International banks running credit blockade against Colombia

by José Restrepo

The International Monetary Fund, the private banks, and the Bush administration are conducting a credit blockade against Colombia, with the intent of forcing the incoming government of President-elect César Gaviria Trujillo to abandon all further efforts at waging a war on drugs, and instead to impose economic measures that would effectively destroy the country's industry and agriculture.

Among the conditionalities to which any further credit concessions to Colombia are tied are:

- that Colombia dismantle its import barriers, part of the Bush plan to convert Ibero-America into a "free-trade zone";
- that the Colombian government eliminate subsidies to public services, especially electricity;
- that the state sector be privatized;
- that Colombia attract flight capital and foreign investment through elimination of exchange controls and with tax amnesties that would give illicit drug revenues a place to come home to.

By dismantling production, plunging the population into poverty, and surrendering the national patrimony to foreign capital, these measures would make short shrift of Colombia's independent ability to prosecute a serious war against the cocaine cartels.

Bank blackmail

The banks have already treated Colombia to a foretaste of what would follow were President Gaviria to reject their "advice."

The Gaviria government has set the highly conservative goal of winning approval over the next four years for $3.672 billion in new credits—$1 billion less than it will have to pay in debt service. However, the World Bank has already decided to suspend a disbursement of $75 million, part of a $300 million credit granted in *1987* to state sector electrical companies. A July report from the Comptroller General's office in Colombia has called attention to the fact that $700 million negotiated with international private banks more than a year ago has yet to arrive.

Most seriously affected by the banks' credit cutoff is the electrical sector. If it fails to receive $380 million in fresh funds this year, it could be forced to suspend all its investment projects. Under current conditions, such disinvestment could trigger serious rationing problems in the coming year. Nonetheless, the World Bank, as the country's leading creditor, has been upping pressure continuously over the past four years for *shrinking* the sector's investment program. Its reasoning? The sector is "over-dimensioned," and the country has no need for further electricity.

The World Bank is also urging a 65% increase in electricity rates to "save" $400 million—and ensure debt repayment. Such rate hikes would effectively terminate energy supply to the poorest sectors of the population.

The 'opening' to foreign takeover

The outgoing government of President Virgilio Barco, in agreement with Gaviria, has already elected to apply the banks' conditionalities, especially the so-called *apertura* (opening) to foreign imports, but "drop by drop," under the illusion that the credit blockade can thereby be breached and the banks' assault slowed a little. However, the national economy is being destroyed—"drop by drop."

On July 2, the Barco government announced that it had suspended its longstanding policy of affording cargo preference to Colombian flag ships, a policy which will shrink revenues by an estimated $60 million next year. Said the vice president of Colombia's merchant marine, Carlos Guillermo Aragón, "The government has issued a decree that changes an entire policy of maritime transport suddenly, without discussion or preparing us. Guidelines for maritime transport have been used frivolously to show international financial authorities the government's will to change." He also noted that the majority of the world's nations have highly protected merchant marines, in comparison with Colombia's. In fact, he added, all the coal shipments out of Colombia's Cerrejón mines were strictly carried on U.S. flag ships.

Under the new policy of *apertura*, the Colombian bankers' association Asobancaria issued a call on July 23 for opening up the financial markets to foreign capital, through special tax and other incentives. Asobancaria President Carlos Caballero Argaez argued that this would stimulate the capitalization and modernization of Colombia's business sector, and pointed to the cases of Germany and Switzerland, where the majority of private company stocks are in the hands of the banks. It was through precisely such measures, taken in 1974, that then-President Alfonso López Michelsen and his finance minister, Rodrigo Botero Montoya, gave the cocaine cartels their financial "foot in the door" into the legal economy.

In addition to the electricity sector and the faltering railroad system, other state-controlled sectors of the economy are in the sights of the privatization fanatics. *Semana* magazine reported that the Gaviria government plans to privatize Colombia's ports, since their functioning is key to the success of the "opening." Aspects of the state's social security institution are also said to be on the chopping block. The real plum would be the state-run oil company, Ecopetrol. Colombia has vast untapped reserves of gas and oil which the banks have long sought to get their hands on, but Ecopetrol will have to go through several more ratchets of decapitalization before it becomes as vulnerable to takeover as the electricity sector under World Bank manipulations.

In early 1990, the Barco government announced its *apertura* and began to free various import categories of tariffs and other restrictions. It announced that within four years, a total freeing of foreign trade would be complete—just as the banks demand. On July 24, four hundred product categories were placed on the free import list, and several others on the import prohibition list are now authorized as well.

The National Industrialists Association (ANDI) has repeatedly denounced the *apertura* as a threat to domestic production. Rather than an opening for imports, which would undermine domestic production, says ANDI, the country needs an opportunity for exports and a plan to modernize industry and infrastructure so that the national economy can compete abroad. Even the German company Siemens has warned that the architects of the opening did not take into account the differences in scale between the Colombian economy and the industrialized countries.

