



A HISTORICAL ANALYSIS OF THE NATURE, CAUSES AND IMPACT OF THE FOREIGN DEBT CRISIS IN LATIN AMERICA, 1970- 1980

 **Johnson**
Olaosebikan Aremu¹

¹Department of History and International Studies, Ekiti State University,
Ado-Ekiti, Ado- Ekiti, Nigeria
Email: johnsonolaosebikan@gmail.com



ABSTRACT

Article History

Received: 16 July 2018
Revised: 10 August 2018
Accepted: 22 August 2018
Published: 28 August 2018

Keywords

Latin America
Third world
Debt crisis
Foreign aids
Poverty.

This study examined the nature, causes and impact of the huge foreign debt crisis in Latin America between the 1970s and 1980s referred to generally as the 'lost decade'. As a survey research, it employed the historical method of research and analysis. It gathered its data extensively through library search and adopted the qualitative technique of content analysis of historical documents. The paper noted that the debt crisis in Latin America came to a head in August 1982 when Mexico publicly declared its insolvency. It identified a number of factors that brought about this endemic burden of foreign debt in Latin America. These included: the over-preponderancy of foreign loans granted to Latin American states, particularly Argentina, Brazil, Mexico and Venezuela, in the 1970s and the attendant inflation and increasing floating interest rates. These had combined to serve as great challenges to the economic development and survival of the Latin American countries during the period of study. The various attempts at debt rescheduling and cancellation between 1980 and 1989 were equally well documented. It concluded that Latin American countries should avoid excessive external debts to avoid disaggregation in their economic development in the nearest future.

Contribution/Originality: This study contributes to the existing literature on development crisis in Third World countries. The paper's primary contribution is finding that excessive external debt is a major impediment to socio-economic growth and development in Latin American states.

1. INTRODUCTION

One of the major economic crises that attracted the widest attention in the Latin American region between the 1970s and 1980s was the inability to maintain full service on its foreign debt which had since grown to dangerously high levels. In fact, no factor has shaped and still shapes the economic, social and political destiny of Latin American states (and indeed the third world in general) more strongly than their foreign indebtedness. The debt has no doubt become an increasingly sophisticated tool for structuring Third World states' economies according to the dictates of the developed world (Gelinis, 1998).

Foreign indebtedness of nations increased at an alarming rate during the 1970s. The Third World countries of Asia, Africa and Latin America were badly affected with nearly 40 percent of the debt accounted for by Latin American countries (Amstutz, 1995). The Christian Science Monitor (1989) as cited by Amstutz (1995) put the total Third World debt in 1970 at about 100 billion dollars. But by 1992, it had risen to about 1.4 trillion U. S. dollars. In Latin America, the total external debt was put at about 29 billion US dollars in December 1970. It

increased to 159 and 327 billion US dollars in 1978 and 1982 respectively (Federal Deposit Insurance Corporation (FDIC), 1997). The major Latin American debtor states as at 1992 were: Argentina with a total debt of about 46 billion US dollars: Brazil-owing about 82 billion U.S. dollars: Mexico with a debt of about 76 billion US dollars and Venezuela having a debt of 25 billion U.S. dollars. The amusing or rather pathetic fact is that these nations had the very little promise of repaying their debts.

The debt crisis reached an unprecedented level in 1982 when Mexico informed the world that it could no longer fulfill its foreign debt obligations (Arruda, 2000). It would be recalled that on Friday 13 August 1982, the Mexican Finance Minister, Jesús Silva Herzog informed Mexico's creditors that Mexico was unable to meet due to payments on its debt (Cammack *et al.*, 1988; FDIC, 1997; Gelinás, 1998). Mexican debt had skyrocketed from 2 billion U.S. dollars in 1965 to about 100 billion dollars in 1982. By 1995 it was put at about 165 billion U.S. dollars. (Ferguson (1999) cited in Sims and Romero (2013)) submitted that the huge Mexican debt was as a result of "high domestic consumption, heavy borrowing from abroad, unsustainable currency levels, and excessive intervention by government into the economy".

This declaration of insolvency was very significant because it was the first time, since the launching of credit - based development that a country declared itself virtually bankrupt. But that was just the beginning of the crunch. Other heavily indebted Latin American countries including Argentina and Brazil soon followed the Mexican example. For instance, Arruda (2000) reports that "Brazil's external debt rose astronomically from US\$2.5 billion in early 1964 to US\$105 in 1985". He asserted further that by 1984, "out of every US\$1,619 per inhabitant that Brazil produced, US\$781 were pledged to the external debt" (Arruda, 2000).

