Mexico's large shoe industry. Due to import and investment cutbacks in industry, the Las Truchas steel complex Phase II is in question, while Phase I output is being earmarked 100 per cent for export — not for internal development as planned by Echeverria. Phase II of Las Truchas was scheduled for completion during the 1976-1982 period, with a projected output of 3.5 million tons, and a capacity for sustaining 10,000 permanent jobs. In a fourth stage, programmed for completions in the 1990s, Las Truchas output would reach 10-11 million tons.

Lopez Portillo also acquiesced to, and later threw his weight behind a concerted campaign by pro-U.S. Mexican businessmen and industrialists against the large state-sector created by Echeverria. Although most of the entities which comprise it provide social services, the new Administration has declared that any of these which cannot pull its own financial weight, without government subsidies, will be eliminated or sold to private interests — all under the rubric of IMF "recommendations" to cut back on public spending.

The Mexican economy has not yet been unalterably Chileanized. The real economy can be resuscitated if the government puts a rapid end to the disastrous economic policies. The emerging Arab-Western European Socialist axis provides an alternative for Mexico, similar to the one Echeverria sought through his active foreign policy in favor of a new world economic order. Perhaps the greatest single result of this policy is the then unprecedented trade deal signed by Mexico with the Comecon; this was the second such trade arrangement to be made with a country outside of the Comecon itself. The deal is there, ready to be implemented. Latest reports are that the Italian Government — a leader in Europe's efforts for establishing a new monetary system outside of the dollar orbit — has announced plans to establish ship-building facilities in the port of Veracruz, as well as to finish the Las Truchas steel giant. Mexico's Deputy-Secretary of Foreign Trade simultaneously has announced that Mexico hopes to broaden trade with the Comecon sector and will attend its upcoming meeting in Budapest next March.

Peru— N.Y. Banks End Revolution; Economic Degeneration Ahead

Peru, which in the first half of 1976 threatened to become the first Third World nation to declare a moratoria on its private and public foreign debt in order to maintain the right to economic development, ended 1976 firmly under the control of a bankers' dictatorship run by its New York-based commercial banking creditors. The capital-intensive industrial and agricultural development orientation of the 1968-75 so-called first phase of the "Peruvian Revolution" has been scrapped, and a severe "economic stabilization" austerity regimen imposed to meet external financial obligations — at the expense of social reforms, economic development, and the very health of the domestic economy. The severity of the economic austerity measures being imposed in Peru has provoked widespread comparison to the monetarist "shock therapy" imposed on the Chilean economy after the 1973 fascist coup d'etat.

The 180-degree turn in Peru's economic policy was the result of extreme pressure applied by its foreign (primarily Wall Street) creditors and the U.S. State Department during the first six months of 1976. Peru was subject to economic warfare comparable to that waged against Allende in the months prior to the coup: virtually no new loans were granted, existing lines of credit were frozen, and iron ore exports completely halted by a boycott arranged by the U.S. Marcona Corporation, in retaliation for the nationalization of its Peruvian mining operation. The threat of a provoked RAND Corp. scenario regional war as well as the inaction of the rest of the Third World, were the critical political determinants of the ultimate concession to draconian austerity.

Totally bankrupt by the June 30 payments deadline for $400 million in debt obligations, the government announced its surrender to the banks' demands, proclaiming economic measures patterned after those prescribed by Milton Friedman for Chile in 1974. The Peruvian sol was devalued by 44 per cent, subsidies on imported food products were removed, and fuel prices raised overnight by as much as 50 per cent. Prices were permitted to rise by 23 per cent in July alone. while wages were frozen for the rest of the year after a 10 per cent across-the-board increase.

A cold coup on July 16 purged the leading pro-development nationalist ministers from the cabinet and military posts. As in Chile, the implementation of these measures has required the imposition of martial law, closure of all publications which criticized the austerity dictates, and a rapid escalation since July of political repression.

