Creditors out to grab resources and dismantle public-sector enterprises

by Dennis Small

It is a common mistake to assume that the current strategy of creditor institutions such as the International Monetary Fund and the large commercial banks is to try to collect on the $800 billion in outstanding Third World debt that is owed to them. But such is not the case.

The fact is that the debt is unpayable and the creditors are perfectly aware of this, and are resigned to never seeing most of their money again. Rather, what they are haggling over with the debtors in the seemingly endless rounds of negotiating sessions, are the *political terms* under which non-payment of the debt will continue.

Brazil: no principal payments

Take the case of Brazil, which signed another letter of intent with the IMF the second week of September. This one lays out even stiffer conditionalities—drastic cutbacks in government spending, lifting of subsidies, slashing of imports, and so on—than the earlier letter signed with the Fund. But under its conditionalities, Brazil is not expected to make any payments on the principal of its nearly $100 billion foreign debt, the largest in the world, and in fact is fully expected to continue falling behind daily on interest payments.

Rather than collecting the debt, the current creditor strategy is focused on two objectives:

First, the creditors are seeking to gain control over assets, especially raw materials, in the debtor nations. To this end, various global schemes of exchanging Third World debt for equity are circulating in banking circles, but have so far been rebuffed by wary debtors.

A more piecemeal approach to the same end can be seen in the way the IMF is trying to force Ibero-American nations to sell off various state-sector companies to private interests, and in some cases to *foreign* private interests. This approach is moving ahead rapidly in Peru, in particular, where *EIR* exposés of these developments were recently introduced into that country's congressional debates, and provoked a most useful uproar (see article, page 14).

The sovereignty question

Second, the creditors are aiming to weaken, and if possible eliminate, the very concept of national sovereignty in the debtor nations.

The most striking recent example is the largely unpublicized $225 million loan package which Colombia signed the second week in September with a banking consortium headed by Chemical Bank of New York. The loan agreement includes a crucial clause which, for the first time ever in Colombia, established that for the accord, "applicable law will be British," rather than Colombian.

Queried on the significance of this Colombian concession, a Morgan Guaranty bank economist told *EIR* that "Morgan has not had major or significant involvment in Colombia in the past because of its rigid banking laws." Asked then if Colombia's yielding on this point was an important factor in Morgan's decision to participate in the loan, the bank economist responded, "absolutely."

The IMF and the large commercial banks scored a similar tactical victory in mid-September against Argentina, which finally agreed to alter the controversial Article 4 of its bankruptcy code in order to obtain further bank loans. Article 4 had given priority treatment to domestic over foreign creditors in all bankruptcy cases.

The Argentine military junta made another major concession on the subject of sovereignty at the same time in order to conclude a renegotiation of the foreign debt of Aerolíneas Argentinas, the state airline company.

The most significant thing about the arrangement, which will serve as a model for refinancing 31 other state-sector companies, is that the courts of the State of New York—*not* Argentine federal law—will have jurisdiction over all aspects of the agreement.

The airline as debtor and the Republic of Argentina as guarantor renounce "any right of immunity" based on sovereignty or the jurisdiction of Argentine courts in the event of company bankruptcy or unpaid obligations. But most outrageous of all, the agreement prohibits any *future* government from modifying in any way the terms of the agreement. This is directed at the Peronists, who are expected to win the Oct. 30 presidential elections.

Under the terms of the agreement, cross-default clauses will also apply, which means that if Aerolíneas falls behind in payments, assets of *any* Argentine state company—such as the oil company YPF—could presumably be attached or seized.

We refer readers to the exclusive *EIR* interview with the president of YPF, Dr. Bustos Fernández, to get an idea of what nationalist responses such predatory creditor tactics are likely to induce.