The debt situation worsened by 1989 to the extent that the international community itself officially recognized that the debt of middle and low - income countries of Latin America had reached over-indebtedness levels (Gelinás, 1998). The stability of the international monetary and banking system was already in jeopardy as the four most highly indebted Latin American countries were feared to become insolvent very soon.

2. A BRIEF DESCRIPTION OF LATIN AMERICA

The term 'Latin America' is usually applied collectively to the twenty-four (24) independent countries of the New World. They are so-called because their lands were settled by Spain and Portugal, two of the "Latin" nations of Europe. The countries are Argentina, Bolivia, Brazil, Chile, Columbia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, and Honduras. Others are Jamaica, Mexico, Panama, Paraguay, Peru, Puerto Rico, Surinam, as well as Trinidad and Tobago, Uruguay and Venezuela. Together these countries share a common experience in terms of long period of independence and a Roman Catholic religious heritage; political instability, incessant military take-over, the debt crisis, United States intervention in their politics, and of recent, the emergence of democratic governments across Latin America are other unifying experiences. However, the basic focus of this research is the debt crisis of the 1980s.

3. NATURE OF THE DEBT CRISIS IN LATIN AMERICA

A number of issues may be observed to have characterized the debt situation of Latin American countries. One, the lion share of the loans was provided by nine major United States banks and two British banks - Lloyds and Midland. As at June 1984, the banks were said to have held debt in excess of their total capital and assets (Cammack *et al.*, 1988).

Two, foreign lending went to the largest and most developed Latin American countries with Mexico, Brazil, Argentina, and Venezuela being the leading recipients. As such, the debt issue was primarily a business which involved the big banks on the one hand and the big developing countries of Latin America on the other. In addition, the larger Latin American debtors had proportionately greater exposure to commercial bank debt and were, therefore, paying high rates of interest of about 10.8 percent in 1983.

Thirdly, the rate of borrowing far outran the rate at which foreign exchange generating capacity could be developed. The debt would, therefore, need to be rolled-over (refinanced by new lending) at least for the immediate future. Hence by the early 1980's, debtor countries were already borrowing in order to meet repayment demands rather than to fund new investments.

Fourthly, the loans came largely from commercial sources rather than from the governments and official agencies which had been the previous leading lenders. It was therefore made at a floating rate of interest. □

4. STRUCTURAL CAUSES OF INDEBTEDNESS

A multiplicity of structural factors have been advanced for the over indebtedness of Latin American countries and the Third World Countries in general. They include:

- i. lobbying by international financial institutions and development agencies;
- ii. the liquidity surplus of commercial banks;
- iii. financial recklessness on the part of political leaders
- iv. state-guaranteed export credit lines;
- v. the overdraft economy
- vi. increasing interest rates and reduction in foreign exchange earnings; and
- vii. the IMF and World Bank structural adjustment loan policy (Cammack *et al.*, 1988; Amstutz, 1995; Gelin, 1998). A brief analysis of these factors is considered very germane as done below.

i. Lobbying by International Financial Institutions and Development Agencies:

It may be rightly asserted that one of the major reasons for the over-indebtedness of Latin America and other developing states of the world was lobbying by international financial institutions and development agencies. The World Bank, in particular, and the regional development banks, have since the 1960's dazzled third world leaders with irrefutably logical arguments on borrowing through promising development aid programmes. Leaders of Third World countries, including Latin America, were therefore convinced by this ideology of credit-based development. In essence, foreign debts were incurred with the hope that such would aid their economic development. This conforms with the findings of Ocampo (2014); Bértola and Ocampo (2012a) that financial crises in Latin America "have followed periods of large capital inflows that have their origin and thus follows what are essentially international financial booms". Unfortunately, none of the benefiting states had anything to show for their huge debt in the long run. This probably informed Arruda's submission that 'we (Brazil, and by extension other Latin American states) did not get into debt, they got us into debt!' (Arruda, 2000).

ii. The Liquidity Surplus of Commercial Banks:

This is another structural factor that precipitated the over-indebtedness of Latin American countries. Lending institutions found themselves with huge cash surpluses. Arruda (2000) offered one major reason that accounted for these surpluses. According to him, "With the 1974 oil price hike, rivers of 'petrodollars' – nearly a trillion – were deposited in the banks of rich countries by oil-producing countries and transnational oil companies. The bankers then offered loans with interest rates that were low, but flexible (variable rates that are only set after the loan has been made, and so to suit the interests of the creditor)".