The Debt Picture

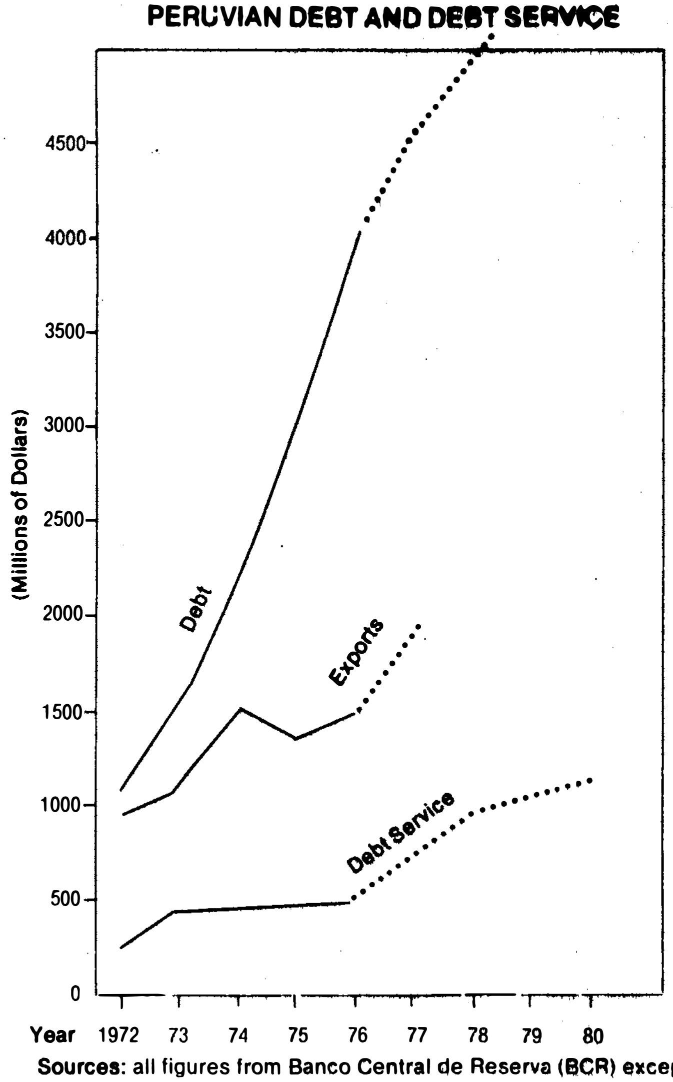
It is public knowledge that Peru went bankrupt during 1976, recording *negative* foreign reserves of $693 million in August. Peru is unlikely to escape from bankruptcy in the foreseeable future, despite the rosy prediction by the

Central Reserve Bank (BCR) that the nation will be able to meet foreign debt obligations without need for postponements beginning in 1979.

The foreign public sector debt has doubled in the last two years (currently estimated to total $4 billion), and service on this debt is now increasing at an annual rate of 40 per cent. To catch up with debt service payments, the BCR (reflecting the projections of the Finance Ministry) is counting on a more than 40 per cent annual increase in exports over the next two years, while holding imports at "zero growth" from 1976 and well below the level of 1975 and exercising extreme fiscal austerity. Severe cuts in public spending are already in effect, although no precise figures are yet available. State sector enterprises — the

GRAPH 1

PERUVIAN DEBT AND DEBT SERVICE



Sources: all figures from Banco Central de Reserva (BCR) except 1976 and 1977 exports which are from Commerce Ministry; dotted lines are their projections.

Note: Debt is public sector Foreign debt. Debt service is payments of interest and principle on public sector long term debt. Not included are private payments and "invisibles" such as secret military debts.

