducting a study, in which field survey interviews of farmers were completed July 15. Organizations of small farmers, the American Institute for Free Labor Development (an AFL-CIO affiliate which works with labor and rural organizations in Latin America), and the U.S. Agency for International Development are also assisting in the study. Processing and analysis of survey data will take another 6-8 weeks, and a final report should be available by the end of September. Preliminary results suggest that, as expected, the incidence of illegal evictions is higher than reported to the Salvadoran Government. However, there are no indications that the extent of evictions was as great as some observers have suggested.

The study is based on a statistical model constructed by extrapolation from a sample of agrarian reform farms. FINATA has recorded 7,619 properties from which former renters and sharecroppers have claimed land. A random sample of 297 properties was selected by the Salvadoran Ministry of Agriculture for field interviews. This sample produced a model in which 51,366 farmers had applied for land (very similar to the 50,866 actual applicants), and another 11,125 farmers were shown as eligible to file for land in the properties known to have been affected thus far by the reform. The model further suggests that 5,634 to 9,067 farmers have been evicted, depending on definition and interpretation of data, and that only 1,271 farmers evicted have been reinstated on land by the government. This last point is at sharp variance from existing information. Clarification will come from further analysis of the survey, and re-examination of FINATA's files of the 3,656 farmers which it reports as having been reinstated.

GUATEMALA

Summary of U.S. Assistance: (\$ Thousands)

	<u>FY 1982</u> <u>(Actual)</u>	<u>FY 1983</u> <u>OYB</u>	<u>FY 1984</u> <u>CP Request</u>
Development Assistance	8,182	12,500	13,000
Economic Support Funds	-	20,350 <sup>1/2/</sup>	40,000
PL 480, Title I/III	-	-	7,000
PL 480, Title II	5,617 <sup>1/2/</sup>	5,268	4,478
Total Economic Assistance	13,799	38,118	64,478
Military Assistance	-	-	250
Total U.S. Assistance	13,799	38,118 <sup>2/</sup>	64,728
Housing Guaranties	10,000	-	10,000

Basic Economic Data:

Total population - (mid-1982) 7.54 million  
Population growth rate - (1982) 3.1%  
Total GNP (1982) - \$9.3 billion (est.)  
Per capita GNP - (1982) \$1,233 (est.)  
Average annual per capita real GNP growth rate - (1960-1980) 2.8%; (1982) minus 3.5%

Foreign trade:

Major exports - (1981) coffee, cotton, sugar, bananas, meat  
Exports to U.S. (FOB, 1982) \$349 million (27% of total)  
Major imports - (1981) manufactures, machinery, transport equipment  
Imports from U.S. (CIF 1981) \$615 million (36% of total)  
Trade balance - (1982) minus \$371 million  
External public debt (est. 1982) \$860 million (9.2% of GNP); per capital external debt - \$114  
Literacy - 47% (1980)  
Life Expectancy - 57 years (1980)

BEST AVAILABLE DOCUMENT

AID Program Strategy:

- Spread economic development among indigenous peoples in the Highlands.
- Help offset serious economic decline and its destabilizing effects on Guatemala society.
- Promote on-going GOG programs to improve the human rights situation and establish democratic government.
- Improve the pattern of highly skewed land ownership.

How Program Objectives and Strategy Are Supported:

A. Highland Development

-- AID's development strategy is focused primarily on small farmer development activities in the Highlands and on basic health, education, and family planning services--programs needed to address the increasing rural poverty and related inequities which breed insurgency. The \$12.0 million Highlands Agricultural Development Project (FY 1983 - 88) will extend modern

1/ Includes \$10 million FY 82 CBI Supplemental Appropriation ; \$10.35 million FY 83 Continuing Resolution.

2/ State/AID are deferring programming of the \$10.35 million CR funds.

agricultural techniques to subsistence farmers. Project components include terracing, mini-irrigation schemes, reforestation and rural road maintenance.

— Local currency generated by ESF and Food for Peace Programs will finance rural development. These funds are particularly important during the present period of GOG budget austerity.

B. Offsetting economic decline

— Economic Support Funds of 20.35\* million in FY 1983 and \$40 million in FY 1984. Dollars finance imports of raw materials and intermediate goods needed by productive enterprises, thereby generating production and employment.

C. Promoting human rights and democratic government

— The GOG is implementing programs to curb human rights abuses and corruption and to institute a broad based democratic system of Government. Electoral registration laws were promulgated on March 23, 1983, and Constituent Assembly elections are planned for mid-1984. Economic assistance promotes social/economic stability needed for the success of these programs.

D. Improving land holding patterns.

— A \$20 million project is proposed to facilitate the voluntary sale of private land by large land owners to small farmers, through private sector market mechanisms.

Key Issues Facing the program:

A. Human Rights

— Efraim Rios Montt has taken significant steps to promote human rights, but abuses by army units continue and further human rights progress is greatly needed. The case of the murdered A.I.D. contract employee remains unresolved.

B. Aid program cuts

— As a signal of U.S. displeasure with human rights violations in Guatemala, elements in Congress are proposing significant cuts in U.S. assistance. Whether such cuts are an effective way of promoting human rights and U.S. interests in Guatemala is a major question, however. Aid programs directly help the rural poor increase production and gain access to basic services. Cutting these programs is likely to increase rural poverty and contribute to the underlying social/economic conditions which fan insurgency and the ascendancy of extremist political factions.

C. Economic deterioration and Foreign Exchange

— The economy is facing serious economic decline caused largely by external factors. Poverty in rural areas has worsened, especially among the Indians, as a result of population growth, land erosion, inadequate funding of rural development and the declining economy. Shortage of foreign exchange is presently the principal economic constraint. Under these conditions, balance of payments support is important for national production and employment. Elements of Congress are resisting any ESF support to Guatemala.

D. Land marketing

— The proposed "Land Marketing" project has been the subject of criticism in Guatemala from land owners who fear land reform. While the criticism was misguided (the project proposes no expropriation), the GOG and AID have to plan carefully around the Guatemalan critics.

\* \$10.35 being deferred.

21  
1/2

## HONDURAS

### Summary of U.S. Assistance: (\$ Thousands)

	FY 1982 (Actual)	FY 1983 OYB	FY 1984 CP Request
Development Assistance	31,273	35,100	34,000
Economic Support Funds	36,300	48,000*	40,000
PL 480, Title I	7,000	10,000	8,000
PL 480, Title II	4,200	3,670	3,199
Total Economic Assistance	78,773	96,770	85,199
Military Assistance	31,280	-	41,000
Housing Guaranties	10,000	-	10,000

### Basic Economic Data:

Total population - (mid-1982) 4,103

Population growth rate - (1982) 3.5%

Total GNP (1981) - \$2.4 billion

Per capita GNP - (1981) \$590

Average annual per capita real GNP growth rate - (1960-1980) 1.1%, (1982) 2%

### Foreign Trade:

Major exports - (1981) bananas, coffee, wood 1981 - \$448 million

Major imports - manufactures, machinery, chemicals

Imports from U.S. (C.I.F.) - (1981) \$384 million

Trade balance - (1980) minus \$212 million

External public debts as a percentage of GNP (1980) 36.9%

Literacy - (1970) 57%

Life Expectancy - (1981) 58.7 years

### A.I.D. Program Strategy:

- The current, unsettled political and social situation in Central America makes preservation of Honduras' relative stability of great importance.

- Four principal goals of U.S. foreign policy are: (1) encourage and support the consolidation of democratic government; (2) assist the GOH in fostering economic growth; (3) help the GOH to acquire the capability to defend itself against foreign aggression; and (4) encourage Honduras to manage its relations with its Central American neighbors so as to further cooperation among the democratic states of the region.

- A.I.D.'s long term strategy is to increase private sector participation in the development process while supporting the efforts of the GOH to provide tangible benefits to the rural population in areas such as improved agricultural technologies, facilities, roads, and improved shelter.

- In the short-term, the Mission is assisting the GOH Economic Recovery Program and reducing the gap in the country's balance of payments. \$35 million in ESF funds were provided in FY 1982 with the understanding that the GOH would comply with the IMF recommendations to reduce expenditures and increase revenues.

### How Program Objectives and Strategy Are Supported:

A. Agriculture - We are assisting the GOH in: training personnel to administer agricultural projects; issuing land titles to small farmers; constructing rural access roads; teaching farmers to control coffee rust; improving agricultural research; providing credit to small farmers; and improving their extension service.

22  
5/1

— An important part of the Mission's new effort in agriculture is to assist the GOH to carry out the recommendations of the U.S. Presidential Agriculture Mission to Honduras.

B. Private Sector Development: The A.I.D. program will promote private sector activity which will lead to new jobs, economic growth, and increased productivity. It intends to focus the attention of the GOH upon the importance of the private entrepreneur, small businesses, and cooperatives and to make policy changes which increase the productivity of these groups. Essential credit and technical assistance will be provided.

