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Business bankruptcies swell in Ibero-America

by Mark Sonnenblick

A wave of bankruptcies is hitting the business sectors of the principal countries of Ibero-America, as a result of International Monetary Fund- (IMF) dictated domestic credit policies combined with the Bush administration's insistence on British-style "free market" economics. In the wake of the bankruptcies, foreign multinationals are moving in to buy up the pieces, a nickel on the dollar.

The pattern is similar from Mexico to Argentina to Brazil. In São Paulo, Brazil, where most of South America's industry is located, 33 companies filed for bankruptcy in October, according to the *Wall Street Journal*—five times the recent monthly average.

Under IMF and Bush administration pressure, Brazil's government has cut off credit to the economy, forcing up interest rates. Industrialists and other believers in the "free market economy" were sold this "shock" policy as "the only way to stop hyperinflation." Inflation did fall from 84% monthly in March to 3% in April, but it is expected to be back up to 17-18% in November. Applying monetarist measures, the central bank drove up interest rates on the free market to 23-27% for the month of November. That works out to real interest rates of 5-10% per month, or 70-200% annually.

Mario Amato, president of the powerful Federation of Industries of the State of São Paulo, is one of those businessmen who supported the monetarist policies. Now, Amato accuses the government of leading business into "a trap. Businessmen believed in low inflation and low interest rates, borrowed money to invest, and are now having to deal with unheard-of real interest rates."

The collapse has hit all sectors of private enterprise in Brazil. The big machine-makers, operating at only 10% of capacity, are folding. With the $60 a month minimum wage insufficient even for basic food requirements, sales of other goods are drying up and retail store chains are buckling. Even speculators such as cocoa traders are filing for bankruptcy, unable to roll over bank loans they took to hoard cocoa.

Buying up the bankrupts

The multinational sharks are moving in for the kill. In the case of cocoa, the trade is being taken over by cartel companies such as England's ED&F Man trading house. "The multinational companies have the distinct advantage of possessing independent overseas financing. They don't have to worry about whether the local banks are loaning money to cocoa exporters or not," one trader noted.

Public sector companies are faring as badly, or worse. Under pressure from international creditors, they are being driven close to bankruptcy, and then auctioned off cheaply, in many cases in exchange for the country's heavily discounted foreign debt paper. For example, Embraer, the big Brazilian Air Force-run airframe manufacturer, is now on the chopping block. On Oct. 31, a third of its work force was fired and executive salaries cut in half. Rumors were that that was to facilitate a takeover by British Aerospace.

The J.P. Morgan investment bank arranged for a similar sale of Argentina's state phone company a week ago, and S.G. Warburg is auctioning Mexico's huge state steel company, Sidermex, including one of the world's most modern steel plants. Since the debt crisis began in 1982, more than $38 billion of Ibero-America's $450 billion foreign debt has been exchanged for productive assets.

The U.S. Establishment media are reporting the buyouts as if Ibero-America is being flooded with fresh new foreign investment. For example, the Nov. 19 *U.S. News and World Report* feature, entitled "Bullish on Latin America," proclaimed that "foreign investors are flocking back because of the brighter prospects for growth," reporting that foreign investment in Ibero-America is expected to jump 40% this year. But the article failed to mention that almost none of it is *new* investment; foreigners are simply buying up existing plant and equipment.

The prized state-run oil companies are the biggest target. An October 1990 U.S. Department of Energy report entitled "Western Hemisphere Energy Cooperation," argued in the name of "the reliability and security of the energy supply" that Mexico and Venezuela must open their oil reserves to the Six Sisters oil cartel in order to obtain the capital to develop them. They must, the DoE argued, "institute programs of deregulation, privatization and reliance on market forces, which will in turn direct energy trade and investment flows."

Voices are being raised in sharp opposition to these "bankrupt 'em and buy 'em out" policies. Teófilo Núñez, the editor of the leading Venezuelan daily *El Universal*, told a television interviewer on Nov. 18: "The creditors are going to take over the companies. . . . Many Venezuelan businesses have lost their investments and have had to hand them over to foreign creditors. . . . Toyota here was a car assembly company 100% owned by private Venezuelan capital. Today it is Japanese. The owners were forced to hand over the plant."

The Mexican Bishops' Conference similarly charged Nov. 13 that in the free trade treaty the Bush administration will negotiate with Mexico next year, "we are not dealing with Sisters of Charity but with sharks who will try to eat us up by all means at their disposal. . . . The country could be subjected to a new form of disguised slavery."

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