Peruvian Public Foreign Debt And Debt Service (MILLIONS OF $)

YEAR	TOTAL DEBT AT DEC. 31	DEBT SERVICE (PRINCIPLE AND INTEREST)	NET FOREIGN RESERVES AT DEC.31
1974	2,182	456	693
1975 (EST.)	3,066	474	116
1976 (JUNE)	N.A.	---	-500 (NEGATIVE)
1976 (AUGUST)	N.A.	---	-693 (NEGATIVE)
1976 (DEC., PROJECTED)	4,023	507	-291 (NEGATIVE)
1977 (PROJ.)	4,579	699	117
1978 (PROJ.)	4,974	941	418
1979 (PROJ.)	5,266	1,056	N.A.
1980 (PROJ.)	5,404	1,146	N.A.

Source: Banco Central de Reserva for all figures. Debt and net Foreign Reserves dated December 31 unless otherwise noted.

most dynamic, capital-intensive sector of the economy — will be weeded out, and run strictly on the basis of profitability. Major incentives, credit and import allocations, are being shifted to the private sector of the economy for the first time in eight years. The big development projects — with the exception of cement production and those few which are near completion — have all been postponed. Plans to double steel production to reach self-sufficiency have been put off for four years; while initial work is continuing on the Olmos and Zana-Jepetepeque irrigation projects, they have not yet been financed.

Another pivotal assumption of the BCR — which the International Monetary Fund has already classified "over-optimistic" — is that Peru's foreign creditors will continue to pump in an average of one billion dollars a year in new loans, primarily for key export-oriented development projects. It is far more likely that Peru's creditors will balk at encouraging an increase in outstanding debt of $500 million per year (see Graph 1), and instead pressure for adherence to the Chilean model of reducing debt levels through ever more drastic import cutbacks.

Everything Hinges on Exports

The Finance Ministry is pinning its projections for a "recovery" in two years on projections of a fabulous 54 per cent increase ($813 million) in exports for 1977 — a projection which has already been deflated by more sober forecasters in the Commerce Ministry. The Commerce Ministry projected in December, 1976 a more realistic goal of a 27 per cent ($400 million) increase in export earnings to the $1,900-2,000 million range, dependent upon moderate increases of world raw materials demand and prices though the next year. While there is a big campaign to boost "non-traditional" export products —

which have accounted for less than 10 per cent of export earnings — Peru remains dependent on minerals, fishmeal and fish products, and a few agricultrual products for 90 per cent of annual export earnings.

The completion of the Cuajone copper pit last month will alone add 170,000 tons of copper, worth almost $300 million at current prices, to Peru's export list; other metals from Cuajone, and improved prices for zinc, silver and lead would provide at least another $120 million in export income. Traditional agricultural exports — cotton, sugar and coffee — will probably not increase over their $320 million 1976 level. The doubling of coffee prices will be offset by the drop in world sugar prices, and the fall in both sugar and cotton production due to severe drought. The BCR is gambling heavily on an 80 per cent rise in the country's fishmeal exports (second to copper in earnings) over 1976 levels.

Prospects for Domestic Industry Gloomy

The "economic stabilization" program imposed on Peru has done more damage to the private sector of the economy than was ever done by the worker participation and state sector-hegemony bogeymen of the 1968-75 "first phase." While the government reorganization shifts favor to the private sector at the expense of state enterprise, the strict attention to fiscal austerity points to a continued tight credit situation internally. The capital goods import tariff was raised in early July to discourage such imports and, in the words of one banking survey, "to help promote the development of labor-intensive industries." The stabilization program has been criticized in Peru for its "excessive" cuts in capital spending.

Local Peruvian businessmen are expressing public concern over the strangulation of domestic industry and the severe restrictions on imports of needed inputs. A "recession in industry and construction" has already resulted from the June austerity program, according to the U.S. Embassy in Lima, and one Peruvian economist, cited in the Wall Street Journal Jan. 31, predicted a 10 per cent drop in industrial production as a result of reduced public spending alone.

The government's call for a "patriotic" shift toward export production to increase the "non-traditional" component of the nation's exports is a cruel hoax. Peru's primarily import-substitution industry cannot compete on shrinking world markets, despite severe devaluations and large government export subsidies. (The CERTEX program subsidizes up to 40 per cent of the value of the product). The weakening of the Andean Pact is eliminating the one protected market left to Peruvian manufacturers.

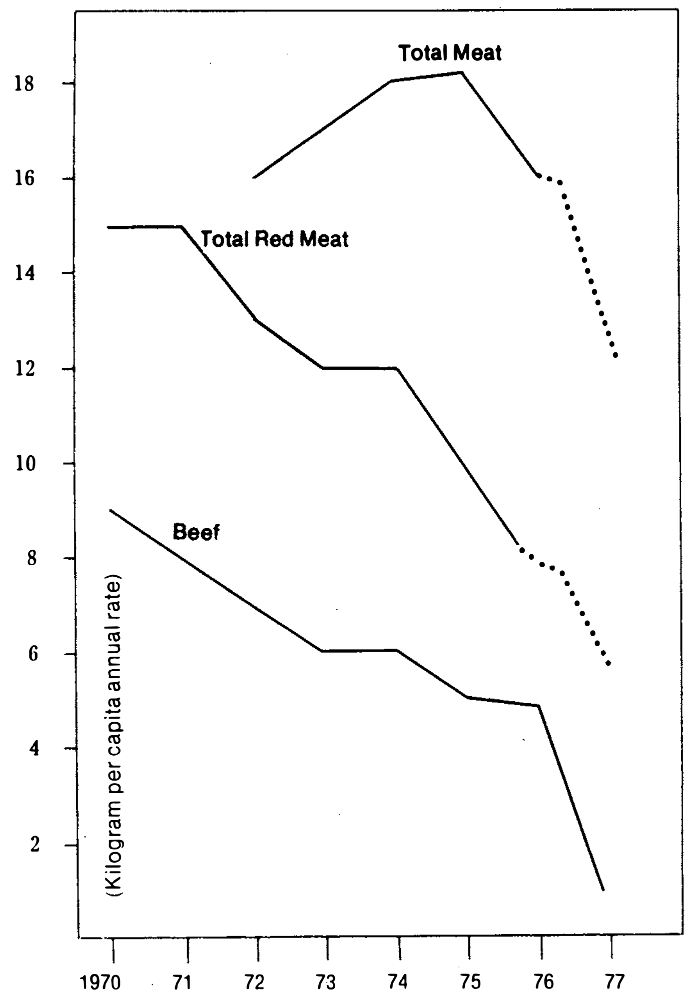
Peruvian Exports And Imports

(Millions of $)

YEAR	EXPORTS	IMPORTS	TRADE BALANCE
1972	945	812	+ 133
1973	1,112	1,033	+ 79
1974	1,506	1,909	- 403
1975 (est.)	1,378	2,491	-1,113
1976 (proj.)	1,586	2,197	- 611
1976 (Arias est.)	1,500	2,168	- 668
1977 (proj.)	2,313	2,205	+ 108
1977 (Arias proj.)	1,900	2,080	- 180
1978 (proj.)	2,751	2,450	+ 301

Sources: Banco Central de Reserva for all figures except those marked "Arias," which are projections made by Commerce Minister Arias in December 1976.

PERUVIAN MEAT CONSUMPTION



Sources: 1968-74 figures from U.S. Department of Agriculture; 1975-76 figures from Peruvian Food Ministry; Jan. 1977 beef figure from Lima Butcher's Association.

Note: These figures are the number of Kilograms of carcass weight per capita per year. The actual meat consumed by the average Peruvian was thus roughly half these levels in any given year.

Agricultural Production

The Peruvian government hopes to be able to eliminate most food imports through an increase in import-substitution agricultural production and a downgrading in the quality of foods consumed. Agricultural production grew slightly faster than population in 1976 — following a decade of stagnation — but only as a result of the most extraordinary inputs and incentives. Mechanization of production, critical in a country where only 2 per cent of the land is currently arable has been explicitly ruled out by the austerity regimen.

