Business Briefs

Trade Policy

Mexico pays debts to Brazil through barter

The state oil companies of Mexico and Brazil have set up a trading system which ends the need for hard currency—in short supply in both nations. Mexico will pay off its $200 to $250 million arrears to Brazilian exporters primarily with "reciprocal credits" which will be used to buy Mexican oil, petrochemicals, etc. Brazil is providing Mexico with credits to permit its exports to Mexico of machinery and other items.

This forward-looking solution was negotiated by Petrobrás president Shigeaki Ueki and Eliezer Batista, head of Brazil's state mining company, on their early November trip to Mexico which included a meeting with the future president, Miguel de la Madrid. On his return, Ueki promised that Brazil would increase purchases from Mexico as fast as Mexico bought needed equipment and materials from Brazil.

Brazilian finance minister Ernane Galêas, announced that the Latin American Development Association is studying expanding its present system of reciprocal credits to be able to handle most intra-regional trade. That would short-circuit bankers from threatening trade cut-offs to bankrupted nations. It would be a giant step toward the Ibero-American common market proposed by *EIR* founder Lyndon LaRouche.

International Credit

'Debt: world at the edge of tragedy?'

The leading French news magazine *Le Point*'s cover story and lead article the week before Thanksgiving carries the headline cited above, with the drawing of a world with a short, burning fuse attached.

"How can we avoid posing the question: Is it not the whole world which is now bankrupt? Officially not. . . but a retired leading Swiss banker says, 'Nobody can deny it, the international banking system is bankrupt.' "

"The very large debtors such as Mexico, Brazil, perhaps Argentina, Venezuela . . . have debts so enormous that they become a genuine lever used against banks and creditor countries. So much that the word is that something like an OPEC of debtors is being formed, which holds, with its debt, a redoubtable weapon for blackmail: 'If you don't grant us this or that condition, we won't pay. . . .' Things have not gone that far. Not quite yet. But U.S. banks with more than $61 billion worth of loans out in Latin America, $30 billion to Mexico alone, could not withstand a series of large-scale defaults. 'It would be the financial equivalent of a nuclear bomb,' says an expert."

In conclusion, *Le Point* writes: "Having reached that point, two pathways are emerging for the future. The financial way: recover the assets, and therefore exert all required pressures on debtor countries for them to repay, at whatever price for them internally, with drastic austerity, in other words, with the risk of violent action and political change. Or a political way: to avert explosions, the required financial sacrifices should be made, moratoria should be used, with all the risks that it might spread wide and far: why should I pay if my neighbor has not? The most likely is a creeping moratorium," a French expert says.

"At any rate, a unanimous consensus is that a whole part of this debt Himalaya will never be paid back."

Great Britain

Thatcher attempts recovery propaganda

British Prime Minister Margaret Thatcher and her Chancellor of the Exchecquer, Geoffrey Howe, are attempting to create a "recovery" in the decimated British economy, by the very measures of lowered interest rates and pumping funds into nationalized industry so deplored by Thatcher to date. Her most recent moves were to throw nearly $2 billion into the subsidized housing market, a move the Group of Eight, a consortium of construction industry leaders, denounced as "too little too late." When the Group of Eight then charged that the nationalized industries were withholding a billion dollars worth of capital expenditures they were obligated to spend, Thatcher immediately ordered the funds spent.

Howe announced a 1 percent reduction in unemployment taxes to industry, a freeze on industrial energy prices and a local tax reduction in his Nov. 8 budget message, in an effort to stimulate industry. But the response of the Confederation of British Industries was that all unemployment taxes and most local taxes would have to be abolished to have any impact on industry.

Howe himself predicted that unemployment would rise in the new year to 3.5 million from the current 3.3 million.

The bank lending rate fell to 9½ percent the first week in November, the lowest since early 1978. The home mortgage rate will fall to 10 percent on Dec. 1. Both rates have fallen a full 5 percent over the past 11 months, and it is predicted that the bank rate will fall to 7½ percent by early 1983. Yet even the London *Telegraph*, a paper close to Thatcher, expressed concern in a recent editorial that the population is asking when the "spontaneous recovery" the ministers promise will "actually occur. . . . It is by no means clear that a fiscal boost will have the desired impact on output."

Asia

South Korean economy in doldrums

The trade-dependent economy of South Korea is being hit hard by the world trade decline. A country that has averaged 20 percent annual growth rates in exports, Korea suffered from a dismal 3 percent growth during the first nine months of this year. As a result industrial production as of June was only 2 percent above June of 1981 and, according to the *Korea Herald*, production in August actually fell 2.7 percent from July.

Both of these figures are far below the Korean government's expectations, and revisions are now being made in the 1982-86 Five-Year Plan. Originally, the plan—which saw 7-8 percent annual GNP growth as a necessity if unemployment was to be avoided—called for foreign borrowing of $65 billion. Now, various capital investment projects are being cut back in order to lower the borrowing need to $50 billion. At present, debt service on long-term foreign debt equals 15 percent of exports, while the addition of short-term debt servicing brings the total to nearly 20 percent of exports.