Colombia's agricultural associations have been even more vehement regarding the government's plan to allow unrestricted agricultural imports. The Cattle and Agriculture Studies Center (CEGA) charged July 9 that "the most probable overall effect of the *apertura* in the agricultural sector will be recessive." A study issued by CEGA warned that the free import of fishmeal, soy, and rice will cause a collapse in the prices of those products on the domestic market, "seriously affecting our growers."

Due to lack of credits to maintain the electrical sector, the government has been forced to decapitalize such prosperous state companies as Ecopetrol and the national communications company Telecom. Both have been forced to hand their profits over to a special fund for paying the electrical sector's debts, instead of reinvesting in their own maintenance and expansion.

An IMF trap

The effect of the banks' pressures on Colombia will be to bankrupt the country, making the economy easy pickings for the drug cartels. Even the initial freeing of imports will mean a loss of $114 million in 1990 tax revenues, according to the daily *El Espectador*. Further, as more and more tariff barriers to foreign imports are lifted, the central bank will have to release more foreign exchange to Colombian importers. In less than six months, $2.5 billion worth of international reserves will disappear from central bank coffers. This exhaustion of reserves would lead the country into a serious exchange crisis, likely forcing it to turn to the International Monetary Fund (IMF) and its "contingency loans."

Despite the objections of productive sectors of the economy, the country's creditors are forcefully arguing that Colombia must facilitate a repatriation of capital abroad, which, according to the banks, could reach as much as $18 billion. To accomplish this, they argue for an end to exchange controls and for "more attractive" conditions, such as an exchange and tax amnesty which would allow uncontrolled amounts of capital into the country. The banks, of course, do not address the likelihood that most of this capital would be drug money.

Policies come under fire

Resistance to these policies is growing. The July 3 editorial of the daily *El Espectador*, which speaks for an important sector of the political elites which has resisted the inroads of the drug trade, criticized the Bush "Enterprise for the Americas," the free-trade plan which dovetails with the *apertura:* "In truth, one doesn't actually know what the U.S. President is proposing with his initiative, and whether it means an opening for our products, or a new means of tying our interests to those of the superpower."

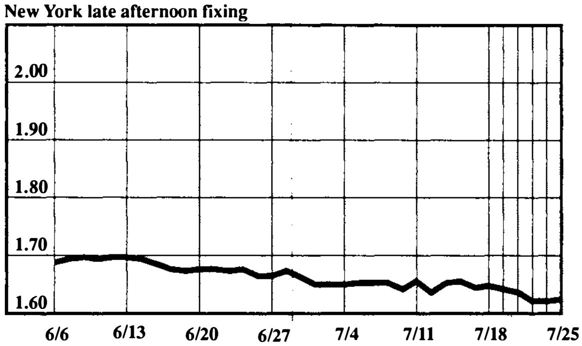
Economic analyst Fernando Plata Uricoechea wrote July 8 in *El Espectador* that the only thing President Bush wants to accomplish with his initiative is for Latin America to buy U.S. products. The Latin American market, the economist explained, was lost to the United States "because of the foreign debt crisis, which deprived us of foreign exchange to continue buying, which in turn caused 1 million unemployed."

Although Gaviria has thus far shown himself a willing junior partner to the Bush scheme, he is apparently a cautious man as well. He has expressed serious interest in developing new trade relations with Europe and Japan, economies on the upswing, especially under the impetus of German reunification. According to the July 19 daily *El Tiempo,* Gaviria "outlined with the Ecuadorean head of state an original plan for integration, outside of the OAS [Organization of American States], of the Latin American countries. It excludes the United States and Canada, to be able to speak more calmly with the new partners that have appeared on the economic panorama—Europe and Japan. The idea is original. In principle, it could be seen as a new and subtle challenge to North America."

Currency Rates

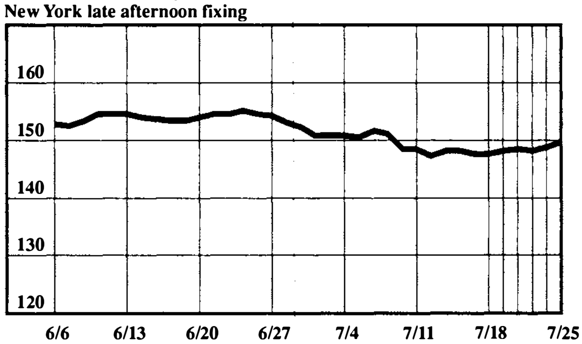
The dollar in deutschemarks

New York late afternoon fixing



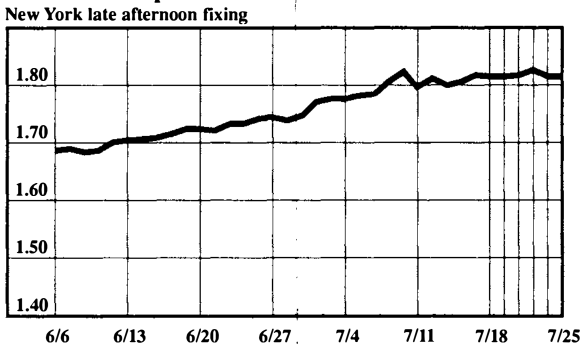
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing