

# Free-market madness sinks Colombia's industrial economy

by Javier Almarío

As a direct result of Colombia's adoption of the free-market policy demanded by George Bush and the international banks, the country's productive economy is grinding to a halt. "What we have achieved in 70 years of continuous efforts is beginning to evaporate with the rise of a dangerous and harmful theory," that of the opening to the free market, wrote the well-known Colombian economist Antonio Alvarez Restrepo in an Oct. 9 column in the daily *La Prensa*. Alvarez Restrepo's assessment reflects the growing, if still private, consensus among Colombia's producers that the so-called *apertura* ("opening"), that is, the total freeing of foreign trade, and accompanying adjustment program to "control" inflation—copied to the letter from the International Monetary Fund's recipes—are destroying Colombian industry and agriculture.

At the very beginning of his administration in August 1990, President César Gaviria announced that he would take all necessary measures to free imports, with the supposed purpose of "modernizing the economy and making it more competitive." Although the government had initially spoken of a "gradual opening," the plan they had pledged to complete by the end of Gaviria's four-year term was rammed through during 1991.

Contrary to what the government has proposed, the *apertura* has caused "the productive sectors to lose dynamism. The coefficient of investment has fallen, difficulties in exporting goods other than primary ones have increased, and the economy has gained neither in productivity nor in international competitiveness," said Jorge Méndez Munevar, president of the National Federation of Metallurgical Industries, in an Oct. 28 article in the daily *El Espectador*.

What the Gaviria government now plans is to implement a "green agenda" that will eliminate what remains of the country's productive sectors. Keep in mind that Colombia is the only nation in the world whose Constitution—drafted earlier this year by a Constituent Assembly of New Age fanatics and "former" narco-terrorists—formally incorporates the anti-growth concept of "sustainable development." On that assembly's recommendations, an Ecology Ministry is being readied, along with coercive legislation which could, for example, send farmers to jail for using fertilizers and insecticides.

In a late October presentation at Santa Fe de Bogotá's National University, Manuel Rodríguez, the head of the National Institute for Natural Resources and the Environment, elaborated what these eco-fascist guidelines will look like, when he lamented that, as yet, "no one has been imprisoned for cutting down trees, nor for having killed a member of an endangered species, nor for having contaminated rivers with industrial wastes. . . . Ecological education isn't enough. Coercive measures are required, along with effective means for making sure that ecological crimes do not go unpunished."

## Wrecking industry: an IMF 'success story'

Gaviria, a former International Monetary Fund official, promised at the start of his presidency to "shake up" the nation, and in that he has certainly succeeded. The small industrial base of the country, which was nurtured through administrative and customs protection, is now on the verge of collapse. This truth was reflected in the fears privately expressed to this author by industrialists gathered at the 47th assembly of affiliates of the National Industrialists Association, held in early November. However, in public, the industrialists still advocate "understanding these changes, and adapting to them."

The Gaviria government is fully aware that its economic policies are going to wreck national industry in Colombia. Not accidentally, the first sector affected is the steel and metal-working industry.

Colombia's flagship steel company Acerías Paz del Río, the country's only integrated steel plant, has had to undertake vast and complicated financial and diplomatic maneuvers with its creditor banks this year to avoid going into formal bankruptcy. The creation of Acerías Paz del Río in the 1950s was a national event. The government fully supported the project and mobilized Colombia's citizenry to buy stock in the company. Even today, it is one of the companies with the greatest number of stockholders in Colombia.

Paz del Río was also created *against* the will of the World Bank. Lauchlin Currie, who was the World Bank's delegate on his first mission to Colombia, writes in his memoirs that he was unable to prevent the company's creation, "but I succeeded in getting the original project reduced, and instead

of buying new blast furnaces, they bought second-hand ones which were already obsolete when they arrived in the country." Despite his efforts, Paz del Río went on to become a symbol of national pride and of the country's industrialization commitment.

Currie, a Canadian "economist" who has lived in Colombia for decades, is undoubtedly laughing up his sleeve today. Paz del Río waits in vain for investors to increase their investment in the company and for the government to give it promised credit for "modernizing the productive apparatus" and buying new equipment to keep it in business. Neither national nor international private banks are giving any more credit to the steel company, because they consider the steel sector too high-risk, now that tariff protection has been eliminated.