To maximize their profits, they turned to the Latin American countries where accommodating, unsuspecting, leaders agreed to borrow money for projects that far exceeded their needs and technical management capacities. The rush on borrowers continued throughout the 1970's during which time the commercial banks' portion of the underdeveloped countries' total debt rose from 48 percent to 71 percent. The showering of petrodollar and Eurodollars on Latin American countries, for instance, swept aside the hesitations of even the most cautious borrowers. The foreign banks especially from Britain, the United States and West Germany (for instance, Herstatt

Bank in Western Germany and the Franklin National Bank in the United States) were convinced that sovereign borrowers were safe customers (Devlin, 1989). They, therefore, pumped money into Latin America in excess. Unfortunately, the leaders thought they have gotten the biblical Manna from heaven only to find them enmeshed in huge foreign debts.

iii. Financial Recklessness on the Part of Latin American Leaders:

This is a major factor that plunged the Latin American states into a state of over-indebtedness. Most of their leaders were financially reckless. They had accumulated foreign loan far more rapidly than they could hope to invest productively and profitably. They have equally kept little track of the ends to which the borrowed money was devoted. The leaders were also guilty of incompetence in financial management, uncontrolled budget deficits, and corruption. On corruption for instance, over 40 percent of the flow of dollars into Mexico was reckoned to have found its way out of the country into private bank accounts overseas. Unfortunately for the lending institutions (Commercial Banks) they too had indulged in competitive lending on the basis of poor research, hoping that the snowball would continue to roll. This largely explains why Third World countries, especially in Latin America, got enmeshed in huge debt until they became insolvent (Sachs, 2005).

iv. State-Guaranteed Export Credit Lines:

The industrial revolution in Europe and America had stimulated an unprecedented growth in western economies. Industries emerged sporadically and led to increased productivity courtesy of the application of modern technology. With time, the industrialised world's markets could no longer absorb the abundance of goods and services it produced. Directly or indirectly through their development agencies, governments of the industrialised nations came to the rescue of industrialists and consulting firms by opening trading channels under the guise of economic aid and co-operation. This is what has been referred to generally as 'Tied Aid'. It makes a state's Official Development Assistance conditional on acquiring specific goods, services and technologies from that country. Eventually, the money does not leave the donor country. The U. S Secretary of State, Madeleine K. Albright lends credence to this view in February 1997 when he stated that foreign-aid "help us (U. S. A) create new jobs by expanding the export of American goods and services and by seeing that our companies get a fair deal in the global market" (Washington Times, 7 February, 1997; cited in Gelinias (1998)).

v. The Overdraft Economy

The explosion of speculative financial activities that took shape in 1973 with the first oil price rise (Ajayi, 2000) which was reinforced by the second rise in 1979 has allowed nations of the world, both developed and Third World alike, to find a virtually unlimited supply of fund available for lending. This led to the emergence and development of an overdraft culture among political leaders throughout the world. Any leader who resisted the urge ran the risk of being labeled a narrow-minded manager mired in an obsolete peasant culture. It was thus a matter of pride to obtain external loans. An accumulation of such loans has therefore translated into a great pyramid of debt over the years: a self-created monster that may continue to witch-hunt developing nations economically, socially and politically had emerged.

vi. Increasing Interest Rates amidst Reduction in Foreign Exchange Earnings:

It is widely believed that the rise in interest rates on the debt in dollars came between 1979 and 1981. It should be recalled that the larger Latin American debtors had greater exposure to commercial bank debt. Argentine's commercial bank debt in 1992 for instance was estimated at about 33billion U. S dollars (World Bank, 1999). If interest rates had remained stable while the major borrowers had been able to expand their exports and foreign exchange earnings sufficiently to meet the bulk of their repayment liabilities, the debt crisis could have been