— Private Voluntary Organizations are being encouraged to develop programs in small enterprise credit, delivery of family planning supplies, rural and vocational education, and other areas.

C. Economic Recovery Program: - The purpose of this project is to promote financial stabilization and economic recovery in Honduras. The project will continue to provide balance of payments support with ESF resources, while helping to meet essential investment and working capital needs for the private sector.

— \$35 million of ESF was provided in FY 1982. \$48 million of ESF is programmed for FY 1983, with a large portion in grant form.

D. Economic Policy Dialogue: - GOH compliance with the covenants of the IMF Stand-by Agreement is a condition for the disbursement of ESF funds. In addition, the Mission maintains a dialogue with the GOH on a number of important economic policy measures, public sector expenditures, tax administration, development project implementation, etc.

— The recommendations of the U.S. Presidential Agricultural Mission have provided opportunity to discuss changes in agricultural policy. Follow-up actions on Task Force recommendations have already been carried out regarding divestitures of some parastatal activities to private enterprise, increasing the stumpage price of state owned timber, assistance to the livestock industry, and other important changes.

#### Key Issues Facing the Program

— Performance on imports, exports, and government revenues has been much less than projected. There is strong political feeling within the GOH that they must receive massive increases in external financial assistance or be forced to retrench important socioeconomic programs in agriculture, health and education.

— Although GOH is now in compliance with IMF limits on public debt and other targets, reduced revenues caused by low world prices for major export crops may cause difficulty in meeting IMF targets in late '83.

— In its efforts to support the GOH program of answering social needs in rural and urban needs, plus developing a new assistance program focussing upon the private sector, the Mission has developed a large number of projects and may have reached the limit of its management capability. A.I.D. does not intend to increase its direct-hire staff in Honduras and should restrict the number of projects it must manage.

22  
45

PANAMA

Summary of U.S. Assistance: (\$ Thousands)

	<u>FY 1982</u> <u>(Actual)</u>	<u>FY 1983</u> <u>OYB</u>	<u>FY 1984</u> <u>CP Request</u>
Development Assistance	11,511	4,050	11,000
Economic Support Funds	-	-	-
PL 480, Title I/III	-	-	-
PL 480, Title II	1,742	1,316	932
Total Economic Assistance	<u>13,253</u>	<u>5,316</u>	<u>11,932</u>
Military Assistance	5,400	5,400	5,400
Total U.S. Assistance	<u>18,653</u>	<u>10,716</u>	<u>17,332</u>
Housing Guaranties	-	-	-

Basic Economic Data:

Total population - (mid- 1982) 2,011  
 Population growth rate - (1982) 2.3%  
 Total GNP (1981) - \$ 3.8 billion  
 Per capita GNP - (1981) \$1,910  
 Average annual per capita real GNP growth rate - (1960-1980) 3.3%  
 (1982) 0%

Foreign Trade:

Major exports - (1981) bananas, oil products, shrimp  
 Exports to U.S. (FOB) - (1981) \$167 million  
 Major imports - (1981) manufactures, transport equipment, petroleum  
 Imports from U.S. (C.I.F.) - (1981) \$536 million  
 Trade balance - (1980) minus \$897 million  
 External public debt as a percentage of GNP (1980) 70%

Literacy - (1970) 78%

Life Expectancy - (1981) 70 years

AID Program Strategy:

-- Foster a democratic political system and an economic and social environment conducive to the successful operation of the Panama Canal, the oil pipeline, and the U.S. defense facilities.

-- GOP has been moving toward social progress and democratic government in last decade. USG strongly supports this move.

-- A.I.D. strategy focussing on three critical development problems: stagnating agriculture, growing unemployment, and rapid urbanization.

-- A.I.D. helping to develop policies and strengthen key instituticns in all three areas.

How Program Objectives Are Supported:

A. Agriculture: Strengthening GOP capacity to (1) analyze and formulate agricultural policies, (2) develop and disseminate new technologies, and (3) protect and conserve the natural resource base of the country.

B. Employment: To generate employment through increased private investment, A.I.D. is strengthening the capacity of the government to (1) analyze employment problems and devise policies that will maximize productive employment, (2) provide credit and technical and organizational assistance to small business, (3) promote investment and exports, and (4) undertake manpower planning and development.

C. Urbanization: A.I.D. is strengthening the government's capacity to provide low-income housing and to develop sound housing policies.

Policy Dialogue: A.I.D. is engaging the GOP in a continuing policy dialogue in an attempt to make major changes in government policies affecting labor, agriculture and housing. The World Bank has identified overly protective labor policies (virtual inability to fire unproductive employees) as the single most important constraint to industrial development. Rent controls are a major dis-incentive to improved housing. Agricultural pricing policy is having a negative effect on agricultural production. In all these areas the Mission is working with the Ministry of Planning to provide technical assistance to assist the GOP in policy analysis. However, implementation of the policy recommendations that will result from the analysis will be a key test of GOP resolve.

Key Issues Facing the Program

-- IMF recommended GOP austerity budget has resulted in postponement of project proposals in co-operative marketing and work-force development. Other projects are behind schedule because of GOP counterpart shortfalls.

-- Bleak economic forecast portends a worsening of an already serious unemployment problem.

-- Despite notable social progress during the last ten years, the agricultural and industrial sectors have stagnated. The major constraints to increased production are the existing labor code and, probably, agricultural pricing policy. However, even if the GOP learns what changes should be made in these regulations, putting them into effect could have such damaging political repercussions that the GOP may very well hesitate to act.

ROCAP

Summary of U.S. Assistance  
(\$ 000)

	<u>FY 1982</u>	<u>FY 1983</u>	<u>Fy1984</u>
	<u>Actual</u>	<u>OYB</u>	<u>CP Request</u>
Development Assistance	13,130	15,655	15,000
Economic Support Funds	-	-	-
Total U.S. Assistance	<u>13,130</u>	<u>15,655</u>	<u>15,000</u>

AID Program Strategy

- Assist regional institutions and programs which support growth through Central American integration to continue operations during the current economic and political crisis.
- Assist regional technical institutions to analyze problems and develop programs to reduce constraints to economic wellbeing common to the region - particularly those in agriculture, energy and environment.
- Support our bilateral A.I.D. Missions where joint services provide a savings in personnel costs.

How Program Objectives and Strategy are Supported:

A. Promote Exports

An Export Promotion Fund (\$25 million) to support the regional Latin American Export Bank (BLADEX) was initiated in FY 1982. This program will help to maintain export production and promote new exports on a regional basis.

B. Improve Environment and Conserve Natural Resources

Projects are being implemented through regional institutions to effect (1) more efficient energy utilization and increased fuelwood production; (2) a reduction in petroleum import needs by promoting technological improvements. Both projects are expected to have favorable balance of payment results. In FY 1983, a Watershed Management project is being initiated to develop the technical capacity of regional and national institutions to manage watersheds effectively.

C. Increase Agricultural Productivity

Projects through regional institutions to eliminate or control (1) coffee rust on a region wide basis; (2) animal pest disease on a region wide basis and (3) to improve small farmer production systems.

New Issues Facing the Program

There has been considerable discussion internal to AID of the FOCAP role and importance of the Central American Common Market (CACM). Central issues are:

- Can the agreements and regulations applicable to the CACM be altered sufficiently to stimulate extra-regional export growth as a basis to provide for a major export promotion drive? If not, is it then practical to encourage countries to go it alone?
- Can CACM trade patterns be re-established given the region's economic and political turbulence, the payments imbalances between countries, and the special problem of Nicaragua?
- What can be done to overcome the problem of currency inconvertibility which has made the CACM trade system inoperable?

What should be the role of the Consultative Group on Central America led by the Inter-American Development Bank (IDB)?

## ECONOMIC AND SOCIAL TRENDS IN MEXICO

### INTRODUCTION

- A. SOCIO-CULTURAL OVERVIEW
- B. DEMOGRAPHIC TRENDS
- C. AGGREGATE ECONOMIC TRENDS
- D. INFLATION
- E. FOREIGN TRADE
- F. BALANCE OF PAYMENTS
- G. EXTERNAL DEBT
- H. LABOR FORCE GROWTH AND EMPLOYMENT
- I. INCOME DISTRIBUTION
- J. PUBLIC FINANCE
- K. AGRICULTURAL AND RURAL DEVELOPMENT
- L. OUTLOOK

### TABLES

## ECONOMIC AND SOCIAL TRENDS IN MEXICO

### INTRODUCTION

The Mexican financial crisis in the second half of 1982 abruptly brought to a close a period of rapid economic growth fueled by the exploitation of large, newly-discovered petroleum fields and by an expansionary fiscal policy based on overly optimistic assumptions about the future of petroleum prices. The crisis, and the adjustments needed to overcome it, have renewed concerns in Mexico about the social and political implications of the continuing -- and now worsening -- problems of unemployment, rural poverty, and rural-urban migration. In the United States, the Mexican crisis has worried U.S. bankers, who are major creditors of the Mexican government; U.S. border towns, suffering from plummeting sales to Mexican residents; and the public at large, concerned about the possibility of more illegal migration.

In the early 1970s, after almost three decades of uninterrupted and relatively rapid economic growth, the Mexican government recognized that the growth policies pursued in the past resulted in an overly concentrated pattern of development. Modern economic activity -- with an emphasis on manufacturing and services -- was concentrated in the three main cities of Mexico City, Monterrey and Guadalajara, which accounted for 67% of manufacturing output but only 25% of the total population. At the same time, 40% of the population still lived in rural areas, where value added per agricultural worker averaged less than one-fifth that of the other sectors. The poorest 20% of the population were earning between 3% and 4% of the national income, while the wealthiest 20% received 56% -- a highly unequal pattern of income distribution.

The efforts of the government during the 1970s to remedy this social imbalance placed priority on redistribution of income through publically-funded social services without, however, due regard for the sustainability of high levels of deficit financing. Moreover, the emphasis on growth through capital investment added to the already severe pressures to absorb a rapidly growing working-age population. Public sector expenditures more than doubled in real terms between 1970 and 1976, but employment growth was modest. Towards the middle of the decade inflation rose to an annual rate of 15% to 20%, private investment weakened considerably, and the current account deficit of the balance of payments reached 5%. The GDP growth rate slowed to an average of only 3% between 1974 and 1977, just matching the population growth rate.

The discovery of large petroleum reserves in 1977 and the sharp rise in international petroleum prices in early 1979 encouraged and permitted a revival of rapid-growth policies. Public sector outlays increased 15% per year in real terms between 1978 and 1980, and by more than 30% in 1981, with much of the increase going to investment in the energy sector.

This dramatic rise in public spending contributed to a rapid expansion of domestic production and a rise in employment, but it also encouraged an expansion of imports and a rise in domestic prices. Thus, while real GDP grew by an average of 8.4% per year between 1977 and 1981, and employment by an average of 5.4%, merchandise imports rose by over 28% per year in real terms between 1978 and 1981. This included a dramatic rise in imports of agricultural commodities. The rate of inflation surged from around 20% to close to 30% over the same period.

The availability of domestic and foreign financing encouraged a rapid expansion of private investment during this period. The traditional (nonpetroleum) export sector, meanwhile, experienced a relative decline, as its international competitiveness was eroded by the rise in domestic costs and by increased domestic demand. At the same time, lags in adjustments of prices of publicly controlled consumer goods and of tariffs on utilities, combined with rapid growth in expenditure, widened the public sector deficit to 8% of the GDP in 1980.

The economy was slow to adjust to the weakening of international petroleum prices beginning in 1981. Public sector expenditures rose by more than 30% in real terms, leading the economy to expand by 8.0% at a time when restraint of demand was in order.

The growing fiscal gap was financed by an increase in the share of domestic savings channeled to the public and by unprecedented levels of foreign borrowing. The rapid deterioration in the public finances, combined with accelerating inflation, resulted in large-scale capital flight. When the Central Bank temporarily withdrew from the foreign exchange market in early 1982, the peso depreciated rapidly and inflation accelerated further. Stabilization measures proved unsuccessful, and in August private creditors were asked to roll over principal payments on the foreign debt, the burden of which had become unupportable. The nationalization of commercial banks in September 1982 raised further concerns about the government's ability to respond to the crisis.

Finally, toward the end of the year, the government adopted an economic recovery package, for which it sought and obtained assistance from the IMF. Negotiations were undertaken with foreign creditors to refinance the external debt.

30

Progress in achieving economic stabilization has been encouraging during the first half of 1983. The government has held public expenditures to an acceptable level, agreement in principle has been reached to restructure \$19 billion in public sector debt and negotiations to settle private external arrears show promise.

Looking into the future, Mexico's prospects for recovering the pace of economic growth of the 1960s and making further strides in correcting the still deeply ingrained social imbalances are not promising. Success in achieving those goals would require not only a steady improvement in the world economy and but also a further, major restructuring and diversification of the Mexican economy, to reduce the relative importance of capital goods manufacturing and to increase employment opportunities in rural areas and in labor-intensive manufacturing for export. Despite the major strides in reducing the annual rate of population growth (from 3.3% in the 1960s to 2.6% currently), the structure of the population, a large proportion of it under the age of 15, will continue to create extreme pressures for employment, education, food, and shelter.

## A. SOCIO-CULTURAL OVERVIEW

While Mexico has achieved a high growth rate of GDP (an average of 7.0% per year since 1960), not all Mexicans have shared equally in the fruits of this growth. In the late nineteenth and early twentieth centuries, Mexico sought to promote rapid economic development through high profits, low wages, forced saving via inflation, regressive taxation, and minimal expenditure on social projects. The resulting income distribution and investment patterns produced large productivity differences between the rural and urban sectors. They also culminated in a prolonged and violent civil war that led to this century's first true social revolution.

Since about 1940, the pattern of Mexican growth has again produced an inequitable distribution of benefits. Mexico's per capita GNP in 1978 was \$1,290, but 50% of the rural population earned less than \$100 per person. The uneven pattern of development in Mexican agriculture is discussed in Part K. below.

Increased unemployment and underemployment in rural areas has led to a dramatic rise in rural-urban migration. United Nations projections indicate that Mexico City will be the most populous urban area in the world by 1990. Other urban areas in Mexico are also growing at a rapid rate. At the other extreme, more than one-third of the population lives in some 20,000 rural localities with populations of 300-2,500, where the prospects for productive employment and a decent income are poor. Migrant streams from these towns and villages have led not only to the larger Mexican cities but also northwards across the border. A high proportion of these migrants enters the United States illegally.

Social infrastructure in many rural areas is minimal. According to recent estimates, more than half of all rural families have no access to potable water or sanitation system. Thus, while the national average infant mortality rate is about 54 per 1,000 live births, the infant mortality rate for rural areas is significantly higher, exceeding 100 in some zones. Gastro-intestinal diseases, pneumonia, and malnutrition are the principal factors leading to infant and preschool deaths. In some rural areas, the inability of many people to communicate effectively in Spanish -- Indian languages still being spoken -- limits opportunities for economic advancement through participation in the modern economy.

## B. DEMOGRAPHIC TRENDS

Mexico's population growth rate has declined from 3.3% per year in the 1960s to 2.6% currently (see Table 1). However,

the benefits of this major achievement will not be fully realized until the end of this century. Because of the high fertility levels sustained through the last decade, 44% of the population is under age 15. These large ranks of young persons will continue to create large demands for food, clothing, shelter, education and health services, and for employment when they reach working age. Moreover, the estimated population of 71 million in mid-1981, will swell to 116 million in the year 2000 if the current population growth rate is maintained.

Mexico's population was already predominantly urban in 1960 (51%), and by 1981 the urban share had reached 67% (see Table 2). Although the urban population growth rate slowed from 4.7% in the 1960s to 4.2% in the 1970s, the continued rapid growth of the Mexico City metropolitan area has created serious social, economic, and environmental problems. One United Nations projection shows the metropolitan area reaching a staggering 31.5 million population figure in the year 2000.

#### C. AGGREGATE ECONOMIC TRENDS

The Mexican economy performed well during the 1960s and 1970s, with GDP expanding in real terms from \$57 billion in 1960 to \$239 billion in 1981 (see Table 3). This fourfold increase in output over two decades resulted from a 7.6% average annual growth rate during the 1960s, followed by a somewhat lower (6.5%) but still quite rapid rate of increase during the 1970s. Per capita GDP grew at an average annual rate of 3.8% between 1960 and 1981 (see Table 4).

During these two decades the industrial share of the GDP rose from 29% to 37%, while agriculture's share declined from 16% to 8%. The services sector's share remained at 55% (see Table 5). The gross investment rate rose from 20% of the GDP to 25%, with the great bulk of it continuing to be financed with domestic savings (see Table 6), though foreign savings sometimes amounted to about 5% of the GDP in the 1970s.

In 1982 economic activity contracted for the first time in 39 years, by 0.2% in aggregate terms and by 2.7% per capita. Prospects for 1983 are for a further contraction of output in the 4-6% range.

To deal with this economic crisis, Mexico adopted a stabilization program in late 1982 and obtained the financial support of the IMF. The agreement reached in December 1982 made available \$3.9 billion, most of it as an Extended Fund Facility loan available over a three-year period. Disbursements are tied to progress towards meeting Mexico's

economic adjustment goals. Since the current crisis is universally attributed in large part to excessive government spending over the last four years the major objectives of the stabilization program are to reduce the public sector budget deficit, restrain inflation, correct balance-of-payments and exchange-rate disequilibria, and establish the basis for sustainable economic growth.

