Will Ibero-America allow Kissinger to loot its national assets?

by Robyn Quijano

The 30 participating nations of the Latin American Economic Conference signed a final declaration on Jan. 14 that rejected the International Monetary Fund's depressionary "adjustments," and detailed a joint response to the crisis to assure that national survival takes precedence over usurious debt payments. Now the question the continent's leaders must face is whether they will be trapped into ceding their national sovereignty and physical assets to their creditors in exchange for being allowed to "survive."

Debt for equity—the shorthand for that process—is now the key issue, and despite important breakthroughs for joint action and continental integration, the Quito document failed to denounce this most ancient practice in the history of oligarchism and usury.

The battle in Brazil

On Jan. 18, Brazil's *Gazeta Mercantil* ran a front-page article headlined, "Debts are Being Turned into Investments." This strategy, heretofore blacked out of the Brazilian press, was first exposed by *EIR* in September 1983, in articles widely circulated among political circles throughout the continent. *EIR* exposed the semi-secret meeting of Henry Kissinger and his banker friends in Vail, Colorado in late August, where the details of a "debt for equity" scheme to permit a top-down banking takeover of the Ibero-American economies was agreed upon. Now the story is all over Brazil.

The major creditors and the IMF want freedom from current national restrictions on foreign ownership of strategic sectors, so they can foreclose on Brazil's choice assets. The nodal point is the financinal sector, in which foreign ownership and control is legally limited. Since 1980, the financial sector's hold on the international economy has mushroomed from 6 percent to 19 percent of GNP. With thousands of companies in various stages of takeover by their creditors, and the local banks in a vulnerable position, large foreign banks are especially interested in positioning themselves in the Brazilian money markets to pick up the pieces at bankruptcy auction prices.

Finance Minister Ernane Galvâes is on record in favor of opening the door to more foreign banks, but the question is so hot that central bank head Celso Pastore refuses to commit himself. Meanwhile, First National of Chicago has followed Morgan through the back door by buying 43 percent of a Brazilian investment bank. Switzerland's Brown Boveri is buying into a stockbrokerage while allowing its generator-building facilities to wither away.

To open up the financial market, some banks have fought to use debt-service payments which the Brazilian central bank has placed in blocked accounts for cruzeiro investments inside Brazil. Pastore claimed Jan. 6 that Brazil opposed this, but conceded that the decision was in Galvâes's hands. On Jan. 17, however, Pastore said he was "happy" at the idea of foreign banks using the amortizations which are automatically deposited in blocked accounts at the central bank to snap up minority ownership of Brazilian private investment banks.

Gold is the Brazilian resource most avidly coveted by international oligarchs. Mining Minister Cesar Cals is eagerly promoting foreign joint gold ventures. Oppenheimer interests associated with former financial minister and current Citibank board member Mario Simonsen are among the most active investors. State companies such as Vale do Rio Doce are reportedly being forced to divest gold-mine sites found by their explorers in order to complete vital development projects whose funding has been wiped out by IMF conditions.

In Venezuela, the directorate of the Fedecamaras business association proposed in early January that the private sector be allowed to turn its debt obligations into equity holdings to be owned by their international creditors. Morgan Stanley has offered to purchase the entirety of Venezuela's gold reserves. The plan, submitted on Dec. 23, is being hotly debated. The proceeds would go to paying the debt.

Laws regulating foreign investments and repatriation of profits such as those in Article 24 of the Andean Pact and the nationalist investment laws of Mexico will have to be overturned in this process.

Hand in hand with the Kissinger equity grab goes the imposition of Friedmanite free-enterprise drug economies. The *Wall Street Journal* made this clear in a Jan. 27 editorial in which it attacks the "dirigism" of both right and left, and praises Peru's narcotics-fueled black economy as promoting "capitalist" liberty, honesty, and ingenuity.

For Latin American leaders, the debt question and national security are one and the same problem, as they declared at Quito. It is that concept which must dominate decision-making on the debt for equity invasion.

Venezuela's President-elect Jaime Lusinchi warned on Jan. 23 that because of his nation's geographic location in the Caribbean region, "Our creditors, especially the United States which calls itself the protector of democracy, had better understand that they must protect what is here clearly established."