averted. Unfortunately beginning from 1980, real interest rates rose in the United States and Western Europe as governments sought to curb inflationary measures (Kucinski and Branford (1987) cited in Arruda (2000)). Kucinski and Branford (1987) added that "this unilateral raising of interest rates caused losses of US\$106 billion to Latin America". In other words, tight monetary policies in the advanced countries led to a world economic recession, falling demand for the exports of Third World countries and a sharp decline in the terms of trade. In other words, two major global developments contributed greatly to the severity of the debt crisis. The first was an international economic recession in the early 1980's, which reduced global demand, resulting in major declines in export earnings. The second was the increased interest rates during the recessionary period. The two events drastically affected Latin American countries: as interest rates floated up, raising the payments due on foreign debts, export revenues dropped reducing their ability to pay (Jemio, 2001). Indeed, most of the rise in Third World indebtedness in the late 1970's and early 1980's was based on the compounding of inflated interest rates, not on the original principal. In essence, Latin America faced an increased debt bill, with fewer resources to pay for it. What a paradox! (Weatherb, 2004; Wolfenshon, 2004).

vii. The International Monetary Fund (IMF) and World Bank Structural Adjustment Loan Policy:

This was another factor that compounded the indebtedness of Latin American countries and other Third World nations. The IMF and World Bank policies made credit available to pay the interest on previous loans. In the World Bank and IMF view, the solution to past debt was more debt, more growth and the spreading of Western over-consumption worldwide. In effect, over-indebtedness became commonplace and increased the debt even further. Going by the above analysis, a huge foreign debt in Latin America was rather inevitable.

5. CONSEQUENCES OF HUGE FOREIGN DEBT

Without mincing words, foreign debt-based development has had an uncountable number of socio-political and economic effects on the economy of Latin American countries. Some of these are highlighted below:

i. Draining of Domestic Financial Resources:

This is perhaps the most tasking impact of huge foreign debt on the economy of Latin American states. Domestic financial resources are transferred for repayment of the super debt which has taken the form of modern tributes. Latin American states became net exporters of capital to the developed economies of Europe and North America. This, in turn, meant the diversion of funds which could otherwise be invested in foreign exchange generating activities to debt repayment which have put serious obstacles in the way of development of debtor states. Going by the huge sum of money involved in debt financing, Gelinas (1998) has asserted that the Third World is now financing the "over-development of the developed world". According to him, since 1983, financial flows between rich and poor countries have reversed with the poor sending more money to the rich rather than the other way round. Truly, between 1983 and 1993 net financial transfers from the Third World to the developed countries totalled approximately 300 billion U.S dollars. Such transfers of monetary resources are really unprecedented. The debt service has indeed stripped the Latin American States of their own savings to the benefit of the developed countries. Between 1985 and 1986, Latin America transferred about 92 billion to service its debt (Ajayi, 2000). Thus, instead of accumulating capital for development, debtor nations were indeed being decapitalized (Arruda, 2000). This decapitalisation of Latin America, like other Third World countries, makes development assistance (ODA) a negative development factor (World Bank, 1999).

ii. Austerity Measures:

In order to meet their debt repayment schedules, the IMF and World Bank forced debtor nations to implement the Structural Adjustment Programme. This involved calls for drastic reductions in public welfare spending, also

known as austerity; focusing economic output on direct export and resource extraction; devaluation of overvalued currencies; trade liberalization or lifting import and export restrictions; increasing the stability of investment by supplementing Foreign Direct Investment with the opening of domestic stock markets; balancing budget and not overspending; removing price controls and state subsidies; privatization, or divestiture of all or part of state owned enterprises; enhancing the rights of foreign investors vis-à-vis national laws; and improving governance and fighting corruption. This was generally meant to provide an attractive investment climate to multinational investors.

It is essential to note that through the Structural Adjustment Programme, Latin American states, like their other Third World states counterparts, adjusted their monetary and fiscal policies to the free trade requirements of an increasingly global market. This in turn meant the imposition of patterns of austerity measures which brought recession in the domestic economy and severe cuts in the standard of living of populations already suffering hardship. Citizens simultaneously faced the problems of massive retrenchment, unemployment, inflation, a sharp reduction in per capita income and wage cut among others. Invariably, the poor citizens were forced to live in abject poverty (Carrasco, 1999).

iii. Overseas Orientation of Underdeveloped Economies:

It was also observed that Third World indebted countries of Latin America were compelled to export more raw materials in order to acquire foreign exchange earnings for the debt service. This in turn encouraged violent competition between underdeveloped countries and finally causes prices to collapse. They, therefore, became perpetual suppliers of raw materials and importers of finished goods. □

iv. Increased Neglect of Food-Crop Agriculture:

This was done to the benefit of export crops in order to generate foreign exchange earnings for debt servicing. This either resulted in or aggravated, the problems of hunger, malnutrition, famine, growing pressure on the environment and food dependence. It should be observed that agricultural policies of debtor countries have concentrated upon the development of export potential while credit and other forms of logistic support have been channeled primarily into large commercial farms producing main export crops. The staple food crops have been largely ignored. Starvation may be inevitable if care is not taken to arrest the trend.

v. Increased Level of Poverty and Proliferation of Internal Conflicts

Poverty level increased geometrically in Latin America during the 'lost decade' of the 1980s. This manifested in a drastic fall in wages, increasing rate of unemployment and great deterioration in welfare provision due largely to the unending stabilization programmes (Jemio, 2001). This induced "a surge in inflation" across Latin America (Bértola and Ocampo, 2012b). This led to a high infant mortality rate and a widening gap between the rich and poor. The effect was that Latin America, like Africa and Asia, faced an uncountable number of economic-induced conflicts and wars over the years. Indeed, the common adage that a hungry man is an angry (mad) man sums up the basic cause of the proliferation of internal conflicts in Latin American countries. These conflicts have threatened the unity, security, and stability of most debtor nations. Millions of people lost their lives in the course of such conflicts while millions as well became refugees or internally displaced persons. Infrastructure facilities suffered arson. In the midst of insecurity, hatred, and suspicion, meaningful developments have been impeded in most countries of the region.

6. RESOLVING THE LATIN AMERICAN DEBT CRISIS

Responses to the debt crisis, which began in the early 1980's, were multidimensional. Various solutions were proposed for the crisis jointly by donor countries and the debtor states. The international community also stepped

into the matter. In all, as a date, a debt relief programme has been approved to ease the problem of the Third World debt crisis.

At the onset of the debt crisis, the developed nations were rather callous in their approach. Rather than helping the distressed nations out of the predicament, they tended to be capitalists to the core, taking every step to prevent their own losses. Hence, they decided to prevent a united debtors' front that may include the biggest borrowers such as Brazil, Argentina, Mexico and Venezuela and which may eventually weaken the international monetary system. They also took drastic initiatives to avoid forgiving debts entirely so as not to set a bad precedence of debt repudiation which may also weaken the system's legitimacy (Gelinas, 1998). Developed nations, therefore, treated the crisis as a temporary liquidity imbalance that could be resolved through domestic austerity programmes, rescheduling of debt payments and the provision of new loans. The strategy, however, failed to produce the desired outcome.

Two major options were opened to the debtor states of Latin America. These were the conservative and radical options. The eleven leading Latin American debtor states popularly referred to as the "Cartagena group" met frequently to discuss and harmonise their response to the crisis. The group met in January 1984 and came up with the "Declaration of Quino". At the June 1984 meeting held at Cartagena, Colombia, the group deliberated extensively on the terms of the Quino declaration which had earlier drew attention to the social, economic and political consequences of the debt crisis on the economy of Latin American states. At subsequent meetings held between 1984 and 1985, crucial matters relating to the impact of debt repayment on the nascent democracies of Latin America formed the basis of discussion. But in all, the meetings failed to produce a common Latin American response.

For the radicals led by Fidel Castro of Cuba, the best response was debt repudiation. This refers to a declaration of unwillingness or total refusal to repay the debts by the debtor states for lack of ability to repay back the debt. According to Castro, that was the only equitable solution to the debt crisis. The idea of repudiation was canvassed in 1985 at the Havana meetings. It was predicated on a sophisticated analysis of the origins of the crisis which was set in the context of the Developed - Developing nations complex otherwise known as the "North-South debate" (Ajayi, 2000). Eventually the radicalists called for the establishment of the New International Economic Order. (O'Brien, 1986; cited in Cammack *et al.* (1988)).

The campaign for a New International Economic Order (NIEO) which began at the Sixth Special Session of the U.N General Assembly in 1974 was based on the observation that the existing International Economic Order was of beneficial effects to the developed countries at the expense of the developing states. Developing countries have also claimed that most of the committees and groups established were perpetually encouraging the monetary stability and economic expansion of the Global North to the detriment of the Global South. Developing nations thus clamoured for a New International Economic Order. Their main demands were national control of resources, economic sovereignty for the Southern states as well as a redistribution of the world's resources in order to have a more balanced development in the world (Ajayi, 2000). The repudiation option was, however, not given a serious consideration by any of the governments of the region. The reasons for this are not far-fetched. In the first instance, the leaders of the highly indebted nations of Mexico- Miguel de la Madrid Hurtado; Brazil- Jose Sarney and Argentina- Raul Alfonsin had no wish to break with the banks for fear that they may be denied credit facilities by the creditor nations in the future'. Secondly, it may cause considerable disruption to trade if normal trade credit were cut off. In short, the leaders of the debtor states of Latin America were eventually unable to launch a crusade against the banks and the international order upon which they depended.