#### D. INFLATION

Inflation was not a serious problem for the Mexican economy until the 1970s, when the GOP deflator rose at an average annual rate of 19.1%, compared with only 3.5% in the 1960s (see Table 7). The inflationary trend of the 1970s persisted into the 1980s, with the consumer price index (CPI) increasing by 26% in 1980 and 28% in 1981. In 1982 the large devaluation of the peso, coupled with excessive monetary growth and public sector deficits, combined to result in a record 99% increase in the CPI. While the CPI was running at a 117% annual rate of increase over the first four months of 1983, prospects are that declining economic activity and the belt-tightening effects of the IMF adjustment program will bring the rate back down below 100% by the end of the year, but to a rate that will fall far short of the government's target of 50%.

#### E. FOREIGN TRADE

Foreign trade has played a major role in the Mexican economy. The share of exports of goods and services in the GDP, after falling from 11% in 1960 to 8% in 1970, rose to 13% in 1980, largely because of a sharp increase in the volume, and later also the value, of petroleum exports. The ratio of imports to GDP followed a similar pattern and remained several percentage points above the export share until 1982, when imports had to be restricted sharply because of the lack of foreign exchange (see Table 8).

Table 9 shows that exports grew very slowly in the 1960s, at an annual rate of just 2.8%, while imports grew at a rate of 6.4%. In the 1970s the export growth rate jumped to 15.3%, largely because of the sharp increase in petroleum exports, while the import growth rate rose to 9.5%. By 1982 the export level had reached \$22.2 billion, and the austerity-induced drop in imports converted a traditional merchandise trade deficit into a surplus of \$7.7 billion (see Table 10). Another trade surplus is expected for 1983, since exports continue to increase while imports are likely to fall even further. The U.S. is Mexico's principal trade partner, taking 53% of its

34

exports and supplying 62% of its imports in 1982. The share of petroleum in Mexico's exports, 28% as late as 1978, reached 74% in 1982 (see Table 11). Agricultural exports declined in current dollars between 1978 and 1982, and manufactured exports (other than those of in-bond industries, which grew rapidly) declined in constant dollars.

#### F. BALANCE OF PAYMENTS

Mexico's current account deficit, 3.2% of GDP in 1970, was as high as 5% during several years in the 1970s and stood at 4.0% in 1980 (see Table 13). In 1981 it surged to \$13.9 billion, or 5.8% of the GDP. However, the surplus on the capital account was adequate to cover the current account deficit, and gross international reserves rose during the year (see Table 13). In 1982, as a result of the trade surplus noted in the preceding section, the current account deficit was cut to \$3.0 billion, or 1.7% of the GDP, down considerably from the 1981 deficit. However, because of unrecorded capital outflows, showing up in the balance of payments as errors and omissions, gross international reserves fell during the first nine months of 1982 from \$4.1 billion to \$1.2 billion. Based on the magnitudes of the errors and omissions deficits in 1981 and 1982, some observers believe that capital flight may have been as high as \$15 billion over these two years. Some of this money has flowed back to Mexico in 1983.

#### G. EXTERNAL DEBT

Mexico's external public debt rose from 7% of GDP in 1960 to 9% in 1980 and 18% in 1981, as a significant share of the increase in public expenditures in the 1970s was financed by external borrowing (see Table 14). By 1981 the public external debt stood at \$43 billion, while the total external debt in that year was estimated at \$66 billion, a figure that rose to \$80 billion in 1982.

The terms of Mexico's public external borrowing hardened between 1970 and 1981. Average interest rates rose sharply from 8% to 15%, and the average maturity fell from 12 to 8 years, although this was offset to some extent by an increase in the average grace period from three to four years.

The management of Mexico's external public and private-sector debt has been one of the most demanding tasks facing the de la Madrid Administration. Interest payments on the public debt are being kept current, and negotiations are underway to reschedule \$20 billion in principal payments falling due between August 1982 and the end of 1984. Principal

payments scheduled for January 1, 1985 and beyond are to be paid as they fall due. The terms for restructuring the \$20 billion have not been finalized, but it appears that the restructuring will be over eight years with a four-year grace period. Private-sector debt has been much more difficult to deal with, but progress is being made through several avenues, including the establishment of a trust fund for covering foreign exchange risks.

#### H. LABOR FORCE GROWTH AND EMPLOYMENT

While Mexico's population growth rate has been declining, its labor force growth rate has been increasing, as those born during the years of very rapid population growth began to enter the labor force. After growing by 2.8% in the 1960s, the labor force expanded by 3.2% in the 1970s. A further increase to 3.5% is projected between 1980 and 2000 (see Table 16). Mexico's total labor force participation rate declined from 47% in 1950 to 43% in 1970, then rose slightly to 44% in 1980. The participation rate of males declined significantly over the course of the last three decades, from 82% to 71%, partly because of higher enrollment rates in secondary and university education and partly, it would appear, because of greater legal and illegal flows to the United States of seasonal and permanent workers many of them landless rural laborers, who still may be recorded in the Mexican labor force statistics. Female participation rates, meanwhile, rose from 12% to 16% in the official statistics, although these figures significantly understate true labor force participation by women (see Table 17).

The sectoral distribution of the labor force reflects Mexico's rapid industrialization and expansion of the modern sector between 1960 and 1980. Agriculture's share shows a decline from 55% to 36% percent, while that of industry increased from 20% to 26%. The services sector recorded the greatest increase, however, from 25% to 39%.

Relative labor productivity in the agricultural sector, already low in 1960, at only 29% of the economy-wide average, fell to 28% in 1980 (see Table 18). Relative industrial productivity rose slightly from 145% to 146%, while the relative productivity of the services sector plummeted from 220% to 133%, a reflection, it would appear, of large numbers of people moving into low-productivity jobs in both the formal and the informal sectors. Employment in personal services, for example, rose by 104% between 1970 and 1982 (compared with an increase of just 40% for all other sectors) and now accounts for 31% of total employment.

The open unemployment rate in Mexico fell from about 8% in 1978 to an average of just under 4% in 1980-81, as the economy experienced a very rapid expansion. It then rose back to 8% in 1982, as the GDP fell slightly. With even more of a fall in output expected in 1983, the open unemployment rate this year will probably exceed 10%. With economic recovery expected to be relatively slow, largely because of debt repayment obligations, the open unemployment rate could well remain above 10% throughout the 1980s.

Some observers argue that in poor countries underemployment provides a more relevant indication of employment problems than open unemployment. Unfortunately, it is difficult to quantify underemployment. One indirect approach focuses on changes in the proportion of own-account and unpaid family workers (hereinafter, OAUW workers) in the labor force. As the incidence of underemployment is likely to be higher among these workers, an increase in their proportion probably reflects an increase in underemployment. Table 19 presents information pertinent to such an analysis. Since the figures relating to agriculture are less reliable than those for OAUW workers in other sectors, the data in Table 19 are disaggregated along these lines.

A main point that emerges from the figures is that the proportion of the labor force accounted for by OAUW workers in agriculture has declined, while that for OAUW workers in other sectors has risen. Since the proportion of wage earners in the labor force rose between 1960 and 1980, one may conjecture that some of the previously underemployed OAUW workers in rural areas have become wage earners in the modern rural and urban sectors and that, in addition, some underemployment has been transferred from rural to urban areas. This implies that current and future recessions are likely to have a stronger impact on urban unemployment than has been the case in the past. From this perspective the potential for social unrest is therefore higher.

External migration of economically active workers provides some measure of relief of current pressures for job creation. At the same time, these migratory flows have been a cause for concern in the United States. It has been estimated that the flow of undocumented Mexican workers to the United States has risen from an annual average of 0.8 to 1.0 million during 1980-1982 to somewhere between 1.1 and 1.5 million in 1983, a direct result of the sudden downslide in the Mexican economy, the devaluation of the peso, sharp increase in unemployment and underemployment, drought, and lower farm prices.

## I. INCOME DISTRIBUTION

Data on income distribution are poor for reasons of reliability and incompatibility of coverage, and they are misleading for conceptual and methodological reasons. Nevertheless, there is widespread agreement that Mexico's income distribution is one of the most unequal in the world.

Table 20 provides information on Gini coefficients of income concentration. Gini coefficients are based on the Lorenz curve, which relates cumulative income shares to the cumulative percentage of income recipients in different income brackets. The higher the figure, the greater is the degree of income concentration (inequality). Gini coefficients of .50 or more can be considered as very high, and all of the figures in Table 20 -- as well as those calculated in a number of other studies -- exceed this amount. They are higher in fact than the average reported for Central America. The broad consistency of these results, notwithstanding various data problems, must be regarded as cause for considerable concern, since this degree of inequality suggests great potential for social unrest, especially as economic conditions worsen.

Another measure of income distribution is the income share of the poorest 20%, 40%, or 60% of the population. Table 21 provides data on income shares, by decile, in 1963, 1968, and 1977. In all three years the poorest 20% of the population received no more than 4% of national income. In fact, that share declined slightly, although given the margins of error in the data, the differences are not statistically significant. In any event, this income share is lower than those reported for Central America. The share of the poorest 40%, on the other hand (averaging 11.5%, and slightly rising, but not significantly so), is somewhat higher than comparable figures for Central America. Only with the fifth and sixth deciles is there a clear tendency for the income share over time, at the expense of the wealthiest 10%.

