Generally, the position taken in 1985 by the governments of the Cartagena Group to continued efforts to service their countries' debts was very responsible. It stands in contrast to the Final Statement of a meeting of legislators from 15 Latin American parliaments held in Montevideo in October 1985, which took the negative position that "the external debt of Latin America is unpayable under the conditions imposed presently on the debtors." Nor did the Cartagena Ministers espouse the Peruvian reaction which limited the amount that Peru would commit to debt servicing to 10 per cent of the country's export revenues. But a disturbing feature of the Cartagena Consensus was its failure to balance the emphasis it placed on measures that the commercial banks, the international financial institutions and the creditor governments were asked to take with any acknowledgement of the substantial changes in policies that the debtor governments must themselves make to restore the health of their economies.

A recent study* of Latin America's economic plight has pointed to a number of past policies as being primarily responsible for the present difficulties of that region, namely: overvalued currencies, protectionist trade policies, a lack of the necessary incentives as well as inefficient investment of savings and "the excessive even suffocating role of the state" with the parallel weakening of the private sector.

There are important lessons to be learned from some developing countries that have managed their economies successfully. These countries, mainly in Asia and often poorly endowed with natural resources, have been careful to use capital and labour efficiently. As has been described briefly in chapter two, their economic and fiscal policies have been market-responsive. Countries as diverse as South Korea and India have been able to adjust to the successive economic shocks to the world economy and have been prudent in limiting the debt they incurred to manageable proportions.

South Korea is an example of a developing country that has strongly encouraged foreign borrowing over the past two decades. Even though its external commercial debt rose from $22 million in 1960 to $33 billion in 1983, Korea used these capital inflows efficiently, channelling them almost entirely into productive capital investments. While the country was hard hit by the two oil shocks, in both cases it applied strong and, as it turned out, effective medicine. In the wake of the 1973-74 oil price rise, Korea borrowed abroad to cushion the shock and at the same time devalued its currency, which spurred the success of its ongoing policy of maximizing the export of manufactured goods. After the 1979-80 oil shock, the country again borrowed from abroad and the exchange rate was again devalued, real wages reduced, public investment cut, domestic energy prices raised and investment to non-export sectors curtailed. Even after rapid export growth was re-established in 1981, fiscal and wage restraint policies were continued. While Korea's debt service ratio is modest in terms of its export earnings, the government is currently attempting to reduce its debt by raising domestic savings.

India is a somewhat different case; there, external borrowing has been controlled and careful. Whenever its balance of payments became troublesome in

* Institute for International Economics, "Toward Renewed Economic Growth in Latin America".