

The IMF has not 'isolated' Peru; new monetary fund proposed

by Mark Sonnenblick

Ever since the International Monetary Fund (IMF) declared Peru "ineligible" for loans on Aug. 15, the financial pages have asserted that "Peru is isolated" from sources of capital and bereft of support from its neighbors. For example, *The Economist* of London opined on Aug. 23, "Without fresh credit or foreign investment, Peru's economy is likely to wilt." A Wall Street "adviser" to less fortunate debtor countries, predicted in the Aug. 26 *Washington Post* that García's "rhetoric could destroy the house of cards that he has constructed."

Such posturing by bankers betrays their gnawing desire to launch economic warfare against the only debtor who has called their bluff by limiting debt service to what the nation can afford. Peruvian President Alan García has been anticipating such an onslaught since last October. He has prepared for it by such measures as turning most of Peru's \$1.2 billion in foreign reserves into gold and flying the gold from Basel to government vaults in Lima. But, even more important is his strategy for turning the tables on the IMF.

"We are not isolated," García stressed at an Aug. 23 press conference in Lima, "since we have the solid support of many nations, and the IMF will have to change its unjust and obsolete rules. . . . Human history is the history of the change of codes and rules which at some moment were thought to be eternal," the Peruvian President said. "Why won't the IMF rules change? Everyone in the world—in Peru, in the Latin American countries and personalities of the United States itself—knows that the foreign debt as it is posed now turns out to be unpayable. Why then do they not listen to our voice? . . ."

The harder the IMF diehards try to silence García, the more his voice is listened to. This fact has dissuaded creditors from launching total economic warfare during the past year. Backing for García and his policy response to the debt crisis is gaining momentum among the continent's labor and political leaders. No one knows what will happen in Ibero-America when rabid bankers start throwing up the "trade embargos and a slew of legal claims against Peru" which the *Wall Street Journal* and *Washington Post* threaten. But the reaction to a revival of President Theodore Roosevelt's "gunboat diplo-

macy" to collect debts from an impoverished democratic nation may prove the death knell for the IMF.

The Latin American Monetary Fund

The revolt was evident at a planning meeting of the Latin American Economic System (SELA) in Caracas. "With the decision the International Monetary Fund made," SELA resolved Aug. 22, "it caused grave harm to a member state which has been making intensive efforts to comply with its financial obligations in accord with its real possibilities of paying." SELA asked the IMF to retreat, "so that Peru continues being an eligible country and receives appropriate treatment which takes into account the socio-economic requirements of its people."

The ministerial-level meeting which SELA is holding in Lima, Oct. 16-17 could be a turning point in the continent's history. This is the first time SELA—organized a dozen years ago by Mexican President Luis Echeverría, Juan Perón of Argentina, Gen. Juan Velasco of Peru, and Panama's Omar Torrijos—has met outside its Caracas base. A hint at the kind of concrete measures which may be taken to protect Peru appeared Aug. 20. García had just held a long meeting with the junta members of the Andean Pact, the integration group of Peru, Colombia, Venezuela, Ecuador, and Bolivia.

According to Andean Pact coordinator Pedro Luis Echeverría, they talked about creating a "Latin American Monetary Fund" to replace the IMF. García's central-bank head Leonel Figueroa first broached the idea in March, just before García's visit to Argentine President Raúl Alfonsín. Echeverría proclaimed, "Now is the moment" for it to be implemented. He urged the García government to present the SELA meeting concrete proposals for its implementation.

Echeverría stated, "The declaration of ineligibility made by the IMF against Peru demonstrates a clear intention to isolate it in the international financial community, due to the valiant position which it has taken in respect to payment of the foreign debt." The proposed fund "is *not* one of the alternatives, but the *only one* left to the Latin Americans." He urged that Ibero-American central banks open credit lines so that Peru could buy from them what it now buys from the

home countries of the bankers. It is senseless to have integration only in times of an economic boom, Echeverría argued.

The Peruvian idea, as explained by García several months ago, was to forego endless negotiations about a global regional fund. He suggested it could be created by simply bringing Argentina or Brazil into the existing Andean Reserve Fund (FAR), raising the quotas for today's Andean Pact members, and then opening it for wider membership. The almost invisible FAR already has given more financial aid to the Andean countries than the IMF has, and without any of its infamous conditionalities. Peru has received \$100 million, and another \$100 million is expected from the Andean Development Corporation.