## J. PUBLIC FINANCE

There is widespread agreement that four years of excessive government spending, which generated an average economic growth rate in excess of 8% between 1977 and 1981, helped create the current economic crisis, though external events beyond Mexico's control also played a major role. The central government deficit, which stood at only 1.5% of GDP in 1970 and 3.1% in 1980, surged to 6.8% in 1981 and a huge 16% in 1982. Consequently, the major objective of the IMF-supported stabilization program begun in late 1982 is to reduce the

deficit to 8.5% of GDP in 1983, 5.5% in 1984, and 3.5% in 1985. Fiscal data for the first quarter of 1983 indicate that targets are generally being met.

#### K. AGRICULTURAL AND RURAL DEVELOPMENT

Mexico's agricultural sector has been characterized by uneven development. Ejidatarios, campesino families with a common right of usufruct or free use of public lands set aside for their use in organizational units known as ejidos, occupied as much as 43% of Mexican farmland in 1979. The quality of much of this land, mainly in arid, rainfed areas, is poor. While the one third of Mexican cropland that is irrigated produces 55% of total agricultural output, small farmers in rainfed areas have not adopted modern agricultural techniques. As a result, half of the country's five million farmers produce only 4% of total agricultural output, many not growing enough to feed their own families.

One effect of this dualistic rural growth pattern is an increasing dependence on imported foodstuffs. In the 1940s, Mexico imported about 15% of its cereal grains. From 1950 to 1965, with the adoption of "Green Revolution" seed varieties by large farmers and a rapid increase in irrigated area, output burgeoned, growing at an average annual rate of 5%. Increased population pressure and the onset of diminishing returns to high-yielding varieties resulted in a slowdown in this rapid growth. Between 1965 and 1978, the agricultural growth rate averaged about 1.4% annually, so that production once again lagged behind demand. Mexican grain imports more than quadrupled between 1976 and 1980, and the country now ranks among the world's four largest importers of grain.

A major new initiative was undertaken by the government in 1980 with the adoption of an ambitious national food plan (SAM). But the government's ability to implement the plan has been seriously set back by the fiscal and financial crises.

#### L. OUTLOOK

The long-term prospects for the economy depend much upon how the productive structure is going to be adjusted. As with other oil-producing countries, the main concern, now that ever-rising oil prices are no longer expected, must be to meet domestic finance and import requirements through a mix of oil and non-oil exports. It is in Mexico's interest to shorten as much as possible the lead time necessary to adjust the country's productive structure to enable non-oil exports to become a more important earner of foreign exchange.

The development of a dynamic export sector is vital not only from a balance-of-payments perspective, but also in terms of employment creation. Creating an economic structure capable of exporting manufactured products which are competitive in price and quality and therefore one based on a more appropriate mixture of labor and capital, will require new kinds of cooperation between the private sector and the government.

While acknowledging these factors, the Mexican government has not clearly indicated how quickly it will move to modify its economic policies. Economic growth along the lines of the past decades will not solve Mexico's major development problems. The natural tendency of this growth model was to promote concentration at all levels, from employment (in the modern sector) to regions (Mexico City, Monterrey, Guadalajara), to income levels (medium and high). Policies which favor capital-intensive growth -- an overvalued exchange rate and a variety of other distortions that artificially lower the price of capital -- will fail to generate the urgently needed new job opportunities and may aggravate the already marked regional and income disparities. This would increase the already rising risks of further social dislocations and social tensions.

MEXICO

Table 1

Population at Mid-Year, 1960 and 1981, and  
Population Growth Rates, 1960-2000

Population at Mid-Year (millions)		Population Growth Rates (percent)		
<u>1960<sup>a/</sup></u>	<u>1981</u>	<u>1960-1970</u>	<u>1970-1981</u>	<u>1980-2000<sup>b/</sup></u>
36.8	71.2	3.3	3.1	2.6

Source: World Bank, World Development Report 1983, Annex Tables 1, 19.

a/ Extrapolation based on the growth rate trends reported in this table.

b/ Projection.

Table 2

Population Density and Urbanization, 1960 and 1981

Population Density (persons/km 2)		Urban Population as a % of the Total		Average Annual Growth Rate of Urban Population (percent)	
<u>1960</u>	<u>1981</u>	<u>1960</u>	<u>1981</u>	<u>1960-70</u>	<u>1970-81</u>
19	36	51	67	4.7	4.2

Source: World Bank, World Development Report 1983, Annex Tables 1, 19, and 22.

Table 3

Long-Term Economic Growth Rates, 1960-1981

Total GDP (millions of 1981 dollars)		Per Capita GNP (1981 dollars)		Average Annual Rate of Growth of Real GDP (percent)		Average Annual Rate of Growth of Real Per Capita GNP (percent)
<u>1960<sup>a/</sup></u>	<u>1981</u>	<u>1960<sup>a/</sup></u>	<u>1981</u>	<u>1960-70</u>	<u>1970-81</u>	<u>1960-81</u>
57,460	238,960	1,030	2,250	7.6	6.5	3.8

Source: World Bank, World Development Report 1983, Annex Tables 1, 3.

a/ Extrapolations based on the real growth rate trends reported in this table.

Table 4

Economic Growth Performance, 1980, 1981 and 1982  
(percentage changes)

GDP			Per Capita GDP		
<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
8.3	8.0	-0.2	5.3	5.2	-2.7

Source: IMF country report.

Table 5

Structure of Production, 1960 and 1981  
(percent)

Agriculture		Industry		(Manufacturing) <sup>a/</sup>		Services	
<u>1960</u>	<u>1981</u>	<u>1960</u>	<u>1981</u>	<u>1960</u>	<u>1981</u>	<u>1960</u>	<u>1981</u>
16	8	29	37	(19)	(22)	55	55

Source: World Bank, World Development Report 1983, Annex Table 3.

a/ Part of the industrial sector.

Table 6

Savings and Investment, 1960 and 1981  
(as a percent of GDP)

Gross Domestic Investment		Gross Domestic Savings		Gross Foreign Savings a/	
<u>1960</u>	<u>1981</u>	<u>1960</u>	<u>1981</u>	<u>1960</u>	<u>1981</u>
20	25	18	23	2	2

Source: World Bank, World Development Report 1983, Annex Table 5.

a/ Equivalent to the current account deficit in the balance-of-payments.

107  
42

Table 7

Average Annual Rates of Inflation, 1960-70 and 1970-81,  
and Annual Rates, 1980, 1981, and 1982  
(percent)

GDP Deflator		Consumer Price Index		
<u>1960-70</u>	<u>1970-81</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
3.5	19.1	26.4	27.9	98.8

Sources: World Bank, World Development Report 1983, Annex Table 1;  
International Monetary Fund, International Financial Statistics.

Table 8

Foreign Trade as a Percentage of GDP, 1960, 1970 and 1980-1982  
(based on current prices)

<u>Exports a/ as a Percentage of GDP</u>					<u>Imports a/ as a Percentage of GDP</u>				
<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
11	8	13	12	16	12	10	14	14	12

Source: IMF, International Financial Statistics and country report.

a/ Goods and services

Table 9

Growth of Foreign Trade, 1960-1981, and Terms of Trade, 1975-1981

Average Annual Growth Rate (percent)				Terms of Trade (1975 = 100)	
Exports		Imports		<u>1978</u>	<u>1981</u>
<u>1960-70</u>	<u>1970-81</u>	<u>1960-70</u>	<u>1970-81</u>		
2.8	15.3	6.4	9.5	92	89

Source: World Bank, World Development Report 1983, Annex Table 9.

Table 10

Merchandise Exports and Imports, 1980-1982  
(millions of U.S. dollars)

Exports (FOB)			Imports (FOB)			Balance		
<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
16,888	20,927	22,224	18,551	24,034	14,516	-1,663	-3,107	+7,708

Source: IMF, country report.

Table 11

Composition of Exports, 1978-1982  
(percentage shares)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Agriculture (incl. fisheries)	28	23	11	9	8
Petroleum and derivatives	28	40	61	70	74
Minerals; other extractive	7	8	8	6	4
Manufactures	31	22	14	11	10
In-bond industries	7	6	6	5	4
TOTAL	100	100	100	100	100

Source: IMF country report.

Table 12

Deficit (-) or Surplus (+) in the Current Account of the  
Balance of Payments, 1970 and 1980-1982

Millions of U.S. Dollars				Percentage of GDP			
<u>1970</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1970</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
-1,068	-7,672	-13,916	-2,955	3.2	4.0	5.8	1.7

Sources: World Bank, World Development Report, Annex Table 14; IMF country report.

TGS  
1/11

Table 13

Total International Reserves (Minus Gold), 1970 and 1978-1982  
(millions of U.S. dollars, end of year)

<u>1970</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
568	1,842	2,072	2,960	4,074	1,153a/

Source: IMF, International Financial Statistics.

a/ September 30.