Excellent 1976 harvests of rice, potatoes and other foods were due to optimal weather in the first three quarters, and government incentives in the form of a 40 per cent reduction in fertilizer prices and permission to increase consumer food prices at a rate considerably faster than the general cost of living index. Credit was relatively abundant, and several of the "first phase" major irrigation projects came on stream. The good crop and lower world cereal prices and higher real prices of food in Peru permitted cuts of $100 million in food import costs.

The prospects for 1977, however, are quite somber. A severe drought beginning in October devastated the potato, corn, barley, meat, and milk-producing areas of the highlands. Although the drought appeared to be easing in January, the damage was already done. The Food Ministry estimated Dec. 17 that 35 per cent of the potatoes, 40 per cent of the corn, and 70 per cent of the southern barley (quinua) due to be harvested early in 1977 were totally destroyed, and a reported half of the cows and sheep in the southern highlands died of cold, hunger, and thirst. 40,000 hectares of rice were not planted for lack of water in the coastal valleys, and the remainder of the crop can only be saved if river levels rise in the next two weeks. Meanwhile, the new Chira--Piura irrigation project is generating foreign exchange by double-cropping cotton for export, at the expense of food production.

Even in the drought areas, the government is maintaining a rigid policy of collecting debt impoverished small farmers. Eleven of twelve cooperatives in one northern valley were subjected to government intervention after failure to meet debt payments; in anticipation of labor troubles all the agro-industrial cooperatives (like the mines and fishing ports) are now guarded by the Guardia Republicana police.

Although the situation is ameliorated by the credits readily granted by the U.S. and Argentina in order to dump unsaleable wheat and meat in Peru, consumers are beginning what will probably be their worst year since the 1930s. Meat is a luxury. Beef supplies reaching Lima are reported at one-fourth their early 1976 level, while chickens — the supposed cheap substitute for red meats — is now available only a black market prices, following the slaughter of chicks in response to a glut last year.

Argentina 1976: Inflation Down 50%, Purchasing Power Down 58%

When the Argentine military junta took power on March 23, 1976, the International Monetary Fund allowed a temporary suspension of the country's external debt payments. Since then the IMF has effectively taken control of Argentina's economic policy dictating internal austerity, cuts in capital goods imports, and de-industrialization.

When the junta took over, the country was faced with a $10 billion debt. From Jan. 1 to Mar. 23, internal reserves had fallen by $64 million to $556 million. Despite the postponement of important payments that had fallen due, the liquid funds amounted to only $23 million. Immediately after the coup the New York banks were forced to grant a moratorium on Argentina's public debt payments due between March 24, 1976 and Sept. 24, 1976, in an attempt to rebuild the country's reserves.

By the end of August the reserves were up to $1.295 billion, and the country began to repay the debts. At that time Argentina's debt was estimated at between $7.6 and $10 billion.

Since Mar. 27, 1976 the junta has received $1.743 billion in new loans — $694 million from international agencies and $1.049 billion from private banks — in the U.S., Japan, and Europe. The loans provided by private banks were extended only for foreign debt repayment. The loans are repayable in 3-4 years at 8.5 per cent interest. The other $694 million were used as shown in the chart on the following page.

Since the IMF loans totalling $424 million went directly into outstanding financial liabilities, only 270 million out of the entire $1.743 billion in loans went into investment! The Argentine debt now stands at about $12 billion with the heaviest payments falling due in 1977 and 1978. During the first week of 1977, Argentina paid $820 million in debt service. The country claims to have $2 billion in foreign reserves at this time.

How They Did It

The junta has succeeded in more than halving the 1975 inflation rate of 340 per cent inherited from the goverment of Isabel Peron, but at the expense of destroying the Argentina economy's productive base. Under the International Monetary Fund's guidelines, the junta has driven the nation's once-powerful industrial sectors into virtual bankruptcy.

The "success" of the junta's austerity program is seen