Despite the drumbeat in the press, Peru's credit has not been cut off. Several low-interest lenders have given signs they will ignore the IMF. When García became President, Peru had \$250 million in commercial credit lines; now it has \$300 million, the President announced in late August. "Most of these are unwisely extended by European banks," *The Economist* complained.

The European Economic Community gave a \$19 million loan and the World Bank and Inter-American Development Bank approved a \$100 million loan just after the IMF proclamation. Italy confirmed its \$145 million in concessional lending. French undersecretary for foreign affairs, Didier Bariani, pledged to García on Aug. 21 that the IMF would not interfere with relations between Peru and France.

Relations with West Germany and the United States are problematic, since IMF zealots rule the economic policy of both cabinets. West German Chancellor Helmut Kohl invited García to visit, and the Third World Relations Minister Jürgen Warnke assured García of continued aid in development and in fighting terrorists. Japan made an important gesture by granting a \$19 million loan for extending the water-supply system of the town of Chosica in late August.

Ibero-American solidarity

The political framework of solidarity is rapidly falling into place. García's long-awaited visit to Mexico, anticipated in last week's *EIR*, will take place during September or October, according to reports to the press of Mexico and Peru. The meeting takes place immediately after the IMF annual meeting and in time to plan a surprise for the Lima SELA meeting.

The Latin American Parliament's president, Luis Leon, sent García a telegram promising "to accompany our brothers in Peru in the efforts and sacrifices imposed by their fight for dignity and sovereignty." Both chambers of the Argentine Congress passed resolutions Aug. 21 which called on "all Latin American parliaments to come to the defense of our beleaguered brother republic." It blasted the IMF for adopting its "unjust attitude . . . in the midst of difficulties stemming from crisis, the foreign debt, terrorism, and the drug trade." It sought action for Peru through the Cartagena Accord, signed by Ibero-America's 11 major debtors. This pact commits its signers to supporting any country which is forced

to take unilateral action on its debt.

Similar support came from the Bolivian congress, the Colombian and Argentine labor movements, and even from the regional labor body ORIT, which claims to represent the AFL-CIO and pro-American unionists of Ibero-America.

Capitalize by not paying debt

The Peruvians have calculated the risks and benefits of a total break with foreign capital. There is no doubt their policies are not enticing to foreign investors. But, haven't foreign investors been pulling their capital out of the developing sector for years and reducing their proportion of total investments for decades?

García told his people on Aug. 22, "We must be confident, because more wealth has left Peru than has entered, and by caring for every dollar which is generated inside the country, little by little we will make the national economy bigger. That is my message." He continued, "We are a poor country because we have been impoverished by the rules of the international system. We are not the poorest country, but if we followed IMF dictates we would be among the poorest."

He recalled, "The IMF rules brought us 250% inflation, loans inside the country at 300% to 400% interest. Do you think the IMF allows in its letters of intent for a country to charge zero interest? . . . We even have given ourselves the luxury of loaning at zero interest in the most depressed Andean areas of the country."

Although some Peruvian capitalists have responded enthusiastically to the opportunities for profit and patriotism offered to industry-builders, others have been sent into a tizzy by the scare stories about creditors planning to cut credit and seize Peruvian assets abroad. The *Washington Post* is happy to cite the manager of the oligarchic Banco de Credito, "The situation with the IMF has created much fear, especially among small and medium entrepreneurs." Banco de Credito is the flagship bank of Peru's oligarchical families. Its branch offices in the jungle took in four planeloads of dirty \$10 and \$20 bills weekly from cocaine traffickers, the monthly *Andean Report* wrote in April 1985, until García's work on drugs spoiled the "business climate."

García charged in his Aug. 23 press conference that the factually false "isolation" gloom and doom dished out by the international media was intended to be reprinted in the drug-tainted part of the Peruvian press in order to encourage a coup bringing in "another ruler who would faithfully obey imperialist impositions." He noted, "Every time a ruler has confronted the IMF in defense of his people, he has not lasted. Several Presidents who confronted the Fund only got coups d'état which finished them off. The press of their own countries isolated them, making them [seem] empty, and even ridiculed them, because that was the immense power held by the world system."

García predicted, "They are going to fill us with ever more alarming news via the foreign press which is reprinted internally." But, he was confident history were on his side: "We are going to win, as difficult as that may seem."