Table 14

External Debt Indicators, 1960, 1970, and 1981

<u>External Public Debt Outstanding and Disbursed</u> (millions of U.S. \$)						<u>Debt Service as a Percentage of Exports of Goods and Services</u>		
<u>1950</u>	<u>1970</u>	<u>1981</u>	<u>1960</u>	<u>1970</u>	<u>1981</u>	<u>1960</u>	<u>1970</u>	<u>1981</u>
827	3,206	42,716	7	9	18	16	24	28

Source: World Bank, World Development Report 1983, Annex Table 16.

Table 15

Terms of Public External Borrowing, 1970 and 1981

<u>Average Interest Rate (percent)</u>		<u>Average Maturity (years)</u>		<u>Average Grace Period (years)</u>	
<u>1970</u>	<u>1981</u>	<u>1970</u>	<u>1981</u>	<u>1970</u>	<u>1981</u>
8.0	15.1	12	8	3	4

Source: World Bank, World Development Report 1983, Annex Table 17.

Table 16

Labor Force Growth Trends, 1960-1981, and Projections, 1980-2000

Average Annual Growth of Labor Force (%)			Ratio of GDP Growth Rate to Labor Force Growth Rate	
<u>1960-70</u>	<u>1970-81</u>	<u>Projections 1980-2000</u>	<u>1960-70</u>	<u>1970-81</u>
2.8	3.2	3.5	2.71	2.03

Source: World Bank, World Development Report 1983, Annex Tables 1 and 2.

Table 17

Global and Sex Specific Labor-Force Participation Rates (percent)

	<u>Global</u>	<u>Males</u>	<u>Females</u>
1950	47.1	82.3	12.1
1960	45.6	77.8	13.8
1970	43.3	71.8	15.0
1980	44.0	71.4	16.5

Source: International Labour Office, Regional Employment Programme for Latin America and the Caribbean, Mercado de Trabajo en Cifras, 1950-1980 (1982).

Table 18

Sectoral Distribution and Sectoral Productivity of the Labor Force, 1960 and 1980

(Sectoral Distribution %)

<u>Agriculture</u>		<u>Industry</u>		<u>Services</u>	
<u>1960</u>	<u>1980</u>	<u>1960</u>	<u>1980</u>	<u>1960</u>	<u>1980</u>
55	36	20	26	25	39

Relative Sectoral Productivity (average for economy = 100)

<u>Agriculture</u>		<u>Industry</u>		<u>Services</u>	
<u>1960</u>	<u>1980</u>	<u>1960</u>	<u>1980</u>	<u>1960</u>	<u>1980</u>
29	28	145	146	220	133

Source: World Bank, World Development Reports, 1982 (Table 3) and 1983 (Table 21).

46

Table 19

Proportion of Own-Account and Unpaid Family Worker 2/ in the  
Agricultural and Non-Agricultural Labor Force 1950-1980  
(percent of total labor force)

1950		1960		1970		1980	
<u>Agri- culture</u>	<u>Other Sectors</u>	<u>Agri- culture</u>	<u>Other Sectors</u>	<u>Agri- culture</u>	<u>Other Sectors</u>	<u>Agri- culture</u>	<u>Other Sectors</u>
44.0	9.7	27.6	10.0	24.9	14.5	18.4	18.3

Source: International Labour Office, Regional Employment Programme for Latin America and the Caribbean, Mercado de Trabajo en Cifras 1950-1980 (1982).

a/ Excluding professional, technical, and related workers.

Table 20

Gini Coefficients of Income Concentration, Various Years a/

<u>Year</u>	<u>Unit on Which Computation was Based</u>	<u>Gini Coefficient</u>
1963	Households	.54
1963	Households	.58
1963	Households	.55
1967/68	Households	.52
1968	Households	.61
1969	Households	.58

Source: Shail Jain, Size Distribution of Income: A Compilation of Data (Washington, D.C.: World Bank, 1975).

a/ Data with nationwide coverage only.

Table 21

Distribution of Income by Deciles, 1963, 1968, 1977

<u>Deciles</u>	<u>1963</u>	<u>1968</u>	<u>1977</u>
I	1.5	1.3	1.2
II	2.5	2.4	2.4
III	3.3	3.3	3.5
IV	4.0	4.4	4.7
V	5.2	5.4	6.0
VI	6.4	6.8	7.4
VII	8.3	8.6	9.3
VIII	12.0	11.5	12.1
IX	16.9	16.2	17.0
X	39.9	40.1	36.3

Source: World Bank, Mexico: Development Strategy, Prospects and Problems (August, 1981), Table 12.

Table 22

Central Government Revenues, Expenditures and Surplus (+)/Deficit (-)  
as a Percentage of GDP, 1970, 1975, and 1980-1982

	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982 a/</u>
Revenues	10.1	13.1	15.8	16.1	15.4
Expenditures	11.6	19.0	18.9	22.9	25.4
Surplus (+) or Deficit (-)	-1.5	-5.9	-3.1	-6.8	-16.0

Source: IMF, International Financial Statistics and country report.

a/ Estimate.

48

**DEPARTMENT OF STATE**  
**BRIEFING PAPER**

Caribbean Basin Initiative

President Reagan's Caribbean Basin Initiative was first presented in a speech at the OAS in February of 1982 and legislation was sent to Congress in March. It was passed by the House in December of 1982, but the Congressional session lapsed before it could be sent to the Senate floor. The legislation was resubmitted on February 22, 1983.

The CBI consists of three elements. The first is a twelve-year one-way free-trade arrangement for all goods produced in the Caribbean Basin, except for textiles, apparel, canned tuna, leather goods, shoes and petroleum products.

The second element would allow US citizens attending business conventions in the Caribbean Basin to deduct the reasonable expenses incurred from their income tax. Before a country can qualify for this "North American" treatment, it will have to enter into an executive agreement with the US on the exchange of tax information.

The third CBI element involves foreign assistance. The last session of Congress approved a supplementary FY 82 request of \$350 million in Economic Support Funds for emergency balance-of-payments aid. These funds have been totally obligated. In general, aid levels to the CBI region have doubled since 1980.

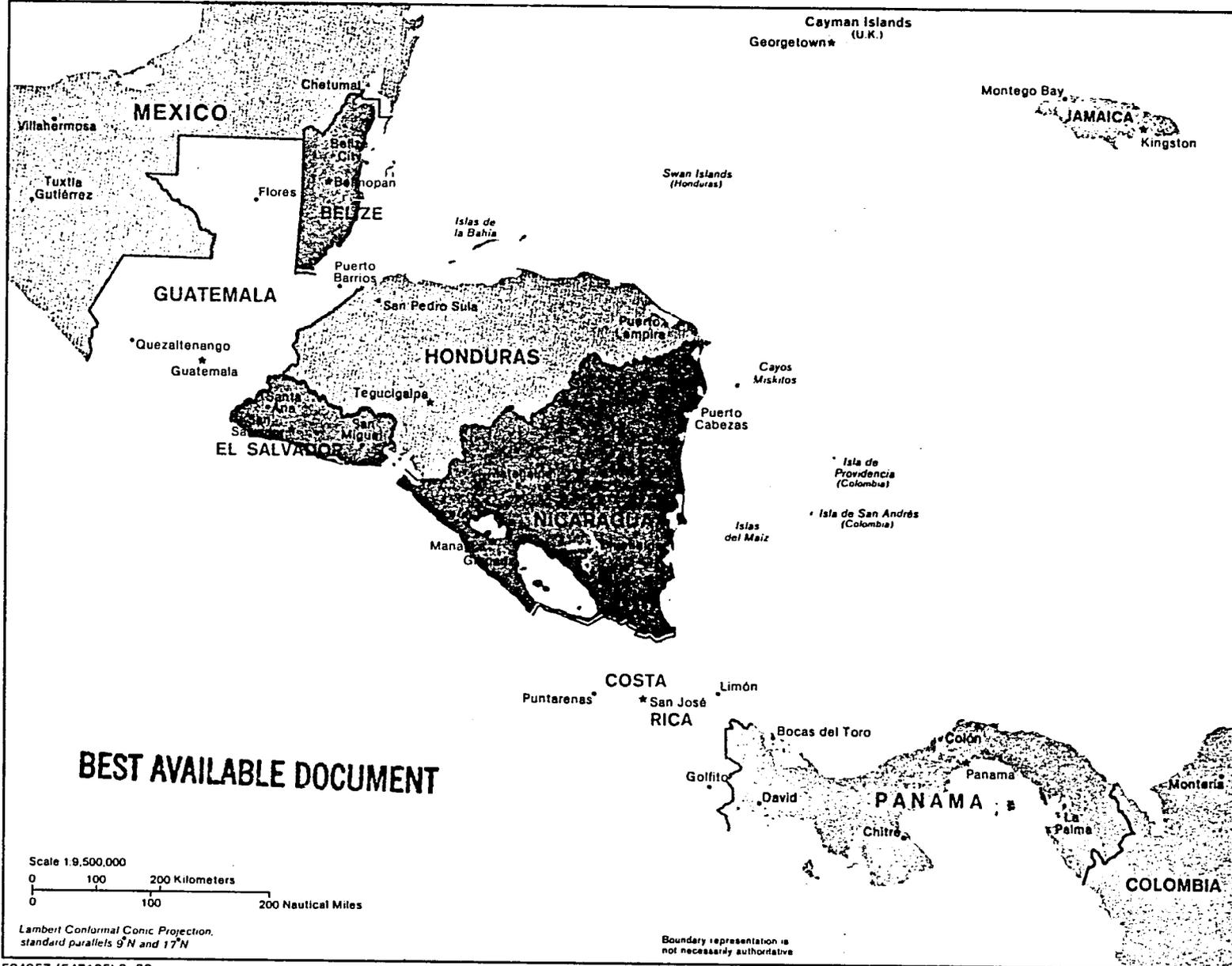
The CBI has been passed by both Houses of Congress and was taken up by a Congressional Conference on July 19. The major difference between the House and Senate versions of the bill was the inclusion, in the Senate version, of a limitation on imports of bulk rum. That provision was eliminated during the conference, which as of July 22 was continuing to consider other bills packaged with the CBI by the Senate.

