Turkey Could Set Off Debt Dominoes

BANKING

Turkey is already in partial default on its debts with international banks, banking sources say. The May 14 issue of the Japanese newspaper *Mainichi* reported that Turkey has defaulted on payments to Japanese banks, which together hold a total of $40 million in loans to the country. *Mainichi* reported that Turkey may not have met its obligations to New York's Citibank, and that international banking circles are terrified that the Turkish "technical" default could set a precedent for several other debt-strapped Third World nations.

U.S. banking sources have subsequently confirmed that Turkey is already in default with a number of U.S. banks and other international financial institutions, not just the Japanese. At issue is approximately $2.1 billion in short-term debt, taking the form of "convertible Turkish lira deposits" held by foreign banks, about half of which falls due within the next three months.

The Turkish default has not been widely publicized in the U.S. press since major Turkish lira deposit holders, including Citibank and the San Francisco-based Wells Fargo, are keeping the matter "under wraps" until after the June 5 Turkish elections. By then, the banks hope to have gained the political leverage to force through a 75 percent currency devaluation and other austerity measures. In the meantime, every bit of new credit has been shut off to the Turks, including the Japanese government's refusal to even insure exports to the country.

The Turkish crisis — in which a military coup is not an unlikely scenario — is typical of the international "chicken game" being played by the banks throughout the Third World sector as a whole. Approximately $20 billion in principal payments for non-oil producing developing countries fall due during the second and third quarters of 1977, with no visible means for the banks to refinance all of it. A single well-publicized, politically-oriented default by a major Third World debtor — triggered by New York bank "heavy-handedness" — could set off a wave of defaults which would detonate the entire Eurodollar market within hours. Alternatively, the banks will succeed in imposing "two, three ... many Chiles" but run the risk of provoking World War III.

An interview with a top New York banker, made available to *Executive Intelligence Review* by a European journalist, is explicit about the banks' "brinksmanship" perspective:

"The main danger is political. The Turkish civil service and related industrial-military circles are opposed to any kind of austerity. Their strategy was to make a new Japan or a new Taiwan out of Turkey through transformation of short- and medium-term credit into long-term investment, and to compensate the related inflow of imports with guestworkers' remittances, tourism, and agricultural exports to the EEC. Thier hope was that the EEC would agree to sponsor their take-off. Now they have been screwed by the economic crisis in Western Europe, and they are just enraged.... Financially, disposable Turkish foreign reserves reach about $200 million. They have a more than $2 billion debt related to the convertible lira, which has been for them a way to get fresh money for industrial investment. Of these $2 billion, about $1.1 have to be paid by 1977. On paper, this amount could be met. The Turks are said to expect a very good harvest for wheat, cotton, tobacco and hazelnut production. This would mean an additional $500 million if they sell the bulk of it abroad. Let's add these $500 million to the $200 million in reserves and about $400 million obtainable through import cuts (in the order of 20-25 percent) and our problem is solved. But we have to take into account the subjective factor: civil servants, military and industrial circles will resist... Yes, I heard talk about a moratorium, and not only in London. Financial circles in Zurich were saying a month ago that a top executive in a Turkish bank — or half-Turkish — was announcing the imminent declaration of a moratorium. There is nothing official yet, but this tricky situation of an informal semi-default... All of us commercial bankers are looking at each other, and if one of us moves out first, maybe he will save his neck but there will be a chain-reaction and all the others will be screwed. So we are very carefully looking at each other. It is exactly like with deGaulle's gold policy in 1966. When he started buying relatively small amounts of gold, everybody panicked and followed him, so you know what finally happened on August 15, 1971. We are now in a similar situation. If one of us moves, boy, what a beautiful snowball effect will take place."

The Rundown

He might just as well have been talking about Zaire or Peru. In the case of Zaire, already in default on $1 billion, it is likely that Belgian financial interests will press for a debt moratorium at the June 5 international creditors' meeting. Peru, which is near default on an estimated $250 million, has been pushed to the wall by the banks and International Monetary Fund.

Last week, the Peruvian Finance Minister was replaced and several central bank officials threatened to resign over the extreme harshness of the IMF's loan conditions, including a 17 percent currency devaluation, a 60 percent hike in fuel prices, and drastic government budget cuts. An international banking consortium led by Citibank and Wells Fargo has meanwhile cut off all credits until the IMF loan is approved. Although the protesting Peruvian officials are themselves for "moderate" levels of austerity, they fear that implementation of the IMF conditions will topple the government. The IMF's refusal to bargain with even this "moderate" Peruvian faction indicates that the IMF and the banks are intent on making Peru a Pinochet-style "example" for the entire Third World.