The declaration of Quito underlines the same point:

We must "change the IMF conditionality criteria, since in the present situation, they could prejudice our stability and development. To enable countries to make the necessary internal adjustments imposed by the present world economic recession in a realistic way, the criteria should give greater importance to expanding production and employment, while taking full account of development priorities of countries and of the political and social limitations they face."

"In renegotiating foreign debt, income from exports should not be committed beyond reasonable levels that are compatible with the maintenance of adequate levels of domestic productive activity, taking into account each country's own characteristics."

"Formulas should be adopted to reduce debt service payments, through a drastic reduction of interest rates, commissions and service costs, which increase considerably the costs of refinancing."

The Reagan administration's response to the demands of Quito came as a "new initiative" in a speech by Undersecretary of Commerce Lionel Olmer, at the *Financial Times*'s "Beyond the Debt Crisis" conference on Jan. 24. Olmer backs the proposal to allow debtors to pay interest in national currencies designed to facilitate the equity grab (see preceding articles). The U.S. Commerce Department had previously claimed that a $12 billion SDR fund would be set up to guarantee the reconversion of the blocked currency accounts.

A dangerous foot in the door for this approach was included in the Quito declaration's call for an increase in IMF resources and "issue of additional SDRs in sufficient quantity to fulfill international liquidity requirements and the payments difficulties of developing countries; transform the SDRs to the principal reserve asset."

The common market

The Latin American Common Market, an important alternative to accepting the equity scheme, was agreed upon in Quito. The following mechanisms to promote intraregional trade were put into place:

"We agree that it is indispensable to perfect and expand the coverage of the systems of reciprocal payments and credits in the region."

"The following basic aims will be pursued: 1) a significant reduction in the use of convertible foreign exchange for intraregional transactions of goods and services, 2) to design and implement financial mechanisms to facilitate trade within the region."

Energy-cooperation and food-security provisos backed up the defense capability of the continent: "We agree on the need to intensify cooperation to achieve regional energy self-sufficiency with technological autonomy. Toward such ends, the region's capacity to increase and diversify production and rationalize consumption should be strengthened in order to support its economic development, reduce its dependency on a limited number of energy sources, overcome its vulnerability to extraregional markets and increase the proportion of regional technology and capital goods in the production, transformation and distribution processes.

"The following actions will be taken to fulfill such objectives. . . . 3) increase and improve energy supply inside the region in order to reach optimal regional self-sufficiency levels and promote the expansion of reciprocal payments and credit covenants to include in them intraregional transactions of energy and petrochemical products. 4) promote new energy cooperation agreements and identify multinational energy products which would give impetus to integration among the region's countries. . . . 5) sponsor the creation of multinational Latin American oil fleets which utilize the shipping resources of the region. . ."

In sum, the declaration of Quito accomplished several historic objectives. Representatives of 30 nations met on a very high level without U.S. participation for the first time. They agreed that "creditor nations, the international financial institutions, and international private banking institutions [must take] a corresponding attitude of co-assuming responsibility for solving the problem of foreign indebtedness, taking into account also its political and social implications."

A structure to provide technical assistance to all nations on renegotiating the debt was set up. This is not a debtors' cartel, but an institution that can provide backup for individual nations at the negotiating table. The Latin American Economic System (SELA) was mandated to be a continental resource for the study of joint projects, a joint currency, and to facilitate in general the workings of the Common Market.

The real achievements of Quito will be judged by how the debt-for-equity problem is handled; how quickly the new energy and food security projects will be functioning, and how successfully the Quito definition of the "rational" and "irrational" in debt renegotiations can be imposed.

The first test will be Ecuador itself, which at the end of January had a team in New York to renegotiate $600 million in debt, and which is reportedly proposing 20 years' maturity with a four-year grace period. The new government of Venezuela has also announced its intention to improve its debt profile by negotiating a 20-year scale. What the debtors built at Quito will be tested in these cases. The bankers will also test the new continental dirigism, hoping to find the continent as easy to manipulate as it was during 1983.