The CBI legislation lists some 27 potential beneficiaries and sets forth a variety of criteria - dealing with self-help efforts, expropriation, trade practices, etc. - which the President must consider in deciding which countries will benefit. Following Congressional passage and Presidential signature, the designation process will begin. We currently expect two groups from Washington to visit the Basin, perhaps ... in late August. The purpose of these trips will be to discuss with the governments of the Basin countries the nature of the legislation and how the designation criteria may be met.

The US developed the CBI in close consultation with other donor countries and potential recipients. In July 1981, the US, Canada, Mexico, and Venezuela agreed to develop and coordinate a regional program. Colombia subsequently associated itself with this donor group, and began substantial new assistance programs in the Basin. Venezuela and Mexico are making a significant contribution to the Basin, particularly through their joint oil facility. Canada has announced major increases in its foreign assistance to the region. Other donors, including the Europeans, Japan and international financial institutions, also are contributing and will be encouraged to expand their efforts after passage of the CBI.

July 22, 1983

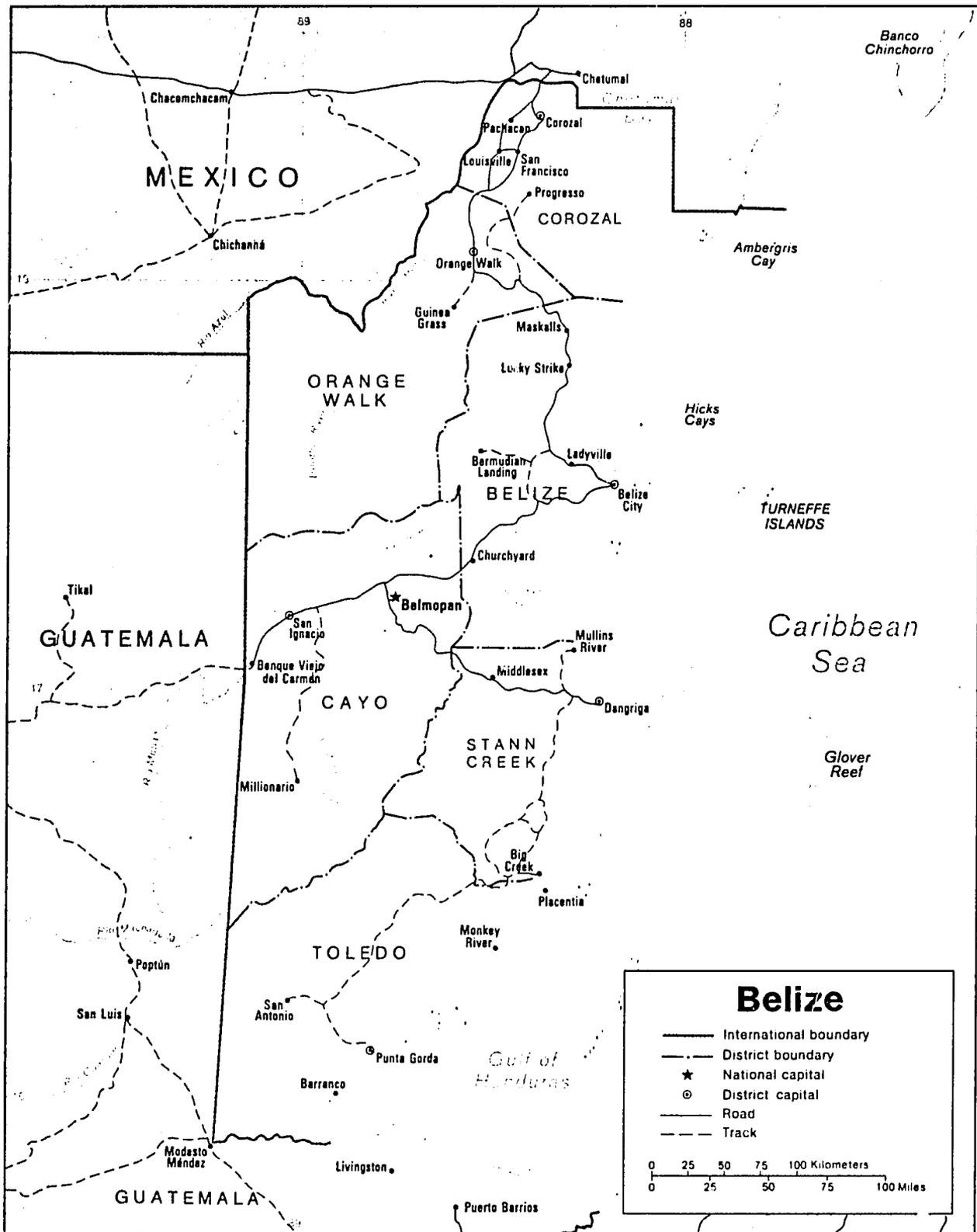
# Central America



504957 (547125) 3-82



BEST AVAILABLE DOCUMENT



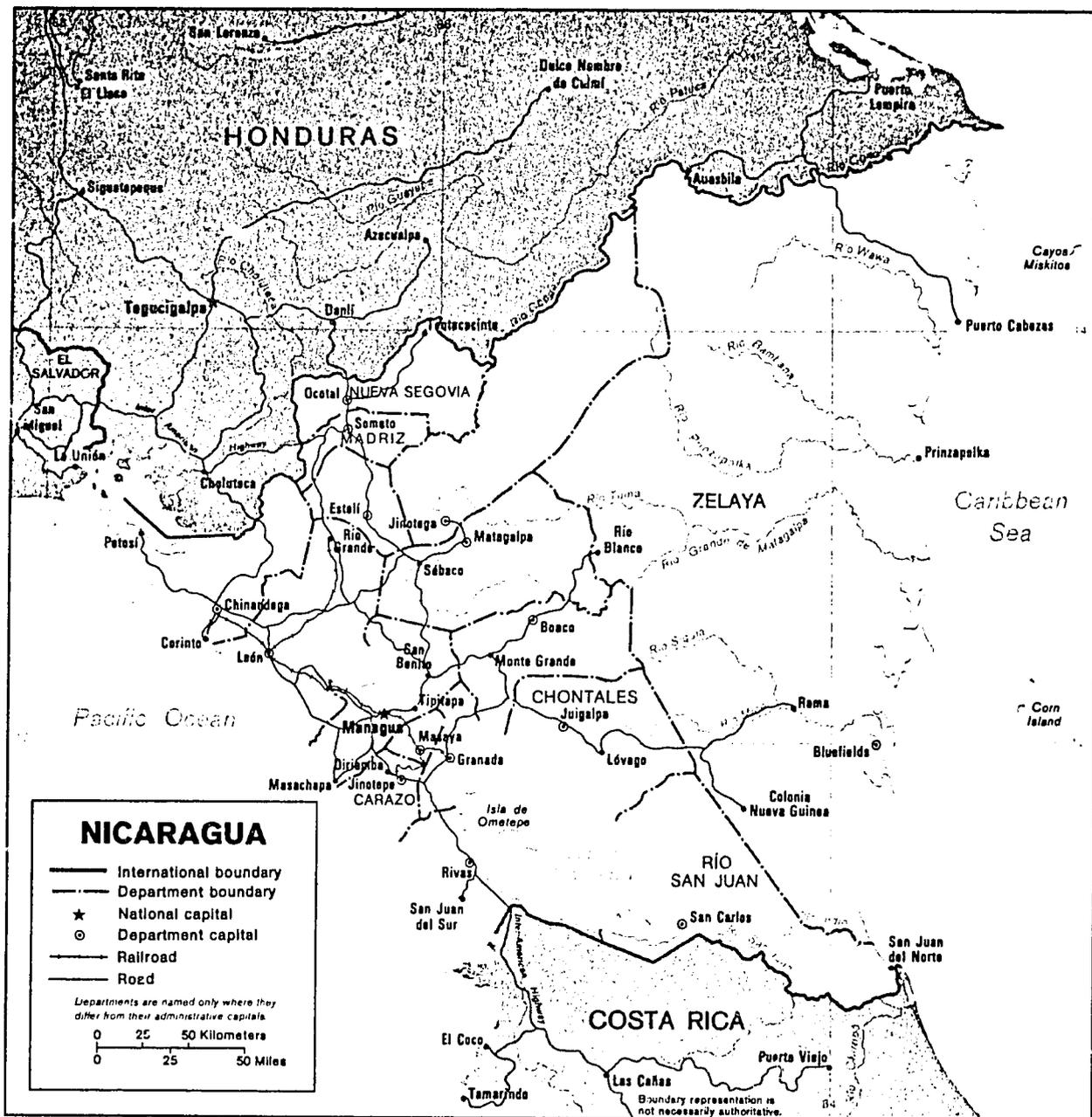
Base 504826 (546942) 9-81



Base 504916 (547180) 2-82



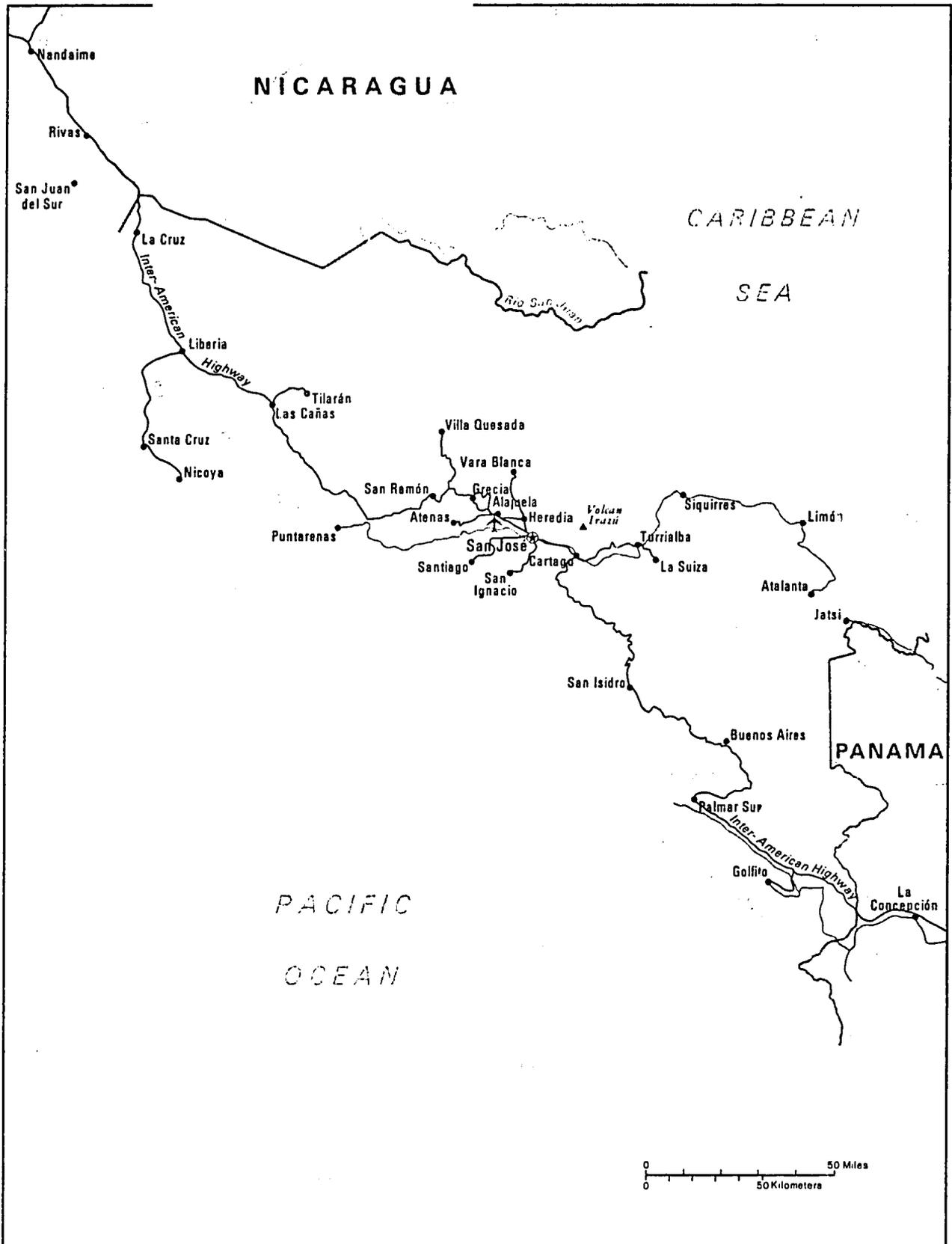




Base 504507 5-80 (545340)

BEST AVAILABLE DOCUMENT

# Costa Rica

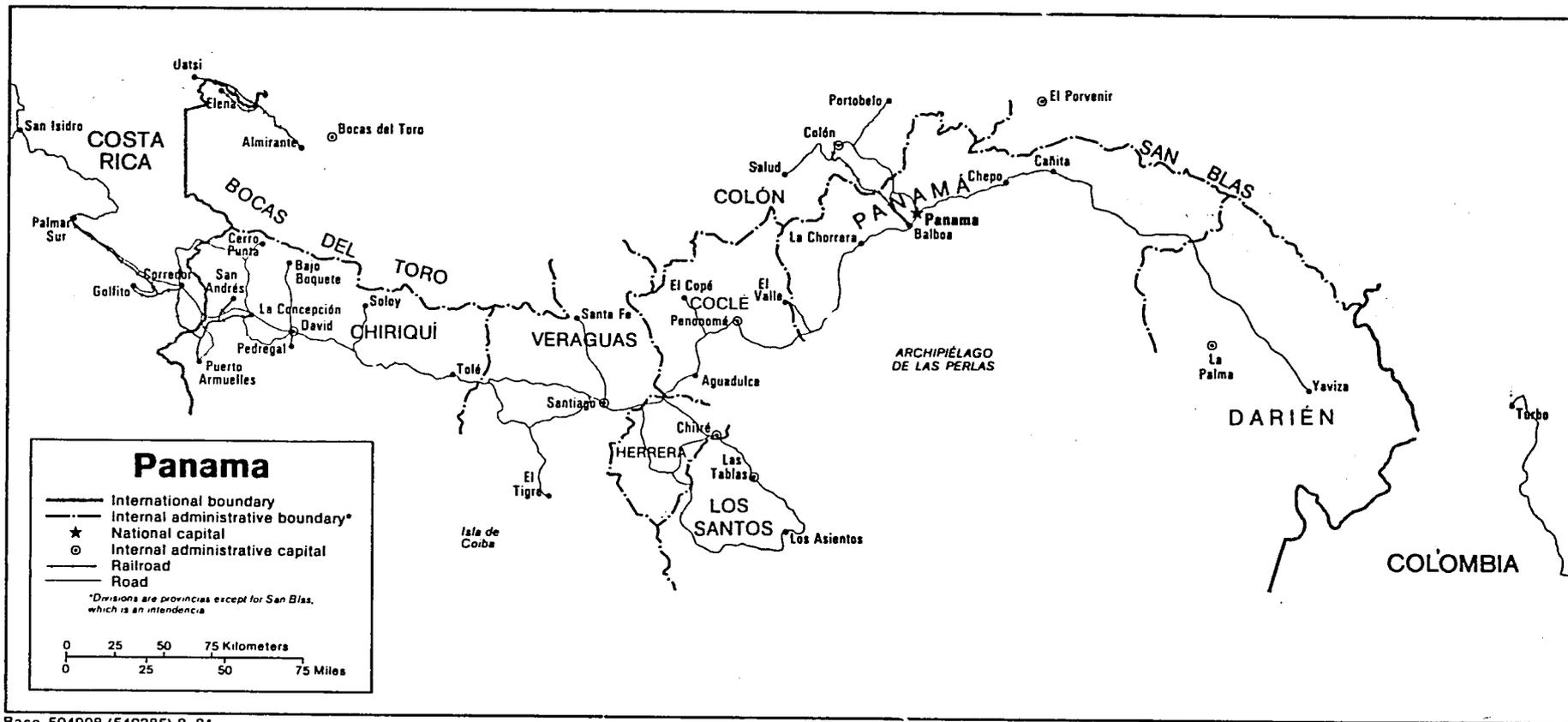


502485 1-78 (541391)  
Lambert Conformal Projection  
Standard parallels 9°20' and 14°40'  
Scale 1:2,400,000  
Boundary representation is  
not necessarily authoritative

— Railroad  
— Road  
✈ Airport

**BEST AVAILABLE DOCUMENT**

58



Base 504908 (540285) 8-81

BEST AVAILABLE DOCUMENT