Egypt, with a total foreign debt outstanding of $20 billion, is a debt domino which the banks cannot allow to fall for both financial and military-strategic reasons.

The meeting of the Consultative Group for Egypt (creditors' group) in Paris last week, therefore, agreed to debt-refinancing, including a $1 billion cash loan from other Arab countries, Arab roll-over of one and one-half billion dollars in deposits at the Egyptian central bank, and a $900 million U.S. government loan. However, not a cent was made available for the industrial investment program envisioned under Egypt's Five-Year Plan; and, in fact, Egypt had requested at least $5 billion for 1977. Asked if Egypt would be hard-pressed to meet debt obligations due to its failure to raise the full $5 billion in Paris, a World Bank official said: "No, it merely means delaying projects, postponing investment, cutting consumption, and rolling over debt.... The January riots merely showed what the limits are to cutting consumption, they are going to have to cut investment instead."

Carter Sells Protection to U.S. Business

BUSINESS OUTLOOK

In return for business support for policies which clearly mean the demise of technologically-advanced U.S. industry and agriculture, the Administration is holding out to business the promise of protectionist trade measures, future government contracts, and other "special deals."

As part of this ploy, the Carter Administration last week successfully persuaded Japanese manufacturers of color television sets to "voluntarily" cut their exports to the U.S. by more than 40 percent over the next three years, setting the precedent for steel, auto, and shipbuilding — Japan's three largest export sectors. This "orderly marketing agreement" was worked out by Carter's special trade negotiator, Robert Strauss, as the "preferable" alternative to the International Trade Commission's recommendation that Carter *quintuple* present tariffs on the T.V. sets.

Strauss will no doubt repeat this routine during his tour of the major foreign capitals this summer. The goal of that trip is to turn the stalled Geneva trade talks into a forum for carving up world markets via "orderly marketing agreements" — cartel arrangements.

In the T.V. case, the Justice Department is acting now to make sure the Japanese don't try to get around the new agreement by establishing more plants in the U.S. (the agreement exempts T.V. sets in which U.S. workers account for at least 40 percent of the labor). At recent oversight hearings of Senator Edward Kennedy's Antitrust subcommittee, it came out that the Justice Department is looking into the antitrust aspects of Japanese acquisition of American T.V. companies. Shortly after those hearings, William Shenefield, the new head of the Antitrust Division of Justice, met with American producers to assure them that the Administration supported their protectionist sentiments.

Zenith Corporation's own suit against the T.V. imports is still pending, while last month's customs court ruling in favor of Zenith is being appealed. The Zenith suit demands the imposition of countervailing duties on electronics goods, including T.V. sets, to offset rebates of domestic taxes provided by the Japanese government on exports.

There is increasing speculation among industry sources that the leading U.S. steel companies which have been most vocal about Japanese imports are conciliating the Administration — moderating steel price increases and supporting Carter's energy conservation program through the Pittsburgh-based Project Pacesetter — in the hopes that Strauss and other Carter emissaries will work out a system of cartel arrangements for the world steel industry. After initial resistance, the Japanese have agreed to participate in informal talks in Geneva on the "problems of world steel."

Speaking to the United Autoworkers' convention in Los Angeles last week, Carter said he would not impose quotas on auto imports. Carter confined his comments to telling autoworkers that they have to increase their productivity to make U.S. autos competitive with imports. However, many auto industry observers think it's only a matter of time before Carter lowers the boom on Japanese auto exports to the U.S. The Japanese, in fact, are expecting this to happen shortly and are stepping up their exports to the U.S. while they can. Most dramatically, Honda Motor's shipments of autos to the U.S. in the first quarter rose 60 percent above last year, another record year, while its retail sales soared 109 percent above last year.

With overall auto sales in the U.S. trailing off from first quarter levels, U.S. auto manufacturers may be the next to call for Carter's protection.

Businesses Try to "Adjust"

The Federal Energy Agency and the Commerce Department have jointly been holding "energy management conferences" with trade associations and representatives of member companies since 1974 to prepare for Carter's "conservation" program. Businessmen get together with conservation experts at these sessions to talk about their energy problems and work out energy savings plans.

Under this kind of guidance industries have been diverting billions of dollars into R and D on energy effi-