The Korean government is resisting calls by the International Monetary Fund to deal with this problem by devaluing the won by 10 percent. Seoul says since exports are not being hurt by overpricing, but by the world recession, devaluation would simply make the debts worse without aiding exports, according to Korean sources.

At the same time, in order to cut import needs, Korea is continuing its nuclear energy program. The second plant just began operation with seven more already under construction. By the early 1990s, Korea plans for 40 percent of its electricity to be supplied by nuclear energy.

Industrial Strategy

Egypt seeks U.S. dialogue on economic development

Lutfi Abdel Azim, the editor of the influential Egyptian economic weekly *Iktisadi*, is making it clear that his magazine's recent attacks on the U.S. AID program in Egypt are not part of an "anti-American campaign" but instead constitute an effort to open up a discussion with Washington on what Egypt's economic development priorities should be. "You [Americans] are spending billions of dollars [in Egypt]," said Abdel Azim in a recent interview. "But in the end, you are not satisfied and we are not satisfied. Our task is to tell you what we want." The AID projects, he said, "must be matched with our priorities."

In mid-October, *Iktisadi*, which is published by the semi-official *Al Ahram* newspaper, began a series of articles exposing AID for operating as an "American shadow government" and for subverting Egypt's economic development. "I am not anti-American," said Azim in explanation of the series. "I am merely pro-Egypt."

The U.S. AID program has pegged billions of dollars in projects to the Open Door economic policy adopted by the late President Anwar Sadat under the rubric of Camp David. The Open Door blueprint was aimed at turning Egypt into a Hong Kong-style free-enterprise sweatshop economy.

Last year, when President Hosni Mubarak visited Washington, Egypt's displeasure with the AID program was expressed. Mubarak's recent crackdown on the Egyptian mafia, who profited handsomely from the Open Door policy, is tied to Egypt's new demands that the billions of dollars of AID money not be wasted.

Of the more than $5 billion so far allocated for Egypt since 1974, $2.8 billion has never been absorbed. This is because the Egyptians have rejected the "small is beautiful" orientation, mandated by U.S. law, of the AID projects. What is required for Egypt, many Egyptian planners feel, is putting already allocated U.S. funds into a grand scheme like the Qattara Depression project, which would revive Egypt's foundering economy and clear the way for rapid growth.

Energy

Philippines get U.S. nuclear loan guarantee

The Philippines have obtained a new $204.5 million loan guarantee from the U.S. Export Import Bank for its state-owned National Power Corporation, which commissioned the nation's first nuclear power plant. The power corporation will use the guarantee to borrow funds from Swiss and Japanese commercial markets for the 620-MW plant, being built by Westinghouse. The plant is now scheduled to come on line in 1985.

The plant was originally started in 1979, at an estimated cost of $1.9 billion. As a result of the incident at the Three Mile Island plant in Pennsylvania, the Carter administration cut its funding. Construction was halted into 1980 when the U.S. Nuclear Regulatory Commission withheld Westinghouse's license to export the main plant components to the Philippines, on the basis of the plant being built in a region of volcanic activity.

Philippine President Marcos made the loan guarantee a major issue during his late September visit to the United States.

Briefly

- **IMF OFFICIALS** admit privately that the year-on-year decline in trade, in nominal dollar terms, might reach 10 percent between 1981 and 1982. Even this might be too cautious.

- **FRIEDRICH VON HAYEK,** the Nobel Laureate economist who heads the Mont Pelerin Society, told a Venezuelan audience Nov. 10 that all would be well in the local economy if there were 20 percent unemployment for the next few months.

- **GERMAN BANKERS** reportedly told Brazilian debt negotiators, after refusing any new loans: "It's not you we're against—we don't want to bail out the bad debts of the New York banks."

- **A SENIOR** Ibero-American diplomat says the following about current negotiations between Mexico, Argentina, and other nations and the International Monetary Fund: "It's like Manuel in Buenos Aires, who finally gets a job, at a railroad switching station. His first day on the job, the foreman asks, "Manuel, what do you do if you see the Buenos Aires Express and the Córdoba Express heading towards each other on the same track." "I pull the switch, and shunt one of them to the other track." "What if the switch jams?" "I turn on the emergency lights and warn them." "What if the electricity fails?" "I—I'll get some kerosene from the shed and light a bonfire on the track!" "What if it's raining, and you can't light a fire?" "I'll go flag them down myself!" "What if it's night, and they can't see you?" Manuel is silent for a few seconds, and then says, "I'll call my mother." The foreman says, "What good will that do?" Manuel replies: "Well, there's going to be a big crash—she might as well come and watch!"