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Bankers 'recolonize' Ibero-America with new debt-for-equity hustles

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The holders of Ibero-American debts with a face value of almost $400 billion are scrambling to turn that uncollectible paper into ownership of tangible wealth inside the debtor nations. The Wall Street banks and the policy-shapers at the Trilateral Commission are using the worthless debt paper as a weapon to pry loose ownership of the valuable resources of the Ibero-American continent, at a fraction of their real value.

They see such "globalization of the world economy" as integrating national stock markets, and whole national economies, into one world economy, under the control of the most powerful groups of international speculators.

This asset-grab has not gone unnoticed in the target countries. At a Jan. 21 meeting of the United Nations Economic Commission for Latin America in Mexico, its assistant secretary general, Gert Rosenthal, said, "We do not share an unbridled enthusiasm for capitalization of debts, because that road benefits speculators and not governments, and because it poses the danger of transferring national assets to multinational hands at reduced prices, with the risks that implies."

The point was made most directly by the executive director of the Latin American Monetary Studies Center, Jorge González del Valle. He warned that the resale of Ibero-American debt papers on the black market "is an extremely dangerous recolonization process, because foreign investors are not interested in commercial or industrial investment. They want our strategic sectors; and this would bring us back to a situation like 1930. We must not permit it."

Some people in Mexico have fought back since 1982 against creditor efforts to grab control over Mexico's most modern privately owned industrial complex, the Alfa Group. They lost. In December 1986, Alfa handed over half of its stock (worth $800 million), in return for its worthless debt paper.

Under the new rules set during the Trilateral Commission's May 1986 meeting in Madrid, no nation will have its unpayable debts refinanced unless it accepts "globalization" of its economy. That entails eliminating the legal restrictions on the convertibility of a nation's currency and on flows of foreign investment capital in and out of the country.

Along these same lines, David Rockefeller's Americas Society issued its book *Toward Renewed Economic Growth in Latin America* in September 1986. This study was sponsored by Brazil's Getulio Vargas Foundation and the College of Mexico, and was written by Mario Henrique Simonsen, Pedro-Pablo Kuczyinski, Gerardo M. Bueno, and Bela Balassa. It recommends that all Ibero-American economies "open" toward the world economy as the "solution" to their economic crises. As a reward, they are promised that the private sector, World Bank, and Inter-American Development Bank would channel $20 billion in their direction during each of the next five years.

The World Bank and its International Finance Corporation (IFC) subsidiary demand that debt for equity be part of debtor countries' "structural adjustment" programs: "Lending for structural adjustment programs" should focus on "how conversion mechanisms could be integrated into the regulatory administrative environment for direct foreign investments," the IFC writes.

As part of this "globalization" effort, the World Bank, the IFC, Brazil's National Association of Investment Banks, and the Getulio Vargas Foundation sponored a seminar on "Foreign Investment and Conversion of Foreign Debt" in Rio de Janeiro in early December. Its guest speakers were the champions of dirty-money laundering, including First Boston Corporation and Merrill Lynch. The "globalizers" provide sell-out governments with arguments to sucker their populations into believing they would gain something by converting their debts. Debtors are told that this is their only way to reduce the size of their foreign debts and thus their overwhelming interest burdens. Debt size is considered irrelevant, since nobody ever will be able to repay principal under current world economic policies. Instead of paying interest, countries would have to use their scarce dollars to pay "profit remittances." They now pay about 10% interest on their debts; but, as the Andean Pact nations have discovered, "risk" investors won't touch a country if they cannot send home in dollars profits equal to 20% or 30% of their investment.

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The debt-for-equity policy emerged from a secret summer 1983 conclave in Vail, Colorado, sponsored by Gerry Ford, starring Henry Kissinger, and infiltrated by *EIR*. By that time, the smallest banks were jumping ship on their Ibero-American value-impaired loans, trading them for other debts, or unloading them through brokers at a deep discount. By taking a loss and writing off their debts, these banks cut their exposure and avoided having to throw good money after bad in the various debt "packages."

The largest money-center banks, which are owed more than their entire capital value by Ibero-American countries they have bankrupted, could not possibly sell their hundreds of billions in bad paper to other speculators. They had to be content with making handsome profits from collecting interest and fees at usurious rates. The debts were "performing," but what these banks really wanted was the productive economies of their victims. Many of the biggest banks supported refinancing packages only in return for operating rights in previously protected domestic financial markets.