In October of 1985, the debtors and creditor nations came together at a common front to discuss ways of tackling the debt crisis. The first in the series of such discussions and negotiations gave birth to the famous 'Baker Plan' proposed by and named after, James Baker, then U. S. Secretary of the Treasury at the October 1985 meeting of the IMF/IBRD held in Seoul, Korea (Devlin and Ffrench-Davis, 1995).

Sachs (1989) identified six basic components of the Baker Plan as follows:

- i. interest payments on commercial-bank debt should be made on a timely basis at full market interest rates.
- ii. principal payments due on commercial-bank debt and bilateral official debt should be rescheduled.□
- iii. new lending by the commercial banks should be undertaken to refinance a portion of the interest due.
- iv. debtor countries should submit to conditionality under the supervision of the IMF and the World Bank.
- v. the international financial institutions (including the World Bank, the IMF, and the Inter- American Development Bank) should extend new loans on a high-conditionality basis.
- vi. innovative financing arrangements (e.g. exit bonds, debt buybacks, and debt-equity swaps) between the banks and the debtor countries may be entered into on a "voluntary basis" as part of a "menu of options."

According to the Plan, fifteen highly indebted Latin American countries were offered 29 billion dollars in new lending by commercial banks and multilateral institutions. The loans were, however, offered under strict conditions. Beneficiary states were mandated to introduce structural economic reforms including privatization of state-owned entities and deregulation of the economy (Ruggiero, 1999). The strategy failed, however, because the projected financing did not materialize and, to the extent it did, the new lending merely added to debtor countries already crushing debt burden. During this period, Latin American debtor countries were making massive net outward transfers of resources. The plan presented a minimal programme for readjustment over a three year period. It called for increased economic austerity, a further rise in commercial and multilateral lending coupled with the implementation of market-oriented reforms and more supervision. Commercial lenders were to provide about US \$ 20 billion over three years to ease the strain on debtors (Cammack *et al.*, 1988; Amstutz, 1995). The plan, however, proved ineffective because: (1) the commercial banks refused to grant further loans to highly indebted states for fear of further loss: (2) debtor states were unwillingness and unable to institute significant privatisation programmes and (3) the imposition of austerity reforms demanded by the IMF decreased investment confidence and reduced economic growth to zero level. This also worsened the problem of capital outflows. Mexico, Brazil, and Argentina indeed had annual outflows of \$7.2 billion, \$6.3 billion and \$2 billion respectively between 1983 and 1988 (Cammack *et al.*, 1988).

With the failure of the Baker Plan, a more radical debt strategy was initiated in 1989. It was called the Brady Plan and was unveiled by Nicholas Brady, Baker's successor as U. S. Treasury Secretary. As opposed to the debt rescheduling proposals of the Baker Plan, the Brady Plan sought to stimulate economic growth through debt reduction. The plan aimed at reducing the foreign debt of the fifteen major Latin American states by about 20 percent. The IMF, the World Bank, and leading economic powers were expected to support debt - forgiveness. But that was conditional: the developing debtor states must implement increased privatization and maintain monetary stability. The plan provided that the IMF and World Bank would make available funds to facilitate debt - reduction by guaranteeing the sale or conversion of part of the foreign debt at highly discounted prices. It is important to observe that the debt crisis had improved tremendously by the last decade of the 20th Century. The plan reduced interest rates on foreign loans while demand for Third World exports also increased. Apart from that, Argentina and Mexico, in particular, also benefited tremendously from market-oriented reforms implemented in their countries.

But despite the sigh of relief heaved by the debtor states in the 1990's, agitations for debt forgiveness by Latin American countries continued. For instance, in October 1999, over 1 million people across Latin America were reported to have participated in a popular protest march christened the 'Cry of the Excluded'. It was targeted at calling world attention to the debt burden which they regarded as an injustice (Arruda, 2000). The essence of the agitation was a clamour and campaign for a total cancellation of Third World debt cancellations. This was greeted with success in the early part of 2000's when their debts were reduced, partially cancelled or totally written off by creditor nations and institutions.