Other steel companies, which are semi-integrated and produce steel from scrap iron by recasting with voltaic arcs, are desperately demanding a reduction in electricity rates to cheapen their production costs and enable them to withstand the anticipated avalanche of imported steel. Electricity rates in Colombia are higher than elsewhere, despite the fact that the electrical companies are state-owned. Even should they win their demands, the lowered rates wouldn't last long, since the government's plan is to privatize electricity production as quickly as possible. It would take a tripling of present electricity rates to yield profits for a privatized electrical company.

The steel sector is by no means the only hard-hit sector. In fact, the first major bankruptcy of the year occurred on July 25 when Icaesa, producer of home appliances, and J. Glotman, its sales firm, went into bankruptcy. Both companies had suffered drastic sales reductions as potential customers awaited an influx of cheaper products from abroad. At the same time, credit availability was sharply curtailed on orders of Finance Minister Hommes. Given the lack of credit, the two companies were forced to offer public stocks at high interest rates, which they were later unable to pay.

Avianca, Colombia's leading airline and one of the first commercial aviation companies in the world, is turning financial somersaults like Acerías Paz del Río, to win a reprieve from its creditors. The company was forced to sell one of its airplanes to pay off \$67 million in debts. The company will be especially hard hit by Gaviria's announced "open skies" policy, an extension of the *apertura* involving the granting of complete freedom to foreign companies to ply the Colombian airspace. Avianca today is facing serious difficulties in collecting sufficient funds to meet its semi-monthly payroll.

The Grancolombiano Merchant Fleet, the country's only important shipping fleet, is also facing serious problems. The government has just eliminated cargo reserve, according to which 50% of all cargo that enters or leaves the country must do so on Colombian ships.

The situation is so serious that the National Administrative Statistics Department has had to admit that the national

economy is in a severe recession. Industrial sectors which have shown the worst production declines include: transport equipment and material, 20.38%; non-machine metallic products, 13.54%; electrical machinery and appliances, 11.45%; wooden furniture, 9.75%; coal and oil derivatives, 7.36%; and food processing, 6.29%.

Capital goods production overall fell 15.3%; intermediate goods processing, 3.94%; and consumer goods processing, 3.77%. As can be seen, the worst-affected sectors are those which the country most needs to achieve genuine industrialization, and to resolve its problems of poverty, through development.

### **Agriculture is also bankrupt**

The agricultural sector should have seen the handwriting on the wall last year, when the Gaviria government announced that it would not increase price supports for farm products. At the same time, it announced that the *apertura* would also be extended to the countryside. The result? The first harvest of 1991 declined by 13%, while area under cultivation fell by 10.5%, equaling some 100,000 hectares, according to figures from the Colombian Growers Society (SAC).

SAC is demanding that the government maintain the old tariff rates as protection for agriculture. However, just like the industrialists, the leaders of SAC still believe that their demands will be negotiated—and met—over a few cocktails with government officials, without need for a mobilization of the nation's producers. The government, meanwhile, has lulled the SAC leadership with the promise that the United States will manage to defeat the Europeans and force them to eliminate agricultural subsidies, after which the European market would presumably "be filled up with Colombian agricultural products."

The Gaviria government's cynical assurances to Colombia's producers are ultimately based on the theory that any vacuum produced by national industrial or agricultural bankruptcies will be filled by foreign investors. During October, the government sweetened the pot by authorizing the lifting of all limits on the amount of foreign exchange that foreign investors can send out of the country as profits made on national territory. Previously, foreigners were only permitted to remit 100% of the value of their investment.

The policy of the government was well summarized by economist Alvarez Restrepo, in his *La Prensa* column: "No more industries at all cost. No more smokestacks nor vibrating machines. Open ports, free for all, active commerce, even if this means that broad sectors of the economy will be paralyzed which only yesterday were expressions of active work and full employment."

He concludes: "The *apertura* is the result of an international policy, vigorously imposed by the rich countries which dream of finding the port customs of the Third World wide open to the surpluses of their own industries."