Starting with Chile, debtor after debtor agreed to convert debt papers. The *Wall Street Journal* has presented a fairyland vision of debt-for-equity swaps, by only reporting a few cases, such as the fact that industrial giants like Nissan Motors is building a motor plant in Mexico, using debt it bought from Bankers Trust at a deep discount and sold to Mexico at a lesser discount. A picture closer to reality comes from what Argentine Finance Minister Juan Sourrouille reported that creditors were expecting from his country, in return for the refinancing package he is desperate to get. The banks are demanding that Argentina take in its worthless paper at 100% of face value and deliver its local currency for them to use to buy up local companies, indulge in internal usury, or go to the nearest "free market" and turn the debt back into dollars.

A totally unregulated secondary market of unknown size has arisen, in which debt papers are traded among speculators. Merrill Lynch, one of the big operators in that market, reported in September 1986 that Ibero-American debt sold at an average discount of 35%. Brazil's debts were traded with a 22% discount; Argentina's at 34%; Mexico's at 42%. At the end of the list are defiant Peru, with a 78% discount, and hopeless Bolivia at 92%.

'Globalization' of national economies

The speculators insist that governments convert debts at black-market exchange rates set arbitrarily by the speculators themselves. By this means, domestic economies are forced to conform to standards set by hot money, including narcotics traffic. This is portrayed as "a greater integration of the world economy."

The oligarchy's financial groups are trying to convince countries to accept debt-for-equity swindles, by promising an immense flow of risk capital. Kissinger's American Express talks of $17-22 billion per year going into the developing countries—triple the foreign investment inflow in 1983. American Express does not mention that most of that money would be financed by the debtors themselves, through debt-for-equity conversions.

Mexico's debt chief Francisco Suárez Dávila boasted on Jan. 20 that "$100 to $110 million per week in capital is returning to Mexico." He added that it was good that Mexico's debt was being sold at a discount of 35-40%.

The IFC and major brokerage houses such as Merrill Lynch, Salomon Brothers, and First Boston Corporation are gunning to create mutual funds such as the Mexico Fund and the Brazil Fund, which would act as intermediaries in the next phase of looting of the developing-sector economies. Ibero-America's leading debtors are competing against each other to see who will give away the most sovereignty in exchange for capital. Thus Brazil's central bank made it legal at the end of October 1986 for domestic banks to set up dollar accounts with interest paid at a spread over the London dollar rate. It also authorized Safra Bank and Barclays to set up mutual funds, with shares issued in the name of the bearer, thus creating a new mode of laundering dirty money.

End of the nation-state?

The debt-for-equity process means that the debtor country donates to its creditors what little sovereignty it still has. Were major chunks of the foreign debt to be converted into local currency, the state would have to deliver that amount of currency. That would bring either a hyperinflationary explosion or more genocidal reductions of consumption and government investment. Foreign debtors would gain control over the entire national credit potential. Hence, monetarist former Brazilian central bank president Carlos Langoni aptly describes debt for equity as the beginning of the end of the age of the nation-state.

In the expectation that debt-for-equity is soon to arrive in Brazil, the multinational corporations operating there sent home a record $1.1 billion in profit remittances in 1986, more than double the norm. They anticipate that within weeks or months, they could buy with those dollars Brazilian debt redeemable in local currency worth $1.5 billion, or even more, were their contribution to capital flight to force a big devaluation.

Euphoria about the advent of foreign speculators with pockets full of cruzados sent the Rio and Sao Paulo, Brazil stock exchanges up by 20% in early January, despite generalized panic about the state of the economy.

Merrill Lynch, Salomon Brothers, and Shearson-American Express are reaping big profits. As World Bank officials admit, the role of intermediaries in the conversion process is "limited only by the imagination of the financial community."

The conclusion belongs to Jorge González del Valle, cited above. He predicts, "If things continue like this, in the year 2010 we will again be like in the times of Lázaro Cárdenas [the Mexican President who nationalized the oil industry in 1938], nationalizing what we have now recolonized out of cowardliness. We don't have to be cowards."