7. CONCLUSION

In this paper, I have examined the challenge of a huge debt crisis confronting Latin American states between the 1970s and 1980s. It was established that external debts have constituted great stumbling blocks to economic development in Latin American states over the years. It was revealed that corruption, inept leadership and obnoxious economic policies of leaders of these countries have been largely responsible for this recurring crisis. The various attempts at debt rescheduling and cancellation were equally well interrogated. It concluded that Latin American countries should learn from their past pitfalls and minimize external debts to avoid disaggregation in their economic development in the nearest future.

Funding: This study received no specific financial support.

Competing Interests: The author declares that there are no conflicts of interests regarding the publication of this paper.

REFERENCES

- Ajayi, K., 2000. International administration and economic relations in a changing world. Lagos/Ibadan/Ilorin: Majab Publishers.
- Amstutz, M.R., 1995. International conflict and co-operation: An introduction to world politics. Chicago/London/Sydney: Brown and Benchmark.
- Arruda, M., 2000. External debt: Brazil and the international financial crisis. London: Pluto Press.
- Bértola, L. and J.A. Ocampo, 2012a. The economic development of Latin America since independence. New York: Oxford University Press.
- Bértola, L. and J.A. Ocampo, 2012b. Latin America's debt crisis and "lost decade" in development bank of Latin America, learning from Latin America: Debt crises, debt rescues and when and why they work. Institute for the study of Americas. London: School of Advanced Study, University of London.
- Cammack, P., P. David and W. Tordoff, 1988. Third world politics: A comparative introduction. London/Hampshire: Macmillan Education Ltd.
- Carrasco, E.R., 1999. The E-book on international finance and development. *Transnational Law & Contemporary Problems*, 9(1): 116-126. [View at Google Scholar](#)
- Devlin, R., 1989. Debt and crisis in Latin America: The supply side of the story. Princeton, NJ: Princeton University Press.
- Devlin, R. and Ffrench-Davis, 1995. The great Latin America debt crisis: A decade of asymmetric adjustment. *Review of Politics Economy*, 15(3): 117-142.
- Federal Deposit Insurance Corporation (FDIC), 1997. Division of research and statistics. 1997. "The LDC debt crisis." Chap. 5 in history of the eighties--lessons for the future: An examination of the banking crises of the 1980s and early 1990s. Washington, DC: Federal Deposit Insurance Corporation, 1.
- Ferguson, R.W., 1999. Latin America: Lessons learned from the last twenty years. Miami, FL: Speech given to the Florida International Bankers Association, Inc.
- Gelinas, I.B., 1998. Freedom from debt: The reappropriation of development through financial self reliance. London/New York: Zed Books Ltd.
- Jemio, L.C., 2001. Debt, crisis and reform in Bolivia. New York: Palgrave
- Kucinski, B. and S. Branford, 1987. The dictatorship of debt: Causes and consequences of Latin American debt. São Paulo: Editora Brasiliense.
- Ocampo, J.A., 2014. The Latin American debt crisis in historical perspective. In: Stiglitz J.E., Heymann, D. (Eds), Life after debt. International economic association series. London: Palgrave Macmillan.
- Ruggiero, G., 1999. Latin American debt crisis: What were its causes and is it over? Independent study.
- Sachs, J., 2005. The end of poverty. New York: Penguin Press.

- Sachs, J.D., 1989. New approaches to the Latin American debt crisis. International Finance Section, Department of Economics, Princeton University. Essays in International Finance. No. 174, July. New Jersey: Princeton University Press.
- Sims, J. and J. Romero, 2013. Latin American debt crisis of the 1980s, 1982-1989. Available from https://www.federalreservehistory.org/essays/latin_american_debt_crisis [Accessed 13 July, 2018].
- Weatherb, J.N., 2004. The other world: Issues and politics of developing world. 6th Edn., New York: Allyn & Bacon/Longman.
- Wolfenshon, J., 2004. The growing threat of poverty. International Herald Tribune, April Issue.
- World Bank, 1999. Global economic prospects and the developing countries, 1998/1999. Washington DC: World Bank.

Views and opinions expressed in this article are the views and opinions of the author(s), Humanities and Social Sciences Letters shall not be responsible or answerable for any loss, damage or liability etc. caused in relation to/arising out of the use of the content.